February 2025 Financial Planning Email Update

As you are aware, we provide a Professional Tax Preparation and Electronic Filing Service to our clients. ***If you would like to utilize this service, please take the time to complete the attached "2025 Tax Return Checklist".*** Please note that we do not require any investment statements from funds that we are named as the advisors of record. We only require that you submit your T-slips (ie. T3,T4,T5,T5008 etc.).

As a result of a thorough checking system and our in-depth knowledge of the Income Tax laws, we experience 99.9% accuracy when completing income tax returns. However, like every professional, we are only human. This year we were able to receive Errors and Omissions Insurance in every aspect of our Financial Planning practice; except for Income Tax Preparation, for which such insurance is not available. Consequently, when you drop off your tax documents, we will be asking you to sign a letter of acknowledgement. This letter will release us from any financial obligation with respect to the completion of your income tax return.

On January 31, 2025 Finance Minister Dominic LeBlanc announced the postponement of the previously announced increase in the taxable capital gains amount to now take affect on January 1, 2026.The increase is from 50% taxable to 66.67% taxable capital gain for all corporation and trusts as well as any individual capital gain over $250,000.

Please note that the deadline for completing 2024 Income Tax Returns is Wednesday, April 30th, 2025.

As in previous years, we kindly ask that you **call ahead** and speak to our Administrative Assistant, Eda, to **schedule a time to drop off** your tax documents.

The Trump initiated Tariff Trade War is about to begin. Here is a summary of the key details and economic consequences:

The U.S. imposed 25% tariffs on most Canadian exports and 10% on energy products (e.g., oil, gas, electricity) effective February 4, 2025. These measures aim to address 'border security' concerns and trade imbalances.

Key Takeaways

- The tariffs risk deepening economic integration between Canada and the U.S., with both nations facing GDP contraction and inflationary pressures.
- Canada's retaliatory strategy targets politically symbolic U.S. exports to maximize pressure for exemptions.

Key Details of the Tariffs

- Scope:
  - 25% tariffs apply to all Canadian goods except energy products.
  - 10% tariffs target Canadian oil, natural gas, uranium, and electricity.
- Trade Impact:

  - Affects over $75 billion in annual Canada-U.S. trade, with Canada exporting $42 billion in goods to the U.S. annually.
  - Integrated supply chains (e.g., autos, manufacturing) face disruptions, raising production costs and consumer prices on both sides of the border.

Economic Consequences

For Canada:

- GDP contraction: Estimated ~2%
- Sectoral impacts:
  - Energy: 10% tariff on oil/gas could reduce competitiveness, though U.S. refineries rely heavily on Canadian crude.
  - Automotive: 25% tariffs threaten jobs in Ontario and Quebec, where 1.8 million manufacturing jobs depend on U.S. trade. For example, a crankshaft auto part crosses the border up to six times. If a 25% tariff were applied each time the cost would be prohibitive.
  - Agriculture/Retail: Higher food prices (e.g., fruits, vegetables) due to retaliatory tariffs on U.S. imports.

For the U.S.:

- GDP contraction: Estimated ~1%
- Inflation risks: Tariffs could raise prices for gasoline, groceries, and autos. S&P Global estimates U.S. GDP could shrink 1.6% (≈$467 billion).
- Job losses: Auto plants in Michigan and oil refineries in Texas may face shutdowns.

Canada's Retaliatory Measures (Mexico to follow as well)

- Mainly focused on red-states to put political pressure on new administration.
- Phase 1 (Immediate): 25% tariffs on $30 billion of U.S. goods, including:
  - Consumer staples: Orange juice, bourbon, beer, wine, peanut butter, apparel, cosmetics.
  - Industrial goods: Appliances, motorcycles, paper products.
- Phase 2 (After 21 days): Additional 25% tariffs on $125 billion of U.S. goods, targeting:
  - Passenger vehicles, steel, aluminum, beef, pork, dairy, aerospace parts.
  - Rationale: Prime Minister Justin Trudeau emphasized Canada's response is "measured but resolute," aiming to pressure politically sensitive U.S. industries while minimizing harm to Canadian consumers.

Political Reactions

Canadian Leaders:

- Justin Trudeau: Called the tariffs “unjustified” and warned Americans they’d face higher costs for gas, groceries, and manufactured goods.
- Pierre Poilievre (Conservative Leader): supported retaliatory measures.

U.S. Response:

- Trump defended tariffs as necessary to combat drug trafficking and migration, dismissing concerns about inflation.

Additional Information:

- Canadas manufacturing sector is the most exposed, however, the knock-on effects will also matter to other indirectly exposure industries
    - Canada’s manufacturing sector accounts for 9% of Canadas GDP and 70% of total trade with the US
- Raw commodity exposure is less likely to see a drop in US demand as Americans lack the substitutes for these goods.
- Excluding energy exports Canada buys more of all other goods and services from the US therefore if Canadians changed their buyer preferences to pro Canadian choices the impact would be minimal.
- The Canadian dollar will likely remain under pressure. As US holdings are a part of our diversified portfolio, as the Canadian dollar declines, the value of our US holdings increases when converted back to Canadian dollars.

It is important to remember, a key benefit of **active, diversified, balanced portfolio management** is the ongoing monitoring and assessing of market conditions and positioning themselves in a favorable way to enhance long term returns.

The following is an article written for the Globe and Mail which explains the who and why that is behind the Trump Tariff Policy:

Wtitten by John Turley-Ewart who is a regulatory compliance consultant and Canadian banking historian.

“When this period in our country’s history is written, Canada’s initial response to U.S. tariffs – shock, talk and awe for tit-for-tat retaliatory trade rules – will measure the complacency with which we have managed trade relations. Our leaders were blind to the dynamics driving efforts by many Americans to upend the global trading system. To paraphrase James Carville: It’s their economy, stupid.

Why this U.S. administration applauds tariffs should not be a secret. U.S. President Donald Trump’s chief economist, Stephen Miran, a Harvard-trained PhD and hedge fund strategist nominated to chair the President’s Council of Economic Advisers, wrote in November “A User’s Guide to Restructuring the Global Trading System.”

He asserts that, “The deep unhappiness with the prevailing economic order is noted in persistent overvaluation of the [U.S.] dollar and asymmetric trade conditions. Such overvaluation makes U.S. exports less competitive, U.S. imports cheaper, and handicaps

American manufacturing.” For Mr. Miran, tariffs can mitigate the consequences of the U.S. dollar’s reserve currency status and the openness of U.S. markets (millions of jobs losses among the working classes and blighted communities across America).

To be sure, tariffs would likely see the value of our dollar versus the U.S. dollar drop, as more expensive Canadian exports result in lower demand. This makes the greenback even more overvalued, exacerbating the problem Mr. Miran sees in the first place. And ultimately tariffs would bring inflation, Canadian leaders say. American consumers will revolt.

Mr. Miran’s answer to that is twofold. He’d introduce reduced U.S. corporate taxation, extensive deregulation as means of supporting U.S. exports despite a higher U.S. dollar. And, in his view, the higher U.S. dollar would give American consumers the additional purchasing power to absorb some of the tariff cost without stoking too much U.S. inflation.

Will a higher U.S. dollar completely nullify the higher prices that tariffs cause? Probably not. If it does, then there would be no impact on demand for Canadian exports, and thus there would be no higher U.S. dollar in the first place.

But ultimately, doubling down on the higher U.S. dollar, turning a previously unwanted situation into the solution, is precisely the goal. In Mr. Miran’s view, the United States, which gets additional revenue from the tariffs, can take whatever hit that results, and its trading partners, with a battered currency, can’t.

Tariffs are thus a means to increase “burden sharing” among liberal democracies protected by the U.S. security umbrella and to level trading relationships when partners have better access to U.S. markets than the U.S. has to theirs.

Mr. Miran wants tariffs to cause “currency adjustments.” This is a polite term for crushing the currencies of trading partners that don’t come to the table and offer to “burden share” while opening trade agreements to be more favourable to U.S. job creation. This is why, Mr. Miran says, “tariffs are ultimately financed by the tariffed nation, whose real purchasing power and wealth decline.”

The B.C. Securities Commission’s (BCSC) latest fraud prevention campaign, We’re Not All F**ked, came with a nearly two-minute music video including those words.

As fraudsters increasingly adopt artificial intelligence (AI) to cheat Canadians out of millions every year and worries grow that generative AI poses risks to financial institutions, the provincial regulator has taken a lighthearted approach to calling on investors to educate themselves about AI scams.

The whimsical video mentions several ways fraudsters use generative AI to fool victims, including honeypot scams that make victims fall in love with a fake online dating profile, or clone a trusted accountant or advisor’s voice.

“They can deepfake your accountant. And sound like my broker too,” the song goes. “Oh it’s all part of their trap. So you’ll invest in a bunch of crap.”

The video also includes humorous generative AI screw-ups like sprouting extra fingers on hands and giving mouths extra rows of teeth.

Between Jan. 1 and Oct. 31, 2024, Canadians lost $503 million to fraud, according to the Canadian Anti-Fraud Centre.

"You are the first line of defence. So it's more important than ever that you pause, think critically and do your own research before investing," Pamela McDonald, the BCSC's director of communications and education, said in the release.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Thank you! Have a great day!

Respectfully Yours,

Gary

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