PL HE WORST, HOPE FOR THE BEST

AUG | 2022

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This month we're going to tell you about a client of ours (we'll call her Susan here) who we have worked with to set up a plan to meet her objectives and have a "safety net" just in case.

Susan lost her husband a number of years ago, so her objectives were ensuring she had enough income to satisfy her lifestyle and enough growth to maintain her purchasing power as the costs of living increased.

We began Susan's financial journey with a balanced portfolio of bonds and dividend paying stocks; as interest rates declined the portfolio needed to move more to blue chip stocks paying dividends to meet objectives.

Susan's overall investment objectives shifted somewhat as estate planning became a larger priority. The portfolio was generating disposable income in excess of her cash flow needs. We set up a universal life insurance policy that provides a direct inheritance to her family (bypassing probate), as well as providing a tax deferred growth component that would be accessible at any time in case of need but would ultimately enhance the value of her estate.

The insurance policy was a component of our "plan for the worst" side of her plan. It came in handy recently as a major medical expense occurred. She is now 74 years of age, so she didn't want to mortgage her home or jeopardize her income / growth portfolio as it had been operating as needed for years.

We looked to the investment pool held within her life insurance policy. Capital invested into the policy over the base cost of insurance was able to grow completely tax-sheltered within the policy, to the point where she was able to access a portion of the appreciated capital to cover off the medical expense. The portion of the pool she required was easily liquidated. Some tax will have to be paid on the amount withdrawn which will be split with her new partner helping to minimize the tax effect. Additionally, the remaining invested capital inside the policy continues to grow tax sheltered, and if not accessed during lifetime will pass on in full to Susan's chosen beneficiaries with no taxation.

The result has been a win / win, as the immediate cash needed was resolved without giving up portfolio efficiency or equity in the family home. Due to the growth in value of the portfolio and the equity in the home, her heirs will receive more that the original plan intended.

This is a great story of how financial plans need to be multi-faceted, diversified, tax efficient and have “safety valves”. It is also a good example of how insurance can provide management tools during your lifetime before it becomes an estate management tool, effectively becoming a tax-efficient asset class within a broader portfolio.

Hopefully you’ve found this story interesting and potentially useful. If you would like to explore financial planning in more detail, we have the experience and the tools to help you out. It’s part of our service.

When we manage financial portfolios, we also take the approach that “a good defence is often the best offence”, planning each portfolio to accomplish the desired objectives while utilizing strategies to minimize volatility and capital risk. Diversification, dividend yields, non-correlated returns and adjusting asset allocation from time to time has allowed us to meet or exceed market returns in rising markets and protect us from the discomfort of significant market declines.

We believe we are currently near the end of a market correction. Through 2021, stock market valuations became expensive, as investors sought to “hit homeruns” chasing high returns and high valuations. In the time we’ve been in this business that rarely works for very long, as market fundamentals will eventually catch up. The result has been a good old fashioned “bear market” in the stock markets that has adjusted share valuations to a more realistic and investable level.

Much of the market action we have seen this year has been P/E multiple compression, where the price of a company’s stock decreases relative to the company’s earnings. Effectively, this serves to make stocks “cheaper”, with a stock valuation lower in proportion to the company’s underlying earnings, providing a strong entrance opportunity.

As inflationary pressures subside and the need for higher interest rates reverses, good companies with good earnings and growth prospects will provide the best opportunity for portfolio returns.

Its always a good time to bargain hunt but when valuations are down it’s the best time.

Our most recent favourite quote, We want to build portfolios that perform during the “patient period” and then benefit when equity markets come into favor.

All the best,
GB

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