“Our RBC Monthly Morning Coffee”

“That was a pretty good day. Why couldn't I get that day over, and over, and over...”

- Bill Murray as Phil Connors in ‘Groundhog Day’

Groundhog Day is a day that I have always considered as amusing. The holiday usually occurs on Feb 2nd, and every year on morning television, news crews from all over flock to the peculiar scene at Gobbler’s Knob in Pennsylvania, where thousands of folks are shown partying like an after-hours club in sub-zero temperatures!!

According to Wikipedia, this occasion has become a very popular tradition observed in the United States and Canada and evolves from the Pennsylvania Dutch school of thought that if a groundhog emerges to see its shadow due to clear weather, it will retreat to its den and winter will go on for six more weeks; if it does not see its shadow, spring will arrive early.

My question is this… when have we ever seen winter end in early Feb?!!! Six more weeks only brings us to mid-March and yes, there are still piles of ice & snow everywhere you look. I think it’s just an excuse for another holiday and for people to drink pre-breakfast time. The redeeming fact behind this holiday is that it was the originating theme behind Bill Murray’s portrayal of Phil Connors, a self-centered narcissistic weatherman in ‘Groundhog Day’ (1993) who also produced some of the best one-liners in Hollywood that year.

"Well, what if there is no tomorrow? There wasn't one today."

The 57th Super Bowl will be played this Sunday in Glendale, Arizona and will feature the 14-3 Philadelphia Eagles against the 14-3 Kansas City Chiefs in a match-up that could easily be viewed as a toss-up. Both quarterbacks have a myriad of offensive weapons at their disposal, and this alone could point to a very a high-scoring affair. KC quarterback Pat Mahomes has a definite 'swagger' that very few NFL players can match, and he's certainly earned every inch of it, this being his third Super Bowl appearance in a young career.

I feel however that Philly's defense can match Mahomes' athleticism. Furthermore, Eagles' quarterback Jalen Hurts is 100% healthy (unlike his KC counterpart, who is still coming off a high ankle sprain), and I really feel that the Philly receiving corps will have an absolute field day with a mediocre KC secondary.

Philadelphia is currently a 1.5-point favourite in Vegas for all the would-be gamblers… and I would take Philly and the points in a heartbeat. As a side note, the Toronto Star had an interesting note on the various prop bets available this Sunday, including a wager on the colour of Gatorade that is poured in the winning coach. There was this one below that that writer Avery Perri hi-lighted:

Jalen Hurts longest completion over 37.5 yards

... Hurts can be a gun-slinger, and I think I like this one!

<u>Future Rate Hikes – 'What's Left in the Barrel…?!'</u>

As far as rate hikes are concerned, the US Fed is signaling more hikes (after the recent 25 basis point move) as they still see risks on the inflation front. Although US Federal Reserve officials acknowledged recent improvements on the inflation front, they have NOT altered their guidance surrounding upcoming rate hikes. In recent weeks, equity markets have been optimistic despite economic concerns in the market; we are seeing information that is offering hints that inflation and wage growth may have peaked last year.

Despite the market bounce-back we've seen in January, equities will still be tepid and 'jumpy', and will stay within a confined range util the US government says 'enough is enough'. If you are looking at building a position in any one equity holding, I would encourage building in tranches for the purpose of 'averaging' your way in; in other words, buy a 50% position now, and then look to buy another 50% position within a month. For long-termed investors, I expect equities to continue to be erratic but there continues to be bargains in this market …

Stocks To Watch – McDonalds (MCD)

McDonalds has been a holding for our clients for well over a decade here in this office…

The firm reported better than expected results on revenue and earnings in late January. Global sales grew 13% year-over-year on strength across all segments, while US figures were driven by price increases, positive traffic, and marketing promotions. There were strong sales across Europe, but part of this strength was offset by China due to the region's zero-Covid policy (Digital and delivery growth contributed to results globally). McDonald shares still trade at a slight premium to its longer-term 24x average, and the stock is up 6% over the past year vs the S&P500 (down -9%).

I own these shares in my Global PIM model, and constantly add to them for clients if/when the shares fall below $250.

In addition to McDonalds, here's a few other ideas we are looking to add to amidst any sector weakness:

- Alimentation Couche Tarde (ATD-T)
- Nutrien (NTR-T)
- Magna (MG-T)
- Canadian Natural Resources (CNQ-T)

I would also be inclined to look at a Canadian pipeline; one of TransCanada Corp, Enbridge or Pembina shares, as each show an attractive dividend yield of approximately 6%. For the aggressive investor, I might also suggest possible half-positions in the following discounted names:

- MEG Energy (healthy cashflows & a firm that may be either acquired or taken private within the next 12-24 months)
- XIT - Canada's Info Tech ETF, which includes exposure to names like Constellation Software, Nuvei Corp., Shopify, CGI Group, etc. (all names which are down considerably year-over-year)
- Algonquin Power – AQN recently cut its dividend by 40% and capital spending by $1B to help fund a takeover of Kentucky Power - these shares are down 50% from their high, but the underlying operations remain intact.

(Please keep in mind that these names above would not likely be suitable for your mom's account)

On the US side, both Disney and Amazon are trading at multiples that are lower than the S&P 500, (which is ridiculous!). I would suggest both at their current price levels to offer an immense amount of value (we've been adding to DIS over the last month).

I also suggest the following ETF shares for broad-based market exposure (C$), both of which I feel to be ideal TFSA holdings:

- XSP (S&P 500) - allows you to own shares like JP Morgan, P&G and Wal-Mart
- ZQQ (NASDAQ 100) - allows you to own Apple, Google, NVIDIA

Give these ideas some thought – as always, feel free to call me directly to speak about any option you are considering.

Taxes Upon Death - A Possible Case for Insurance

One of the issues that Maria's financial planning exercises have uncovered for clients is the potential tax liability that may be unearthed once a client passes away. To some executors, it may be more than just a rude awakening. Upon death, there are many tax issues that typically need to be addressed. For example:

- In the event of a single non-registered (taxable) portfolio holding both shares and bonds, each investment is deemed to have been 'sold' on the date of passing. With any given long-term success, a typical dividend-paying portfolio could lead to some substantial capital gains, 50% of which will be taxed at the deceased's marginal tax rate.
- Probate fees are another issue that the executor will need to address prior to the dividing of any Estate. Probate fees in Ontario (as of 2023) are as follows: 0.5% fee for the first $50,000 of the estate value, and then a $15 fee for every $1,000 of the total gross value of the estate above $50,000. So basically, an estate valued at $1M will be subject to a $15k probate fee in this province.

The largest tax issue however will become apparent if the deceased passes away with a sizeable balance in either an RRSP or a RRIF. If the assets are not rolled over tax-deferred to a spouse, the balance of the RRSP/RRIF is seen as 'income' in the year of death. Typically, this comes with a sizeable tax bill that we normally forecast in these cases to be approx. 50% in Canada. So realistically, if you have a RSP valued at $600k and have your son/daughter listed as the beneficiary, the proceeds will first pass through your Estate as 'income' where Revenue Canada will take about half of the proceeds as tax, leaving the Estate with the other half.

Two clients we've worked with in the past (who did not own a principal residence) each expressed a desire to preserve as much of their net liquid Estate for their children. We managed to find investment solutions to address these cases. There are both whole life as well as term-100 insurance options that we've examined, where a client may pay a relatively small % each year for a policy that will cover the approximate tax liability that death may trigger.

For example, we had a case years ago where a client (a single 60-year-old male) agreed to pay approx. $3100/year for a term policy that offered $1M of coverage to his beneficiaries (both sons). Our client at the time had an RSP of $1.6M, and a potential tax bill of $800k should he pass away. This individual sadly passed away two years ago at age 70 during COVID after carrying the policy for approx. 10 years. His RSP was valued @ $2.2M at the time of death.

Based on the math, his $31k investment over the last decade ensured that Revenue Canada was able to collect taxes payable (approx. $1.1M) on this investment and his children were able to divide the full balance of the RRIF between them.

*** Please not that while it is not a major faction of our business, we constantly look at insurance solutions & in some cases, have made them key components of a household's financial plan ***

Please feel free to call Maria or myself with any questions you might have.

Estate Planning - An Inter-Generational Wealth Transfer Strategy

Here is a unique approach that one of our estate advisors in our Leaside office recently presented to a client, who subsequently inserted it into his Estate plan. The concept centres around a grandparent purchasing a permanent life insurance policy on their adult child…

The grandparent funds the policy itself, hence paying the premiums & building up cash value on a tax-deferred basis. The grandparent also maintains control of the policy until they are ready to transfer the ownership to the adult child (also on a tax-free basis) while alive or on their death by naming the adult child as the contingent policy owner. Typically, in these cases, the grandchild is named as the beneficiary.

As the new owner, the adult parent will then have access to the policy cash value and may use it at any time. The death benefit may continue to grow over time and ultimately will be paid tax-free to the grandchild upon death of the owner.

Some definite benefits include:

- By building cash value in the policy, you achieve tax-preferred growth (unlike holding bonds, shares, etc.)
- Since a policy w/ a named beneficiary is not part of any Estate, the assets consequently are not subject to probate fees.

Please feel free to call me with any questions you might have…

Finally…

This past month, we've been active in conducting review meetings, and I must say, it is an absolute pleasure to sit down with people and speak in person, regardless of the state of this market. I really had no idea how much of the intangible component of pure conversation was getting lost over the video meetings that were being held all over the globe, but it is apparent.

As far as our 'home base' @ 2175 Queen St East is concerned, we are a far cry from the potential eviction we were facing from these offices this time last year. There are now new carpets & desk chairs in each office, as well as brand new 60-inch screens in our boardroom where we can now display client account statements as well as the financial planning updates Maria has prepared…not to mention the fact that my office no longer feels like a holding cell… 😊

We've been sending out meeting 'invitations' for WebEx discussions in order to provide you a booking date for a proper & detailed annual financial review. Upon receiving this note, if you are inclined to pay us an in-person visit for an upcoming meeting, please feel free as we are officially 'open for business'… not to mention that we would be absolutely flattered.

That's it from me. Go Eagles!

Ian

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