

ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

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Harsh Medicine for a Healthier Future

Governments and central banks did a remarkable job of avoiding a depression when economies locked down due to COVID-19. By providing individuals, businesses and governments with enormous and unprecedented financial support, the world experienced the shortest economic recession and fastest recovery on record.

Unfortunately, the success also fuelled a surge in inflation, which is currently running at rates last seen in the early 1980s. While the war in Ukraine has definitely added pressure, hugely expansionary fiscal and monetary policies were the primary fuels for rising prices. Authorities simply stimulated too much demand for goods and services at a time when the world was struggling with supply. It is elementary economics: prices rise when demand is greater than supply.

Inflation is universally disliked. When the cost of living rises faster than incomes, individuals struggle to make ends meet. Business leaders see profit margins squeezed when they can't find workers and/or raise prices faster than costs. Investors become nervous and fearful because asset prices fall when inflation is out of control. Politicians naturally get blamed and risk losing their jobs. Central bankers face the unpleasant task of fixing inflation by raising interest rates.

Naturally, everyone would like to believe that inflation will abate without too much economic pain. Optimists point to significant drops in the price of things like gasoline, lumber and used cars as reasons to believe the authorities are winning the war against inflation. They are right, to a degree. However, realists appreciate that it's the price of services – not goods – fuelling consumer price inflation today. The service sector is much larger than the goods sector, and there is a wage-price dynamic causing inflation to accelerate. Because the unemployment rate is low and job openings are plentiful, workers are getting significant pay increases. With those, workers can afford to pay more for goods and services, and companies are able to pass on higher costs. If jobs remain plentiful and pay raises continue, the cycle repeats. It's hard to believe inflation will drop in such a scenario.

In the late 1970s and early 1980s, authorities were slow to appreciate the wage-price dynamic, and it got out of control. Inflation accelerated to very high levels, and the U.S. Federal Reserve ultimately had to raise administered interest rates to 20% to break the wage-price spiral and subdue inflation, causing nasty back-to-back recessions in 1980 and 1981.

Unfortunately, higher unemployment and an economic recession are likely the necessary evils needed to reduce inflation and put the world on healthier ground. The U.S. Federal Reserve and other central banks are aiming to bring demand and supply back into balance by increasing interest rates. Individuals and businesses borrow and spend less when interest rates rise, which ultimately results in people losing their jobs. Putting people out of work is harsh medicine indeed, but the alternative of letting high inflation persist would ultimately produce worse economic outcomes for everyone.

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We are proud to be a long-term partner of St. Paul's Foundation in their support of innovative, compassionate health care across BC. In honour of our upcoming 100th anniversary as a firm, Odium Brown was proud to gift \$100,000 over five years to support the St. Paul's Foundation Lights of Hope campaign and Providence Health Care's Dementia Caregiver Resilience Clinic.

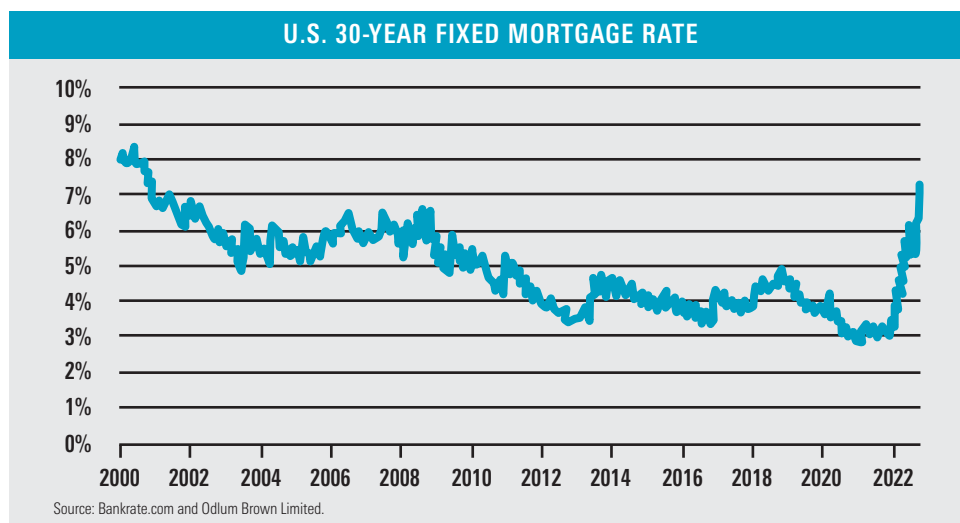
Lights of Hope is a fundraising campaign that transforms the façade of St. Paul's Hospital each year into a beacon of hope and joy. Having supported Lights of Hope for 19 years, our gift enables us to return this year as a Silver Sponsor to help meet the greatest needs of patients, residents and families across BC.

The Dementia Caregiver Resilience Clinic supports the health and well-being of dementia caregivers through evidence-based individual and group therapy.

To learn more about St. Paul's Foundation and their important work to transform healthcare across our province, visit helpstpauls.com.

While investors fret about how much more central banks will increase rates and the dismal near-term outlook for the economy, we see several reasons to be optimistic about the long term.

First, we believe interest rates have already increased to levels that should produce a meaningful economic contraction and enough weakness in labour markets to arrest the wage-price spiral. The administered short-term interest rates, which are controlled by central banks and are the building blocks for all other rates, have increased dramatically. The U.S. Federal Reserve and the Bank of Canada have increased rates sharply from near zero to 3.25% in the U.S. and 3.75% in Canada this year alone. Meanwhile, market-based interest rates, including government and corporate bonds, mortgage rates, credit cards and auto loans, have increased much more. In fact, U.S. government bond yields are back to where they were during the 2008/09 financial crisis. Similarly, investment-grade corporate bond yields are at a 13-year high of 6.25%. High-yield bonds are close to 10%, which is very near the peaks in 2011 and 2016, and not much lower than the highs reached at the start of the pandemic in early 2020. Most extreme of all is the more than 7% interest rate on U.S. 30-year fixed-rate mortgages, the highest since 2000.



There is always a meaningful lag before changes in interest rates have an economic impact, but we believe the necessary and harsh medicine is already in the economic pipeline. Stocks are more sensitive to changes in market interest rates than administered central bank rates, and we doubt market rates will rise much further, if at all. Stocks may be near their bottom, if market interest rates are near their peak.

Stock prices are depressed, and investor sentiment is extremely negative – additional reasons to be constructive. According to the Bank of America's latest monthly survey of global fund managers, professional investors are more bearish about stocks than at any time in the last two decades. Fund managers viewed the world as relatively safe at the beginning of the year, but now they see risks as elevated as they were in 2008. Sentiment regarding the outlook for corporate earnings is as negative as it has been since the survey started.

Negative sentiment is a positive from a contrarian perspective. The odds of generating attractive returns over a three to five-year horizon are always better when sentiment is gloomy and valuations are depressed, rather than when investors are optimistic and stock prices are near their highs.

While it might seem counterintuitive to invest when there is so much to worry about, it's important to appreciate that the market is forward looking. Stocks, bonds and other assets have performed very poorly this year because investors know that getting inflation down requires tough economic action. They know conditions will get worse before they get better, and they have marked down stock prices accordingly.

In time, and perhaps soon, investors will come to realize that the medicine is working. By the time unemployment is rising and inflation is falling, the market will probably be anticipating a healthier economy, better corporate profits and higher stock prices.



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Estate and Incapacity Planning Documents

What are they and where should I keep them?

As part of one's holistic planning, it is important to address what would happen upon your death or if you were to become temporarily or permanently incapable of making your own health, personal care, financial or legal decisions. We highlight below some of the main planning tools that are available to BC residents to document their wishes.

Estate planning involves arranging in advance how your estate (what you own) will be distributed, and to whom, after you die. You can use several tools to create an estate plan, such as wills, trusts and joint ownership, as well as designating beneficiaries on life insurance policies and registered plans, such as retirement savings plans, registered pension plans and Tax-Free Savings Accounts.

Incapacity planning involves legal tools to communicate your wishes and instructions and appoint substitute decision-makers in the event that you become incapable of making or communicating important legal, personal, health and financial decisions yourself. These tools can include, for example, trusts, Representation Agreements (RAs) or Power of Attorney (POA) agreements.

Why do I need a will?

Without a will, someone must apply to the court to be appointed as the administrator of your estate, a process that can be time-consuming and costly. In BC, your estate would be distributed in accordance with the *Wills, Estates and Succession Act* (WESA), which may not reflect your intentions.

Even if you think your estate would be simple to administer, drafting a will can still offer advantages. It allows you to name who should act as your executor(s) and/or as guardian(s) for minor or disabled children; may help your executor access potential tax savings; may reduce the cost of administering your estate; and allows your executor to deal with assets according to your wishes. While some property can be distributed without a will, such as assets owned jointly with "right of survivorship"¹ or assets for which you have designated beneficiaries, a will lets you indicate your preferences for dealing with other assets after your death, including business interests, digital assets such as your social media accounts, assets held in sole name or your interest in assets held as tenants-in-common.

Why do I also need incapacity planning?

Although a will comes into effect when you die, it does not appoint someone to act on your behalf while you are alive, even if you are incapacitated. Other legal tools, such as an RA and/or POA, allow you to plan ahead for a time when you may need assistance, by appointing someone to act on your behalf. If you fail to plan ahead, the process to legally appoint someone as your decision-maker (known in BC as a "Committee") can add time and costs to an already difficult life moment. If you plan ahead and appoint an "Attorney," you can choose whether to allow them to make financial and legal decisions immediately and also whether to authorize them to continue acting if you lose mental capacity, which is known as an Enduring Power of Attorney (EPOA). A "Representative" whom you name in an RA can make decisions on your behalf after you lose capacity, or help you make decisions, including about your routine financial affairs, certain legal affairs, and – unlike an EPOA – personal or health care (such as your living arrangements, diet or home support). You have the option to appoint a monitor in an RA, to help oversee the decisions your Representative makes.

What happens after your documents are created?

Making a will, RA or EPOA document can be futile if these documents cannot be found when needed. The table on the next page shows some options to make it easier for your appointed persons to access your documents.

TIP: Your BC RA or EPOA documents must be printed and stored as physical documents, not stored online. A BC will can now be an electronic will, but seeking legal advice about the pros and cons of electronic wills is strongly recommended.

Odlum Brown Financial Services Limited (OBFSL) neither prepares legal documents nor provides legal advice. Clients should consult with their legal professional(s) before acting on any matters discussed in this article, to obtain advice on planning for their future estate or incapacity.

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Potential Action	Pros	Cons
1. Have your lawyer or notary file a Wills Notice with BC's Vital Statistics Wills Registry ² indicating where the original will is stored.	<ul style="list-style-type: none"> Anyone can search the BC Vital Statistics Wills Registry after someone's death to discover where the original will was expected to be held. 	<ul style="list-style-type: none"> This BC registry is only available for wills, not for RA or EPOA documents. Not every will is necessarily registered (e.g., a will prepared outside of BC may not be). The will may have been moved after the Wills Notice was filed.
2. Store your original will, RA and/or EPOA with your lawyer.	<ul style="list-style-type: none"> Lawyers have professional obligations to safe-keep and retain documents. Reduced risk of loss or accidental destruction. 	<ul style="list-style-type: none"> If the law office closes or the lawyer retires, you may lose track of your original documents.
3. Add copies of your documents to the Nidus Personal Planning Registry ³ and indicate where the originals can be found.	<ul style="list-style-type: none"> A simple search can reveal if you are a Nidus Account Holder. The Nidus Registry is available for storing copies of wills, RA, EPOA or other personal planning documents. 	<ul style="list-style-type: none"> Your appointed persons may not know about the Nidus Registry. (Tip: Leave a note that is easy to find.)
4. Keep your original will, RA or EPOA documents in a safe deposit box (SDB) at a financial institution (FI).	<ul style="list-style-type: none"> An FI will typically allow an executor to access an SDB to retrieve the original will, with conditions. 	<ul style="list-style-type: none"> In the case of an RA/EPOA, an FI will typically decline access to the client's SDB if the appointed person does not have the original or a certified copy of the RA/EPOA document in their possession, so storing these original documents only in your SDB is generally not advisable unless the appointed person is a joint holder of your SDB. An SDB may not be immediately accessible (depending on branch hours, appointment requirements, etc.).
5. Keep your original will, RA or EPOA documents with a corporate trustee (trust company) that you have appointed as your Executor, Trustee and/or Attorney.	<ul style="list-style-type: none"> A corporate trustee has fiduciary obligations to safe-keep and retain documents. Reduced risk of loss or accidental destruction, and reduced risk that staff changes will impact your document storage. Your appointed trust company will have immediate access to your documents. 	<ul style="list-style-type: none"> Only available if appointing a 'corporate' Executor and/or Attorney. Additional cost for these services.
6. Keep your original will, RA or EPOA documents in a safe or other secure location at home.	<ul style="list-style-type: none"> Your appointed persons may have quick access to the original documents. 	<ul style="list-style-type: none"> Risk of forgetting or not communicating where the original documents are stored. Risk of losing the keys/codes used to secure the documents. Risk of accidental destruction (e.g., due to flood or fire).



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Additional Resources:

"It's Your Choice – Personal Planning Tools" https://www.trustee.bc.ca/documents/STA/It's_Your_Choice-Personal_Planning_Tools.pdf

"Wills and Estates" <https://www.peopleslawschool.ca/publications/wills-and-estates-collection>

"My Voice – Advance Care Planning Guide" <https://www2.gov.bc.ca/gov/content/family-social-supports/seniors/health-safety/advance-care-planning?keyword=My&keyword=Voice>

"Incapacity Planning" <https://www2.gov.bc.ca/gov/content/health/managing-your-health/incapacity-planning>

"When I'm 64: Controlling Your Affairs" <https://www.peopleslawschool.ca/publications/when-im-64-controlling-your-affairs>.

Additional OBFSL articles, including "Choosing an Executor," "Pre-Planning for Incapacity and Death," "Getting Organized – A Proactive Guide to Preparing for Illness, Injury or Death" and an "Executor Checklist," are available on the online Odium Brown Client Centre or through your Odium Brown Investment Advisor or Portfolio Manager.

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¹ For more information on joint ownership, see our article "Joint Ownership in Estate Planning" available on the online Odium Brown Client Centre or through your Odium Brown Investment Advisor or Portfolio Manager.

² For more information about using BC's Vital Statistics Wills Registry, see <http://www.clicklaw.bc.ca/resource/2055>.

³ For more information about using the Nidus Personal Planning Registry, see <https://www.clicklaw.bc.ca/resource/2543> and <https://nidusregistry.ca/>.

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