

WHAT A YEAR 2022 HAS BEEN

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What a year 2022 has been, one thing after another to throw us off our game. Covid, a war in Ukraine, rising inflation motivating central bankers to raise interest rates. Political gamesmanship increases to the point of confusion. Bitcoin is presented as a financial solution and then becomes a financial problem for many. Mortgage rates rise but the short supply in housing supports values and now the fundamentals of our economies appear to be normalizing.

I remember a game I had as a kid, Whack-A-Mole. *"A typical whack a mole machine consists of a waist high cabinet with a play area, display screen and a large soft black mallet. Five holes in the play area top are filled with small plastic cartoonish moles, which pop up at random. Points are scored by whacking each mole as it pops up. The faster the reaction the higher the score"* - Wikipedia.

2022 has been a whack a mole year as mole after mole has popped it's head up to jolt our resolve to keep our plan. Unlike whack a mole portfolio management requires not reacting to every event but instead to analyse their significance relative to longer term objectives. If we've built the portfolio correctly patience is all that's required to achieve our goals.

"Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what is actually happening to the companies in which you've invested" - Peter Lynch.

Peter managed Fidelity's Magellan Fund from 1977 to 1990 averaging an annual return of 29.20%. His book "One Up On Wall Street" is still an excellent resource for investment fundamentals.

"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria" - John Templeton.

Templeton is an iconic money manager who also took a simple approach. The market cycle may look different, but it always has the same four stages. The objective is to stay invested while avoiding the euphoric or speculating segment of it.

In our opinion we are currently past the stage of euphoric and in the phase of pessimism growing to optimism. Which is a good time to follow another famous investor.

"Be fearful when others are greedy (Euphoria) and be greedy when others are fearful (Pessimism)"
- Warren Buffett.

Depending on your view of how our economies will rebound the stock market is in the early valued range, not expensive but not cheap. Careful thought is required when making additions to portfolios currently.

“If you aren’t willing to own a stock for 10 years, don’t even think of owning it for 10 minutes.” - Warren Buffett.

Maintaining conviction and being realistic on the time it takes to achieve valuable returns is essential to successful investing.

The reality is the time you spend in the market has more importance than when you enter the market. The stock market rises more than it falls and the longer the time spent in it the lesser your risk. The S&P 500 has had positive returns 70 of the last 94 years.

We are currently also presented with a bond opportunity that we haven’t seen in a decade. Short term (1.3 years) corporate bonds are yielding 4.5% to 5.3%. If you are feeling that a long-term time horizon may be past your due date a portion of your portfolio can achieve respectable returns in short duration bonds.

Be aware however that even a 5% interest rate yield provides a negative “*real return*” after taxes and the current rate of inflation.

In reality most of us in the later years are investing for our estates and in that case the time horizon is that of our children and grandchildren.

2022 has been a whack a mole year as we’ve been pulled back and forth by all these events mentioned and we’ve had the help of “*forecasters*” giving us new forecasts at every turn.

“Forecasts may tell you a great deal about the forecasters; they tell you nothing about the future” Warren Buffett.

The pessimism in current forecasts may prove up in the short term but don’t forget pessimism is where the new business cycle starts and where the best value is found.

Warren Buffett has a couple more rules.

Rule # 1 is never lose money and rule # 2 is never forget rule # 1.

2022 was a difficult year for investors, a terrible year for speculators and we consider ourselves fortunate to have preserved our client’s capital through one of those negative years and look forward to 2023 and the reward of better returns.

Have a wonderful holiday season, enjoy your family and friends. All the best.

GB, AG, RL

YEAR END TAX PLANNING -THINGS TO REMEMBER

As the war broke out in Eastern Europe this year, the physical destruction and the effects of sanctions caused additional shocks to an economy recovering from a global pandemic. We are seeing higher energy prices and weaker confidence in the economy and financial markets as the world still suffers from pandemic-driven inflation. Such has been speculated in the past few years, there has been much discussion about income tax increases in future years to recover pandemic costs. Whether those increases result in changes to capital gains inclusion rates, personal tax rate increases, adjustments to the principal residence exemption, corporate tax rate increases, or some other tax measures to target extreme wealth inequality, no one can predict the future with any certainty. The information contained in this document is accurate at the time of writing (October 2022), and the Canadian government may introduce new tax measures before the end of the year.

Despite the uncertainty of future tax policies, taxpayers can take actions based on the tax legislation in place today before federal and provincial governments introduce changes. With deadlines fast approaching, now is the time to take advantage of tax-deferred growth opportunities, taxadvantaged investment strategies, and charitable-giving opportunities, among others, to maximize deductions and credits for your tax situation. The below are some important things to remember coming up on the end of the year:

- Dec 28, 2022: Last day to sell securities in Canada and the US to realize a gain or loss for 2022
- Dec 31, 2022: Last day to make charitable donations for 2022
- Jan 2, 2023: **New TFSA contribution room of \$6,500** per Canadian over age 18 + ability to re-contribute prior years' withdrawals
- Mar 1, 2023: Last day to make RRSP contributions to offset 2022 income
- May 1, 2023: Last day to file your 2022 Canadian Tax Return and pay any outstanding tax owing

We will be in touch early in the new year to ensure that TFSA accounts are topped up, and plan for 2023 incomes.

If you have any questions, or if there is anything at all that we can assist with, please do not hesitate to let us know. We are always available to help.

We are wishing everyone a safe and enjoyable holiday season!

Take care!

GB, AG, RL

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