Market Update

April 2025

Important Topic: Taxation Simplified

How Personal Tax Works in Canada

3 Formulas

1. Income − Deductions = Taxable Income
2. Taxable Income × Tax Rate = Tax Before Credits
3. Tax Before Credits − Tax Credits = Tax Owing/ Refund

Strategies to Lower Taxation

Change one or more of the four yellow boxes.

1. Decrease Income :

Not your real income, but your income that gets taxed.

- Earn inside a TFSA/FHSA/RRSP
- Income split, if possible
- Use a corporation for active business income to shift to a lower corporate rate
- Earn inside permanent life insurance

2. Increase Deductions

Deductions reduce your income before tax is calculated.

- RRSP contributions
- FHSA contributions
- Flow through share deduction
- Interest charges on investment capital
- Professional fees

3. Lower Your Effective Tax Rate :

Different types of income are taxed at different rates.

Focus on earning tax efficient income:

- Capital gains: top marginal tax rate in 2025 is 26.76%.
- Eligible Dividends: top marginal tax rate in 2025 is 39.34%.
- Non-Eligible Dividends : top marginal tax rate in 2025 is 47.74%
- Employment income and interest : top marginal tax rate in 2025 is 53.53%.
- Return of Capital is not taxed when received, but rather lower one's cost basis resulting in deferred capital gains tax.

4. Increase Tax Credits :

Credits directly cut taxes.

- Charitable donations – additionally you can remove capital gains from taxation by donating appreciated securities
- Medical expenses
- Disability tax credit
- Tuition amounts
- Flow through shares (also provide credits)

The goal is to maintain a steady tax rate.

Given Canada's progressive tax system one should avoid income peaking and falling. The objective is to plan the use of income sources and deductions to produce a steady income.

All these strategies are considered in your Wealth Plan and discussed in our Wealth Review meetings.

Market Update: April 2025 – Volatility

April was a volatile market. Markets spent the first half of the month falling and the second half recovering.

The volatility and the uncertainty stem largely from President Trump. His approach is certainly disruptive, but it is important to acknowledge that it is meant to be, and no one should be surprised. This is not only exactly what he said he would do (as laid out in hundreds of campaign stops), but it is also the basis of the Art of the Deal that Trump wrote back in November 1987.

For those who did not read his book allow us to summarize the book's approach to negotiations (and see if it looks familiar):

Step 1: Start with an extreme position, make it appear non-negotiable, allow the other side to react (the more emotional the better)

Step 2: Overload everyone with multiple disjointed discussion points. Change topics frequently with little connection. Make it impossible for anyone to focus on one issue. Keep everyone off balance (and emotional, if possible).

Step 3: Now negotiations can begin. Forget all original expectations and disregard much of what was said. Present a "compromise" that seems reasonable. Both sides can claim victory.

Step 4: Control how the outcome is perceived. The story matters more than the details and any concessions can be framed as wins in a bigger picture.

Note that Step 3 is more successful the more emotional and off balance the other side is.

As with most things, emotions can cloud one's judgement. Anger can result in one working against one's best interest. Perspective is lost. Being off balance or feeling like one is in 'new territory' / 'unchartered waters', can hand your opponent a distinct advantage.

The Art of the Deal may work well in New York Real Estate negotiations. We are about to find out if it can be used in international negotiations, and in running a government in such a way that leaves your opponents disorganized and directionless.

Our expectations are that by next year this circus will be well behind us. To continue governing President Trump needs to win the mid-term elections in November of 2026. To do so the tariff wars need to be settled, the economy must be in decent shape and the stock market needs to have risen by this time next year.

Currently companies have continued to post strong earnings. And while the US economy has stalled over the first quarter, it is still one of the strongest economies in the world and there are many reasons to expect earnings to continue to improve. The blended earnings growth for the S&P500 over the first quarter of 2025 stands at 12.8%, far above expectations.

We continue to believe that the economy will continue to push forward, though likely a tad slower, and with continued real volatility. But as long as earnings continue to grow, consumers continue to defy expectations and spend, wages remain strong, and jobs are available, we do not expect markets to fall further and believe the odds are in favour of attractive gains.

We remain cautious about the short term and positive and optimistic about the medium, and long term. Most importantly, we are confident that working together we are able to meet your objectives. At the end of the day this is all that truly matters.

Portfolio Update

Index	Month	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	- 0.60%	2.00%
Canadian Equity - S&P/TSX 60 Index - CAD	- 0.10%	1.80%
US Equity – S&P 500 - USD	- 1.00%	- 4.60%
International – MSCI EAFE Index - USD	3.70%	8.10%
Emerging Markets - MSCI Emerging Markets Index - CAD	- 4.00%	4.40%
Real Estate - Dow Jones® Global Real Estate Index - USD	- 0.0%	2.40%
S&P/TSX Preferred Share Index - CAD	- 3.20%	2.70%

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