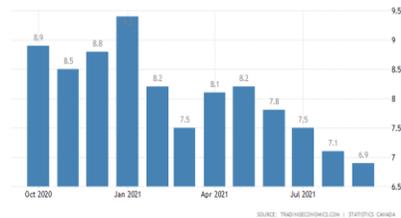


Retirement and financial planning require time, effort, and specialized knowledge. This newsletter is intended to help you plan your retirement and to assist working folks prepare for the future. *It may include general comments on investing but does not provide investment advice.*

## Overview

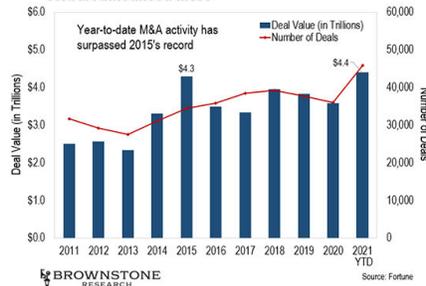
The Canadian election, Covid 19 'D', inflation, and China re: Evergrande and crackdown on tech companies were the dominant issues in September. The Canadian election ended up a 'nothing burger' while Covid D, inflation in the US, and the stock markets are acting like unmanned fire hoses. Small businesses have closed, and empty shelves are common in stores like Canadian Tire and the \$Store due to supply chain bottlenecks. Not a good sign! Food prices are higher due to droughts in North America while food package sizes are also 'shrinking' - a subtle price increase. Inflation, at 4.4% at September, is also being fueled by low interest rates, stimulus subsidies and labour shortages (despite an unemployment rate of ~7%).

Unemployment Rate .

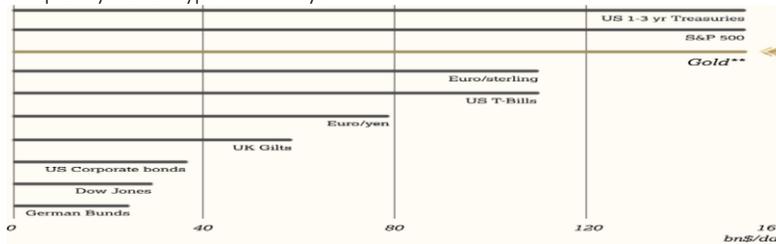


However, technical indicators have improved, and mid and small-cap company shares have been gaining relative strength vs. their large-cap peers. (Bruce Campbell- BNN Bloomberg). Mergers and acquisitions are also at a record level - perhaps an indication of business 'optimism' about the future?

Global Announced M&A



Many types of securities and currencies are traded - not just the stocks. It is a bit of a surprise that gold is the most frequently traded type of security.



*China is betting there will not be a western military response when they invade TAIWAN...so...?*

## A. Short and sweet

- a) China has banned cryptocurrencies. They are considered a threat to national and financial sovereignty.
- b) On October 1<sup>st</sup> China flew 38 aircraft fighter jets and bombers, into Taiwan's Air Defense Identification Zone. Hm!
- c) There are now over 1,000 ETFs listed on the TSX. The investment approach often varies significantly. What appears to be simple and straight forward often isn't - caveat emptor!
- d) Trusted Contact Person (TCP) comes in effect into Canada Jan 1 ,2022 allowing **seniors to designate a trusted 3<sup>rd</sup> person** to access their confidential information in a broker account.
- e) "After a 2-5% drop in global stock markets in September....Is unemployment rising or falling? Is inflation transitory? Is more bad news coming from China? Will corporate profits continue to rise at the (recent) 25% rate ....?"(David Driscoll - BNN Bloomberg)

## B. Tax Information

### 1. November – tax planning time

It is November - time to start thinking about how to minimize your 2021 taxes e.g., RRSP contributions, tax loss selling, donations, medical receipts, etc.

### 2. Business expense claim receipts

See the attached article – **"CRA requirements for business expenses."** It would also apply to expenses claimed on an individual's tax return. You still have to keep all those little pieces of paper.

### 3. Foreign property tax reporting

If you own foreign property worth >\$100,000 *any time during a year* you are required to file form 1135 with your tax return.

Foreign property includes **real property, intangible property, bank accounts, foreign stocks, bonds, other investments, precious metals, and cryptocurrencies held outside of Canada.** Investments in pooled products i.e., mutual or pooled funds, or investments held in registered pension type accounts, or foreign vacation property used entirely for personal use, are excluded. The location of the property or is a key factor in determining if it is foreign property.

CRA considers crypto currencies to be funds or intangible property to be foreign property if held or stored **outside of Canada.** Unfortunately, the location of a cryptocurrency data is usually ambiguous since it is usually stored in blockchains on servers located outside of Canada.

To avoid problems the safest approach is to report foreign property and cryptocurrency holdings >\$100,000 and avoid potential CRA penalties (\$25/day - maximum \$2,500) and interest charges.

## C. Other Issues and Information

#### 4. Diversified Financing (DeFi) – the ‘new kid on the block’

Diversified Financing (DeFi) is a new global open-source software application that runs on decentralized blockchain networks. The objective of DeFi is to eliminate financial intermediaries like banks and having to put up conventional assets as collateral when borrowing money.

DeFi funds come from investors who transfer securities to a DeFi funding pool. Anyone can deposit cryptocurrencies to a DeFi pool which then lends the funds to borrowers. Accounts are held in cryptocurrency coins. Borrowing and lending are at specific contract rates which are higher than bank savings rates.

When a DeFi borrower commits a cryptocurrency to the pooled fund as collateral the loan funds are immediately transferred to the borrower. Transactions are settled on the blockchain; a bank or financial intermediary are not required.

The cryptocurrency used in DeFi is a ‘stable coin’. This is another type of cryptocurrency token (‘coin’) where the price of can be fixed to the US\$, gold, etc., to minimize price fluctuations. The US SEC’s position is that a DeFi lending account is a security and normal ‘security regulations’ apply.

While DeFi is intended to facilitate borrowing and generate higher returns for lenders it will not be clear sailing. The U.S. Securities and Exchange Commission (SEC) is wary of DeFi and has threatened to sue a cryptocurrency company if it launched a new DeFi product called “Lend.”

From a lender and borrower perspective DeFi has advantages but it does not eliminate investment risk. DeFi is in the very early development stage with many unanswered questions and challenges. It will also be interesting to see how the banks react to the challenge that DeFi poses to their business models.

#### 5. Cryptocurrencies – under serious attack

In September 2021 China again banned the mining and trading of cryptocurrencies as it did in 2003. It will likely enforce the ban this time since cryptocurrencies are now recognized as a threat to the Chinese financial system and can facilitate criminal activity. Other governments have similar concerns about protecting their currency, preventing money laundering and about taxation. It is inevitable that more government legislation, regulations, and control is on the way.

Will other countries follow China’s lead in banning crypto currencies? Will crypto currencies survive? There are several ways a country can limit cryptocurrency usage:

- a) Shut down cryptocurrency exchanges.
- b) Increase tax rates to punitive levels and introduce penalties for evasion – i.e., tax it to death.
- c) Make internet access to cryptocurrencies difficult (existing software, and hackers limits this).
- d) Require registration and comprehensive disclosures to enforce regulation and taxation.
- e) Develop alternate government controlled ‘stable coins’ as an alternative.

In Canada the CSA and IIROC are cautioning investors about the marketing and advertising of cryptocurrencies as well as investment risk and ‘gambling’ i.e., some are using cryptocurrencies to make a quick profit. The lack of information and understanding of cryptocurrencies, how the issuer is paid, how much, and why the values are so volatile, is also a regulatory concern. In addition, CRA has taken steps to ensure that cryptocurrencies are reported and taxed.

Cryptocurrency mining requires huge amounts of electricity; hence it is environmentally counterproductive to global efforts to curb global warming. Hackers are also finding ways around crypto currency ‘security’ and gaining access cryptocurrency data.

The regulation or death of crypto currencies will have an impact on the future development and use of Diversified Financing (DeFI).

Regulators are struggling to keep up with the new technologies and investment products related to cryptocurrencies. Once again - caveat emptor!

A summary of cryptocurrencies and tax issues related to cryptocurrencies is attached.

## 6. 'Risk-Free' Interest Rates - Government Treasury Bills

Oct 15 , 2021	Current Rate	Previous Month
3-Month Treasury Bill	0.12%	0.13%
1-Year Treasury Bill	0.37%	0.26%
2-Year Treasury Bond	0.76%	0.45%
5-Year Government Bond	1.22%	0.86%
10-Year Government Bond	1.57%	1.22%
30-Year Government Bond	1.99%	1.77%
Inflation	4.4%	4.1%
Prime Rate	2.45%	2.45%

1-30 year "risk free" Canadian Treasury interest rates increased in September. The Prime Rate, set by the major Canadian banks, remained unchanged at 2.45%.

Commented [gw1]:

Canadian CPI for September was 4.4% vs. 4.1% in August. 2003 was last time it reached this level. Food, clothing, and gasoline (regular and frequent purchases) have gone up 10-20% this year in BC. Inflation does not appear to have peaked and is likely to remain above the 2% inflation target rate for some time.

Real rates of return in Canada were again negative and continue to undermine purchasing power.

### ***Tax is a critical aspect of retirement and financial planning.***

The investment industry continually churns out new investment products. The government also provides different benefit programs to help low-income earners. If you have an advisor assisting you with retirement planning, they will know about new investment offerings and, if you qualify for government assistance programs. An advisor should also be aware of the tax implications of all types of investments .

The industry regulators are increasingly focused on "Know your Client (KYC)". The best way to approach to KYC is creating a financial plan. It is difficult for an advisor to understand a client's risks and risk tolerance without one. Having a formal financial plan minimizes retirement problems and stress. It makes it easier for an advisor to be effective and leads to better financial and estate planning decisions. An effective financial plan must have a comprehensive tax component – most don't. An 'informal' plan is simply not effective.

Use an advisor who provides good service and charges a flat annual fee (only \$500- \$1500 per year). Avoid paying advisor fees based on the value of your investments.

If you would like to see information on a topic or, to be removed from the mailing list, please let me know. Previous Newsletters and additional pension information is available at <https://www.thepensionadvisor.info/>

## **Enuff of the pension and tax stuff**

If you are into music, history or trivia and other interesting and entertaining things, you can subscribe to "Smile of the Day". It's a daily email with a combination of 'What Happened on this Day in History,' a joke, a song or a video, the 'Thought of the Day' and lots of reader feedback. The Smile's motto is: "One of the best things in life is seeing a smile on someone's face and knowing you helped put it there". A few minutes a day will serve as a pension and tax stress reliever and may leave you with a tune to hum. You can subscribe by emailing [smileoftheday.ca@gamil.com](mailto:smileoftheday.ca@gamil.com) (you can cancel any time).

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