Market Update

August 2022

An Important Note: Attribution Rules

The attribution rules prevent taxpayers from reducing taxes by shifting investment income to family members. For example, a taxpayer could subject his or her investment income to a lower tax rate by transferring the income-earning property to a low-income spouse or child. The attribution rules step in and attribute any income from said property back to the original taxpayer.

If I give my wife (or minor child) $10,000 and it earned $1,000 this year, the government will see through the $10,000 transfer and attribute the $1,000 of income back to me.

These rules even apply to deposits into joint accounts. If my wife were to earn $10,000 and transfer it into a joint account with me (or a child), all the income generated from the $10,000 must be attributed back to her. We do not get to split the income 50/50 even though the account is jointly owned. Since the assets were earned by her, she maintains ownership of the $10,000 and must declare all income earned from it.

There are permittable ways to avoid attribution which can prove beneficial. A few methods to accomplish this is through trust accounts, spousal loans, and insurance.

If you would like to know more or think this could be beneficial to you or your family, please consult with your accountant or contact us so that we can connect you with a TD specialist, where appropriate.

Market Update – Central Banks Raise Interest Rates ... Until They Cut Them

August was a down month as the hopes that central banks would slow or stop raising interest rates in the near term faded away.

Inflation is usually triggered by an overheated economy where too few products and too few employees are sought by too many people and companies. Prices and wages go up. The government then raises interest rates to slow economic activity. Historically they do so for too long triggering a recession, where companies' earnings fall, unemployment rises, and fewer buyers compete for products. The government then lowers rates to restart the economy and after doing so for several years, inflation reappears. Then it all repeats.

At this point investors are trying to determine if we have reached the point where rising interest rates are peaking. Inflation is heading back down, slowly but surely, and we are beginning to see some signs of weakness. This is what the central banks wished to see. If it is sufficient, they could stop raising interest rates after September. Such a move could trigger a market rally.

If the effects of rising interest rates prove even stronger, we could see significant signs of weakness. In this case the central banks could be looking at actually cutting rates as early as sometime in 2023. Such weakness could trigger a market fall which would then be reversed as the lowering of interest rates should begin another economic cycle.

So, the market's path forward is unknown and likely to be volatile and unnerving, but whichever way events unfold it is reasonable to assume that markets will rally sometime in 2023.

But all of this is speculation. Every paper and every article on where the economy and the markets are going next are all speculation. Some are more convincing, some are vaguer, and some are more frightening. What they all share is their inability to predict the unpredictable and to expect the unexpected. Each is based on the theoretical beauty of assuming all other (hundreds) variables remain the same. But they don't, and they won't.

And so, as always, the focus remains, and must remain, on the long term. One's focus should be on investments in strong companies that have the opportunity and the potential and can weather the inevitable storms and still prove profitable. One should invest for the long term and ignore short term fluctuations and forces one cannot control. Mostly one should focus on one's own life, plan, and goals. At the end of the day that is all that truly matters.

Looking forward we are concerned but neutral in the short term, and positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

Have a great month and let us know if there is anything we can do for you,

- Meir

Index	Month	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	-2.80%	-11.50%
Canadian Equity - S&P/TSX 60 Index - CAD	-2.80%	-7.60%
US Equity – S&P 500 - USD	-4.10%	-16.70%
International – MSCI EAFE Index - USD	-6.10%	-19.80%
Emerging Markets - MSCI Emerging Markets Index - CAD	-1.00%	-15.70%
Real Estate - Dow Jones® Global Real Estate Index - USD	-6.80%	-20.20%
S&P/TSX Preferred Share Index - CAD	1.70%	-9.60%

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