

November 2022 Financial Planning Email Update

In the past week the central banks of the world have continued to tighten monetary policy by increasing interest rates. It appears as though the action of increasing interest rates will continue into 2023 as an attempt to reduce inflation rates worldwide. The global inflation rate is currently 10.1% while the Canadian rate of inflation stands at 6.9%. There have been over 358 interest rate hikes globally since the beginning of 2022.

Even though wholesale prices are beginning to level off, central bankers are not ready to back down from increasing interest rates. Interestingly, in the United States, the inflation rate was flat in July, +0.1% in August, and +0.4% in September for an average of +0.26%. If the inflation rate continued at +0.3% per month, then the annualized inflation rate in the United States would be 3.2% by June 2023.

This aggressive period of tightening monetary policy has magnified volatility in both stock and bond markets resulting in a global bear market and will continue until inflation begins to decline as we need price/purchasing power stability over time. Once interest rates do stop increasing, we cannot expect them to decline right away in order to ensure inflation continues to decline.

As balanced investors, we hold stocks and bonds. Normally when stock markets decline, investors create positive demand in the bond market which then improves. Unusually in this period we have a decline in both stock and bond markets.

Taking a long-term view, the longer we are invested the odds of investment success increases and the variability of our portfolio decreases. At the moment, we are likely closer to the end of this 'correction' than the beginning. It is at this time that we, as successful investors, need to demonstrate the greatest amount of patience.

Right now, quality companies, which our portfolio managers have discovered through comprehensive research, are on sale. As we have a diverse group of portfolio money managers, all with different management styles, each has their own definition of what they consider to be 'a quality company on sale'. These new investment positions, resulting from the purchase of companies currently on sale, will bode well for us when the next positive investment period begins.

For example, a growth manager will be identifying companies with strong management teams that are personally invested, resilient to recessions, have a monopoly or oligopoly and therefore limited competition, AAA balance sheets with low debt and high cash reserves (known as anti-fragile companies), positive cash flow, and identifiable market growth from a small-cap company to become a mid-cap and then a large-cap company.

During this current financial climate, each of our professional money managers is putting aside the emotion of what is going on in the world and looking for the best possible investment opportunities.

Finance Minister Chrystia Freeland tabled a fall economic statement on Thursday, November 3, 2022. Although the deficit for the 2022-2023 year is expected to be \$36.4 billion, Ms. Freeland projected a balanced budget by 2027. Under what is being called the 'downside scenario', the

forecast for projected Gross Domestic Product (GDP) growth has been reduced and is expected to be negative (recession) in 2023. However, the government expects the annual inflation rate to return to 2% in 2024.

One of the statement highlights was the announcement that all student and apprentice loans will be made interest-free, on a permanent basis, including such loans which are currently being repaid.

Also of note, the Personal Residence 12-month Anti-flipping Rule has been extended to assignment sales with the 12 month holding period resetting once the tax payer who entered the purchase and sale agreement takes ownership of the property. As a reminder, even if you are residing in your personal residence which would normally be exempt from any form of income, if you sell the property within 12 months of ownership, any gains will be considered 100% taxable as business income.

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 us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



investia.ca

Gary H. Attack, BBA, CFP®, RFP, RRC®

CERTIFIED FINANCIAL PLANNER®

Investia Financial Services Inc.

203-1601 River Rd. E, Kitchener, ON N2A 3Y4

T: 519-894-2661

TF: 1-800-716-5538

Fax: 519-894-6656

gary@ghafinancial.com

www.ghafinancial.com

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