Market Update

February 2024

Important Topic: Taxation

When evaluating any investment, it is always critical to consider the tax ramification. The after-tax and after-inflation return is matters. That is the return that impacts your life.

As we know, taxation is the percentage of your investment return that must be paid to the government. If a bond returns 4% and your tax rate is 53.5% then the government takes 2.14% and you get to keep only 1.86%. Lowering your taxes is an important component to building wealth.

Since the rate of taxation is so important and since it is different dependent on the form of the return – interest, dividends, capital gains, return of capital – understanding the type of return you receive from an investment is critical.

Tax Rates

- **Interest** (and dividends from US sources) is taxed at the same percentage as Employment Income. This is 53.53% for the highest income earners in Ontario (income over $220,000)
- **Dividends from Canadian sources** ("Eligible dividends") are taxed at roughly 3/4 of your Income rate. This is 39.34% for the highest income earners.
- **Capital Gains** are taxed at half of your Income rate. This is 26.76% for the highest income earners.
- **Return of Capital** is generally not taxed when received but lowers one's cost basis resulting in a larger capital gain when sold. This is described as a deferred capital gain.

The following investments, therefore, if you can earn $10 the after-tax result is very different:

- If earned as Interest, the result is $4.65.
- If earned as an Eligible dividend, the result is $6.00 (30% higher than interest)
- If earned as Capital gains, the result is $7.33 (58% higher than interest)
- If paid as Return of Capital (assumed sold after 10 years), the result is $7.78 (67% higher than interest). This is the net present value of paying capital gains tax in the future.

Conclusion

Taxation matters. The type of income you earn can have a significant effect on your net worth over time and on your ability to meet your goals.

We focus on after-tax returns and have strategies to lower one's tax bill.

Market Update: February 2024 - The Rally Continues

The market has continued its rally, now in its 21st week, with February being one of the strongest months. Markets have reached all-time highs.

We believe the rally is based on three important factors:

First, the expected recession has not happened and is not expected to happen for some time. There will always be another recession but as shown clearly over the past 18 months, no one knows when it will occur.

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Second, interest rates are expected to fall. Canada and the US have been waiting for the rate of inflation to fall (it has) and stay down (unsure how long we need to qualify) before lowering rates. In any event, the world expects rates to be cut this year which are likely to raise valuations.

Third, data on the economy has been surprisingly positive. Markets respond primarily to whether news is better or worse than expected, and less so to whether the news is actually good or bad.

We like how our managers have positioned their portfolios and look forward to the rest of 2024. We are positive and optimistic about the short, medium and long term, and our ability to meet our client's objectives.

At the end of the day that last point is all that truly matters.

Have a great month!

Sincerely,

- Meir & Adam

Index	Month	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	0.4%	1.8%
Canadian Equity - S&P/TSX 60 Index - CAD	1.9%	2.4%
US Equity – S&P 500 - USD	5.4%	7.0%
International – MSCI EAFE Index - USD	3.0%	2.5%
Emerging Markets - MSCI Emerging Markets Index - CAD	5.4%	1.9%
Real Estate - Dow Jones® Global Real Estate Index - USD	0.1%	4.2%
S&P/TSX Preferred Share Index - CAD	0.8%	6.4%

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