



QUARTER 3 – 2022

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# BASIC

FINANCIAL SERVICES INC.

Welcome to another issue of In Touch for 2022. We hope this issue provides you with valuable information, which will allow you to make strong financial decisions.

## What's Happening

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As spring becomes summer, we have been quite busy at Basic Financial. Tax season came as quickly as it went with Graeme and team completing over 200 tax returns for our clients. Mumin and team spent the past months meeting many clients during our spring review season ensuring your Financial Plan is still on the right path.

We have been feverishly meeting, listening and reading content from our investment managers, economists and partners to ensure we are staying up to date on everything investments, taxes, planning, interest rates and insurance. There are times when new rules, laws or strategies may benefit your specific situation and a plan adjustment would be positive. Our goal is to ensure everyone on your team is trained and knowledgeable around any new changes which may benefit you.

Members of the team are taking some much-needed time off this summer; spending some time with

family, friends, biking trails, in the garden and the odd round of golf (fore)! Rest assured our office is open all summer should anything come up from our end or your end. Our office will now be closed at 4pm until September, however we are available by appointment after 4pm and Saturdays.

Similar to last quarter, several new families have joined Basic Financial. It is always an honour and a privilege to serve you and your family, friends & colleagues. Thank you for providing many amazing referrals and introductions, we love what we do and appreciate that we can help others.

## Market & Economic Update

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It goes without saying that Stock and Bond markets are off to a rocky start with investors feeling some anxiety and we are starting to see a cooling in the Canadian housing market. As of writing this, most major markets are down with the Canadian TSX down 9% and the US S&P500 down 22% from the beginning of the calendar year. So, what's causing this much turbulence?

Inflation – You may see headlines like “Canadian inflation accelerates



# InTouch

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to new three-decade high” or “Inflation at 6.8% the highest since January 1991,” but you know this already. When you fill up at over \$2.00 a litre or that grocery bill costing you an extra \$50-\$100 versus last year tells you costs have risen. The real question is why?

According to Dalhousie Professor Talan Iscan – “the drivers of the current inflation rate are a perfect storm of several factors, some of which began well before the pandemic. They include the 2008 financial crisis and trade wars between the U.S. and China, which resulted in tariffs on Chinese goods that have meant higher prices for North American consumers. Overall, the last few years have brought a skepticism toward the “global economy” model, with China increasingly looking to increase its own domestic demand rather than sell goods at low prices to the rest of the world. That move prompted supply-chain disruptions, then the pandemic came along, further hindering supply chains and resulting in a huge amount of pent-up consumer demand.” Tack on geo-political issues like the Russia-Ukraine war, spurring on the cost of food and energy, the perfect storm just became a little stormier.

Interest Rates – Naturally when inflation is rising rapidly, the Bank of Canada and Federal Reserve Bank in the USA (often referred to as the “Fed”) are feverishly trying to increase interest rates to tame inflation. At the start of the year Canadian interest rates begun at 0.5% and have jumped to 1.5% with another 0.5% - 1.5% increase expectations in the second half of 2022. This is similar with our neighbours to the south.

Bond and Mortgage rates are not waiting around of the Bank of Canada or Fed. Currently the average 5-Year Fixed Mortgage is stilling around 4.50%, when just 6 months ago you could borrow at around 2.00%. Purchasing a Canadian 5-Year bond January 1, 2022 would return 1.60%, whereas now a 5-Year bond would return 3.4%.

So what do we do?

We have seen this before. Although the drivers might be different this time, the advice remains the same – stay invested. Your portfolios are built to weather the storm.

As Warren Buffet said “The rear-view mirror is always clearer than the windshield.” He means in the short term,

nobody knows when we might see the market swing back up. Some say if we see lowering inflation, we might see a nice summer rally or if earnings continue to grow a rally is upon us, but these are estimated guesses.

What we do know is that over the past 20 years we have seen markets dip every year. The chart below shows the past 20 years of the Canadian TSX Market and the yellow dots show how each and every year there has been a dip anywhere between 4 and 48% throughout each calendar year. Naturally some years will finish negative (2018, 2015, 2011, 2008, 2002) however most of those years finished positive.

The S&P/TSX has experienced a drawdown of 11% so far this year  
11 of the past 20 years have seen drawdowns over 11%

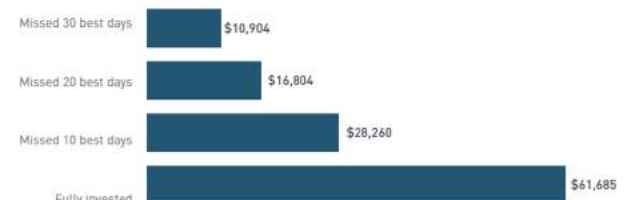


In that same period, if you invested \$10,000 and simply missed the 30 best days (in 20 years), the growth difference would be staggering.

#### Moving out of the market can cost you

Selling stocks at the first sign of a market decline may make you feel better over the short term, but it can cost your portfolio over the long term. Consistently predicting when those days will occur is close to impossible. Sticking to your plan and staying invested can help you make the most of them. Because as you can see, missing out on them can limit your portfolio's long-term potential.

Growth of \$10,000 in the S&P 500 Index, 20 years ending 12/31/21



For illustrative purposes only. Returns have been rounded to the nearest whole number for simplicity. Past performance is no guarantee of future results. It is not possible to invest in an index. Index performance does not include any investment-related fees or expenses.

Looking Forward – Know that your team at Basic Financial is continually monitoring your investments. Although we cannot control markets go up or down, we can make adjustments if we feel there is an opportunity that may benefit you. As always, please feel free to reach out if you have any questions, comments or would like to book some time to review your specific situation. We offer both face-to-face or electronic meetings via Zoom.



If you feel the information above may be helpful to a family member or friend, feel free to share or visit our website [www.basic360.ca](http://www.basic360.ca)

Sincerely, your team!

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## Articles of Interest

### The 5 Most Important Factors In Your Decision To Retire

By: The Retirement Manifesto

Making your decision to retire is a difficult one.

So many factors. So many uncertainties. So many unknowns.

Which factors are most important, and which aren't?

Among all of the factors you need to evaluate in your decision to retire, there are 5 that I consider the most

important, and one that doesn't really matter at all. And yet, many people consider that one to be the most important in their decision. Strange, that.

## The Most Important Factors

### 1. Do You Have Enough Money?

The first thing most people think about when they're making the decision to retire is whether they have enough money to last for the rest of their lifetime. Fair enough, and I'll concede it's way up on the list. I'd warn, however, that having enough money is a necessary factor, but far from sufficient.

### 2. Are You Mentally Prepared For Retirement?

Almost everyone thinks about money when they're making the decision to retire, but far too few consider the non-financial factors. If I were to choose one point to make from all the things I've learned in the 7 years of writing this blog, it's that the non-financial factors are the most important for putting yourself on track for a great retirement. Important enough that I wrote an entire book on the topic.

If you're thinking about retirement, the best advice I can give you is to spend time thinking about what you want your life to be in retirement. Think about it at least as much as you think about the "money stuff." Once you've retired, I suspect you'll realize #2 is actually the more critical factor.

If you're married, have you and your spouse talked about your mutual expectations for your life in retirement? How are you addressing any misalignments? Trust me, you have some. Take the time to find them now, and discuss how you're going to work together to live the best years for both of you in retirement.

What Purpose is going to fill your days when you no longer have a boss telling you what to do? Where are you going to live? What are you going to do? Important stuff, all, and a topic on which I've dedicated thousands of words. If you're still working, do yourself a favor and take a "mini-retirement" to think about the things that really matter before you take the plunge.





### 3. Have You Made A Realistic Spending Estimate?

In its rawest form, the decision to retire is a simple math problem. Multiply your assets times a safe withdrawal rate, add any expected income, and see if the total covers your expected level of spending. Given the importance of getting the correct answer to that formula, it's critical that you spend some time developing a realistic spending estimate for your retirement years. Since you've thought about what you're going to be doing in retirement (#2), it's a necessary exercise to track your pre-retirement spending for as long as feasible (I did 11 months), then make any adjustments for how you think it will change post-retirement. Too many people "take a swag" on this one, but I strongly encourage you to resist that temptation and give it a lot of focus as you're making your decision to retire.

### 4. Is Your Portfolio Ready For Withdrawals?

One of the biggest changes you'll face in retirement is the move from years of accumulating assets to the process of withdrawing those assets to fund your retirement. It's a huge shift and one which you should plan for in your final year or two of work. Recognize that the skill set needed to manage withdrawals from your portfolio is entirely different than those you've honed during your accumulation years. Start developing the skills required to pull from your investments now. Recognize they're important skills that you'll be using for the rest of your life.

Also, the asset allocation you've maintained during your working years is likely different than the allocation you'll need in your retirement years. For example, to avoid Sequence of Return risk, you'll want to have your cash cushion fully in place by the day you retire. It takes some time to reposition your portfolio, so figure out your strategy and get it implemented in your last year or two of work.

### 5. What's Your Risk Tolerance?

Let's face it, there's risk associated with the decision to retire. By definition, you are making a decision without knowing all of the answers. The future is unknowable. All things being equal, a decision to retire earlier has more risk than a decision to retire later. Are you aware of, and comfortable with, those risks?

Understanding and becoming comfortable with how much risk you're willing to tolerate is a part of every decision to retire, whether people realize it or not. Are you comfortable relying on private insurance for a few years before your Medicare kicks in? How concerned are you about the risks of long-term care, and what are you going to do about it? Are you concerned that your investments won't keep up with inflation? How much of your assets should you allocate to stocks vs. bonds vs. cash?

Many people think "risk tolerance" is primarily used to determine asset allocation, but I'd argue there are a lot of risk factors that need to be considered as you're finalizing your decision to retire. For example, there's risk that you'll lose some great years of retirement if you delay your decision. If you're unhealthy, that risk increases. How comfortable are you in giving up those "good years" of retirement? That's a risk tolerance question, and exactly the type of thing you should be thinking about as you finalize your decision.

## The Least Important Factor In Your Decision To Retire

As you read through the list of important factors, you'll notice one that's intentionally missing. And yet, this factor is the one that many people think of first. Perhaps that's because we've been conditioned throughout life to think of this factor when facing many of life's milestones:

- At what age do you start school?
- When are you allowed to start driving?
- At what age can you vote?
- When can you legally drink?

By now, you've figured out that **I consider "Age" to be the least important factor** in your decision to retire. For once in your life, age has nothing to do with this decision. Unlike driving, voting, and drinking, there are no legal constraints on when you can choose to retire. As long as you can check the boxes on the important factors listed earlier, you can choose to retire regardless of your age.

I know folks who have retired at age 35, and I know folks who are still working at age 70.



**“But wait,” you argue, “what about Social Security?”**

**My response:** You’ve got that covered in #1 above (Do You Have Enough Money). The age at which you decide to claim Social Security is, in reality, a math equation. If you’ve done the math and know you have enough money to retire at age 55, you know you’ll be fine pulling from your portfolio until your Social Security benefits start. If you don’t have enough money and have to wait until a certain age to ensure your SS benefits are flowing to meet your expenses, that’s fine. But don’t attribute that to age. It’s a “money problem,” not an age issue.

**“But what about Medicare?”**

**My response:** Again, if you’ve done your homework on #3 (Realistic Spending Estimate), you’ll know if you’re able to afford private health insurance until your Medicare kicks in at age 65. Thanks to the Affordable Care Act, you can take some comfort in knowing private insurance plans will, in almost all situations, be an option for you. Sure, there’s always some risk (#5 above, Risk Tolerance), but is it worth working those extra years “just” to get health insurance from your employer?

I’d argue that many of the factors that folks attribute to age are, in fact, covered by the 5 most important factors listed above. But hey, I love a good debate. If you disagree, let’s chat in the comments.

## Conclusion

If you’re making your decision to retire, I encourage you to work through the 5 factors outlined above. Don’t just assume you have to work until a certain age to achieve a certain benefit. In reality, age isn’t the factor that really matters when you’re making your decision.

If you can check the box on the top 5 factors outlined above, I’d argue you’re ready to retire.

Regardless of your age.

## Canadian Staycation: Must-Stop Destinations Along Ontario’s Lake Erie Coast

By Jim Bamboulis



With a latitude of roughly 42 degrees — in line with the island of Corsica, northern California, and Rome — Ontario’s side of Lake Erie offers more than 400 km worth of endless expanse of bountiful, scented, even delicious experiences to enjoy. Derived from Erielhonan, the Iroquois word for ‘long tail’, Lake Erie is the warmest of all the Great Lakes, while the region’s temperate climate makes it a fertile playground for vineyards to thrive, wildlife to flourish, and vacationers to frolic. Dubbed as one of Canada’s Rivas, a staycation along Lake Erie is one to remember, and return to throughout the year.

### Amherstburg

Located on the western edge of Lake Erie, at the mouth of the Detroit River, Amherstburg is small town Canadian charm at its best, complete with French-style century homes, and shops to indulge both your sweet tooth and coffee cravings all while enjoying the legendary sunsets. But here, the town’s enriching history is still among its main attractions, and thankfully, it’s on full display at every turn, and best explored on foot.



Along with the Amherstburg Freedom Museum, and Navy Yard National Historic Site, Fort Malden is also a must-visit. Built in the 18th century, this too is a National Historic Site which played not only an important role during the War of 1812 as an overlook and garrison, but also provided an entry point and refuge for African-American slaves via the Underground Railroad.

## Erie Wine Country

Further east along the coast, Point Pelee National Park attracts thousands each year thanks to its beautiful beaches and the thrill that comes with being at the country's southernmost mainland point. Pelee Island is a short ferry ride, and a lovely spot just offshore but if you prefer to relax and imbibe in style, take your pick from several remarkable wineries near Kingsville and Leamington who take advantage of a long growing season and an abundance of sunshine.

One of Ontario's first wineries, Colio Estate was founded by three Italian bricklayers in 1980 and offers a rustic, old-world vibe, while Colchester Ridge is one of the newer kids on the route and is open year-round for tastings and picnics. At Dancing Swallows, enjoy a relaxing glass of vino outside, surrounded by 100-year-old maple trees, while at Paglione, an Italian villa-style experience awaits with wine, wood-fired pizza and handmade gelato. Of course, Pelee Island's award-winning, authentic wine history dates back more than 150 years, offering everything from Cab Sauv to Cab Franc.

## A Day at the Beach and Classic Eats

With water temperatures hovering in the low-to-mid-20s during the summer, heading to the beach is a no-brainer. Located near Fort Erie, Crystal Beach was once home to an amusement park that operated for 101 years (1888-1989). The park may be gone but the beach still remains popular for its crystal clear waters and a pristine, white sandy beach.

In Port Stanley, spend a few hours soaking up the sun on the long and spacious sandy beach, and après-sun, get a bite at Mackie's, a beachside diner that's been famous for fries, ketchup and an Orangeade milkshake for over a century!

Affectionately known as the 'Jewel of Erie's North Shore', Port Burwell Provincial Park features two marinas and a Blue Flag beach, while Port Dover's palm tree-lined sandy oasis offers a perfect, family-friendly day on the water. For grub, make sure you hit The Arbor, a century-old takeout spot, famous for its foot-long Red Hots. If you're in the mood for traditional fish and chips, Knechtel's on the Beach has been a go-to for decades, while Erie Beach has been preparing delicious Lake Erie perch and pickerel for over 70 years.

## Catch the Bird Migration

For those who prefer to stay dry while experiencing the beauty and awe of nature, Erie's coast has several ideal locations to catch the annual bird migration, including the aforementioned, and internationally recognized Point Pelee National Park. Visitors in the spring and fall are greeted with a glorious migration of nearly 400 bird species. Communities along the coast even host festivals to celebrate the bi-annual force of nature, which includes of course the monarch butterfly migration in autumn.

Did you know that there's a 40-km sand spit that stretches into Lake Erie? It's home to Long Point Provincial Park, the Long Point Bird Observatory, and the Long Point National Wildlife Area. This biosphere reserve is an extensive stopover point for thousands of birds, including tundra swan and bald eagles. With a camera and binoculars in hand, hop on a trail, look around, and explore from as many as 40 birding sites.

With golden rays, soothing warm water and scents of grape in the air, a staycation on this coast is time exceptionally spent and savoured.