

July 2023 Financial Planning Email Update

In mid June I drove to Ottawa to participate in the 21st Annual Canadian Institute of Financial Planners Conference. It was the first conference I attended live in over three years and was very informative and engaging. The following are the key takeaway points made over the course of three days.

As **interest rates remain higher the focus is on housing affordability**. In November, 2022 one third of all mortgages were variable rate. In Canada, 75% of variable rate mortgages have fixed payments. That implies that as interest rates go up, the allocation changes from reducing the principle to paying more interest. The financial institutions monitor the trigger rate which is the interest rate at which the entire fixed payment is going towards interest. If the interest rate rises above the trigger rate this would be negative amortization therefore increasing the mortgage loan amount. Today three quarters of all variable rate mortgages have hit the trigger rate. Most financial institutions are allowing the trigger rate to go to 105% before requiring additional payments. A study by Desjardin suggests that a 105% trigger rate would be a variable rate mortgage interest rate of 7%. Today variable rate mortgage interest rates range from just below to just above 6%. To be flexible the financial institution may also increase the amortization rate on the mortgage which on average would need to increase to 40 years to keep the payments the same. The same study suggested the average lump sum payment at the maturity of the mortgage to keep the payments the same is approximately 30% of the mortgage value. National Bank data suggested that the average mortgage payment as a percentage of income in 2000 was 42% and today is 63.9%, the most since 1982. A difficult circumstance for those with a mortgage.

There was much discussion about the **60/40 portfolio approach**. This is the primary investment strategy we utilize. It is where you have a balanced portfolio between stocks (around 60%) and bonds (around 40%). Most years this balance will offset mitigating risk factors but in 2022 both sides of the portfolio were affected negatively thus generating a comprehensive investigation into it's future benefit. It was determined that the future of the balanced portfolio approach is bright. The future expected average annual compound rate of return for our balanced portfolios is 6% versus 3.2% for a bond only portfolio and 7.5% for a Canadian equity only portfolio. Over the next 7-10 years bonds will again serve as an important role in a portfolio, equity returns are expected to out perform bonds, 60/40 return expectations are more attractive after the 2022 reset and there are opportunities to enhance the expected return of the 60/40 portfolio.

With reference to the new **First Home Savings Account** which has an annual contribution limit of \$8,000 and a lifetime limit of \$40,000 it should be noted that the maximum that can be carried forward is only \$8,000. For example if you contribute in 2023 and do not contribute again until 2030, the maximum that can be contributed in 2030 is \$16,000 (\$8,000 for 2030 and \$8,000 carried forward).

With regards to **inflation**, the transitory portion has faded. Now the difficult part is getting inflation down to the target amount of 2%. Services inflation will be sticky and stubborn to decline due to the hot job market. Inflation has peaked but the era of low inflation might be over as the growth in the money supply has caught up to prices. Public debt is approaching unsustainability in countries such as Japan which could lend to further inflation.

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.

Have a great day!

Respectfully Yours,

Gary



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