

# The Wealth Report

Q3 2023



## Dividends – On Sale!

Stock markets can fluctuate, but dividends offer a steady income stream, akin to a cash register’s reassuring ring—CA-SHING!

Reliable dividend-yielding stocks are often found in sectors like banking, life insurance, and pipelines. Over time, these stocks tend to increase their dividend payments. Moreover, dividends benefit from preferential tax treatment, with tax rates typically lower than those on interest income, as the money has already been taxed at the corporate level.

What’s not to like?

In the past, when interest rates were low, dividend-paying stocks were reasonably priced. However, with the recent rise in interest rates and concerns about an impending recession, these stocks have faced selling pressure, and while interest rates are expected to remain high, the economy continues to grow at a steady rate of 2%, and employment opportunities are abundant in both Canada and the U.S.

In this post-pandemic, investing landscape, positive economic news can have a dampening effect on the stock market, while negative economic news is often welcomed. Quite contrarian really. As a result, dividend-paying companies offer the best value, the likes of which we haven’t seen in 25 years.

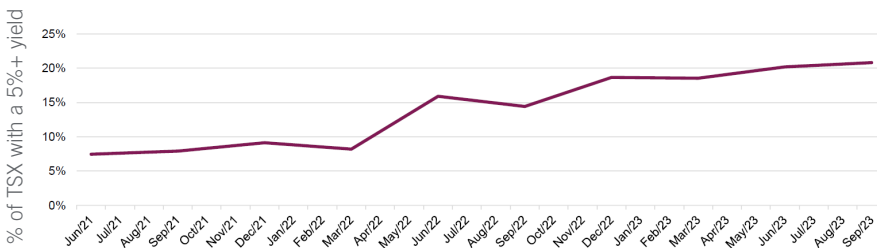


Chart 1: The market is full of attractive dividends  
Source: Bloomberg, Purpose Investments

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### Markets at a glance

Quarter ending Sept. 30<sup>th</sup>, 2023

Bonds Index	(2.0%)
S&P/TSX Index	0.0%
S&P 500 (USD)	11.7%
S&P 500 (CAD)	11.8%
Emerging Market Index	8.4%
Nasdaq	26.3%

### Q3 in review

- Fashion journalist Chioma Nnadi named new head of British Vogue - first black woman to head a major fashion magazine.
- Nobel Prize in Physiology or Medicine awarded to Katalin Karikó and Drew Weissman for discoveries that enabled mRNA vaccine development.
- Stolen van Gogh painting “The Parsonage Garden at Nuenen in Spring,” is returned in an Ikea bag to an art detective.

Today, about 20% of the TSX constituents carry a yield of over 5%, up from 8% two years ago. To put it bluntly, higher bond yields have resulted in price declines for many dividend payers, which has helped lift dividend yields.

So, dividend-paying companies are now paying more to remain competitive with higher bond yields. There is also an added bonus: valuations among dividend payers are historically low. The dividend space in Canada is currently trading at about 10x forward consensus estimates, about two points lower than the long-term average.

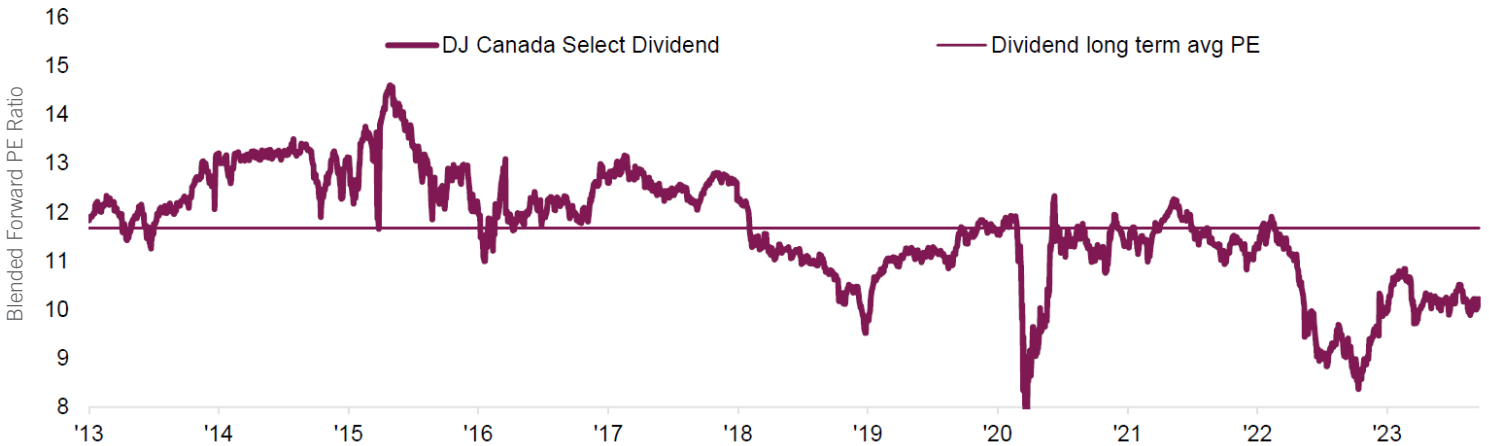


Chart 2: Dividend companies are not just yielding more than before, but valuations are lower as well  
Source: Bloomberg, Purpose Investments

With this in mind, our diversified portfolios' allocation to high-quality, dividend paying companies will increase given their favourable outlook and low valuations.

Historically, adding solid businesses when stock prices are inexpensive has been rewarded.

## Planning a Pathway to Financial Well-being

In this quarterly newsletter, we reiterate a fundamental principle: a solid investment plan is designed on the backbone of a solid financial plan. While numerous industry surveys echo this sentiment, we believe in drawing on our own extensive experience. Many of our clients have entrusted us with their financial planning for over 25 years, so we can speak of the stability of actions and thoughts that have been built on the foundation of planning. We will share our experience with a specific client to detail their journey.

We first met Harry and Sally (names altered) in the mid-1990s when they were in their mid-50s, diligently paying their bills, growing their savings, having assisted their children through university. Harry, while content in his job, was increasingly concerned about industry changes and wanted to secure his ability to retire on his terms within the next decade.

Like many clients we first meet, they worried whether they could save enough to enjoy a comfortable retirement.

**“A goal without a plan is just a wish.”**

**Antoine de Saint-Exupéry, poet, author of *The Little Prince***

Our first meeting shifted from a discussion about investments to comprehensive planning. Having gathered all the pertinent data during the first meeting, we conducted a thorough analysis and presented a plan that would allow them to retire before the age of 65. As the discussion turned to their investments, we focused on quality assets in a balanced portfolio. A portfolio that was within their risk tolerance, and after inflation and taxes could produce the level of returns necessary to earn the retirement income would require. They were relieved to see their goals well within their reach.

The second meeting brought about a revelation for Harry and Sally as they felt relieved to see that their goals were well within their reach.

Since those initial meetings, we’ve lived through numerous market environments. In response, their financial plan and portfolio were frequently reviewed, adjusted and adapted as required. During annual reviews the financial plan provided insight and the necessary actions to address changes in markets conditions and their future aspirations.

When markets were on the rise, the financial plan guided us to reduce risk exposure. Simultaneously, it ensured liquidity during market downturns allowing the portfolio to capture additional future returns and safety. While the journey hasn’t always been smooth, the financial plan has provided Harry, Sally, and us a clear view to stay the course and make prudent decisions.

Currently in their 80’s, the concerns they shared have shifted from “will we ever have enough?” to “how do we use all our savings?” Discussions are now centered around leaving a legacy through the transfer of wealth to the next generation and personal care and health needs.

A well-crafted and personalized financial plan evolves over time. It takes into account your goals, while making calculated choices, recognizing opportunities, and understanding risks. It serves as the solid foundation that empowered Sally and Harry to visit family overseas, spend summers at the cottage and experience the retirement they envisioned.

Harry once said, “we’ve been through a lot together, but we’ve never worried about our money because we knew the plan was on-track.”

Financial planning creates confidence in our short-term decisions as they align with your long-term needs. It is not a static process, but rather an ever-evolving analysis that keeps the investment process aligned with your long-term needs. It is an on-going discussion that tracks progress, creates accountability, and assists in sound judgement as markets ebb and flow.

The value of financial planning is undeniable, and it’s a cornerstone of our best practices. While not all clients have a written financial plan, we’re eager to change that and invite you to join [Michael](#), our financial planning specialist for a conversation. It won’t overwhelm you, but it’s sure to enlighten and lay a strong foundation as we work together towards your financial aspirations.

# The Tax-Free First Home Savings Account (FHSA)

A faster way to save for your down payment!

If home ownership is a future goal, you may be interested in a new federal savings tool first proposed by the federal government as part of its housing plan in Budget 2022. Set to become available Nov 6th, the Tax-Free First Home Savings Account (FHSA) will give prospective first-time home buyers the ability to save \$40,000 on a tax-free basis.

Key features include:

- Available to Canadian-resident “first-time home buyers” who are at least age 18, until the end of the year they turn age 71
- Annual contribution limit of \$8,000 and lifetime contribution limit of \$40,000
- Maximum carry-forward amount per year of \$8,000
- Contributions are tax-deductible
- Investment income and growth earned in the FHSA are tax-free
- Withdrawals to acquire a qualifying home are tax-free
- Withdrawals from both the FHSA and the Home Buyers’ Plan are permitted to acquire a qualifying home

For more information, ask us about our FHSA education article, which provides a more detailed overview.

And as always, we would like to thank-you for your continued trust and ask you to reach out via phone or email if you have any questions or know of anyone that could benefit from our experienced team.

## The Wronski Cann Group



### Notable dates ahead

- Oct 31 - Halloween
- Nov 5 - Daylight Saving Time ends
- Nov 11 - Remembrance Day
- Nov 12 - Diwali/Deepavali
- Dec 8 - First Day of Hanukkah
- Dec 22 - December Solstice
- Dec 25 - Christmas Day
- Dec 26 - Boxing Day
- Dec 31 - New Years Eve

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