NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

zava
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In this edition

The immutable market pendulum

The summer saw the return of the immutable market pendulum, where sentiment can swing from 'hopeless' to 'flawless.' After April's lows, the S&P surged more than 30 percent in just two months, one of the fastest rallies in recent history, while the TSX hit multiple all-time highs.

While the underlying economic challenges haven't changed much, the surge in optimism wasn't entirely misplaced: economic growth has proved more resilient than expected, trade tensions have eased as new agreements are negotiated, and many expect central banks to cut rates if conditions weaken.

Investor enthusiasm has also been fueled by solid earnings of big technology companies tied to artificial intelligence (AI). Their scale of investment is striking. The top four tech firms alone are expected to spend over $320 billion on AI capex this year, or around one percent of total U.S. GDP.[1] Some analysts have even asked whether the U.S. economy would have contracted without this spending.

Despite AI's current surge, it's worth noting that its roots go back to the 1950s and Alan Turing's "Turing Test" for machine intelligence. What has changed is the pace of progress, driven by exponential increases in computational power, vast datasets and advanced machine learning. Consider that global data creation is expected to exceed 180 zettabytes (ZB) in 2025, compared to the terabytes (TB) of the late 1980s (1 TB = 0.000000001 ZB). Back then, 1 TB of storage cost over $30 million; today, it is less than $100—a mind-blowing drop over 40 years![2] We are now on the steep part of this exponential curve: decades of gradual progress have given way to rapid, real-world breakthroughs. Few doubt that AI will be an economic driver in the years ahead. But the adoption of any new technology doesn't guarantee success for all early players and, as history reminds us, expectations can often overshoot reality.

Indeed, the excitement has extended valuations. Over the summer, the S&P 500 traded at 22.0x forward earnings with the top 10 stocks at 28.8x, well above the 30-year average of around 16.7x.[3] The S&P/TSX sat lower at 17.0x, reflecting Canada's greater weight in value-oriented sectors like energy and financials. For perspective, at the height of the dot-com boom, the S&P 500 traded at 24.2x. Yet, today's valuations can be viewed through differing lenses: lower interest rates increase the present value of future cash flows; high-growth sectors may warrant higher multiples when innovation and productivity gains are expected to persist; and supply/demand dynamics have shifted. The number of U.S. publicly-listed companies has fallen by half since 1996, to around 4,000 today, while retail participation has surged: 62 percent of households own stocks, up from under 40 percent in the early 1990s.[4]

Still, momentum can carry much further than many expect before fundamentals reassert themselves. As the saying goes, in the short run, the market is a voting machine, but in the long run, it is a weighing machine.[5] The pendulum between fear and optimism will continue to swing, amplified by headlines and rapid technological change. For investors, the challenge is not to be swept along with each swing. A commitment to a wealth plan grounded in quality, diversification, and a focus on long-term value creation can serve us well no matter where the day-to-day markets take us.

1 https://www.ft.com/content/634b7ec5-10c3-44d3-ae49-2a5b9ad566fa
2 https://ourworldindata.org/grapher/historical-cost-of-computer-memory-and-storage
3 1/1/96 to 6/30/25. https://awealthofcommonsense.com/2025/08/meme-stocks-mr-market/
4 U.S. households; Canadian data shows a similar trend. Federal Reserve (2025), https://www.axios.com/2023/10/18/percentage-americans-own-stock-market-investing
5 Benjamin Graham, The Intelligent Investor.

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Back to school: Why the RESP should be included in a will

While many of us set up a Registered Education Savings Plan (RESP) to support a family member's education and create a lasting legacy, it's ironic how often the RESP is overlooked in estate planning.

Why consider estate planning for the RESP?

With kids back to school, it's a timely reminder of the RESP's benefits:

— **Income-splitting** — When RESP funds are withdrawn for qualified educational purposes, investment income and grants are typically taxed in the hands of the beneficiary—often in a lower tax bracket.

— **Tax-deferred growth** — Investments within the RESP grow tax-sheltered until withdrawal.

— **Government grants** — The Canada Education Savings Grant (CESG) provides up to $7,200 in matching grants per beneficiary.

Yet, these benefits can be lost if the RESP is not addressed in an estate plan. Why? The RESP belongs to the subscriber—the person who sets it up and contributes—not the beneficiary. Many investors assume it works like the Registered Retirement Savings Plan (RRSP), which passes directly to a named beneficiary and bypasses probate at death. RESP assets do not transfer in the same way. The RESP forms part of the estate immediately on the death of the subscriber.

If there is no joint subscriber or no successor subscriber is named in the will, the RESP is typically collapsed. As the assets fall into the deceased subscriber's estate, this can trigger:

— **Tax** on accumulated income payments, payable by the estate;

— **Repayment** of CESGs; and

— **Probate fees,** if applicable, with assets subject to creditor claims.

As a result, the RESP loses its benefits. It may also disrupt legacy plans if estate beneficiaries are different from the RESP beneficiary.

How to preserve RESP benefits

To protect the intent of the RESP:

1. **Name a joint subscriber (for spouses/partners or former spouses who are the legal parent of the beneficiary only).** The joint subscriber can continue managing the plan.

2. **Appoint a successor subscriber in your will.** A trusted individual can take over the plan. Keep in mind that the new subscriber would control the plan and could potentially collapse it.

3. **Consider a testamentary trust.** Under certain conditions, a will can name a trust as the successor subscriber, allowing contributions to continue beyond your death (subject to contribution limits).

By addressing the RESP in your estate planning, you can safeguard its benefits and ensure your legacy supports the intended student.

The cost of education: How canada compares globally
Average Canadian undergraduate tuition has risen to $7,360, up 653% since 1984! Keep in mind it's still more affordable compared to international student tuition for the top universities globally:

Ranking	Tuition cost (C$)	Ranking	Tuition cost (C$)
1. Harvard, USA	$81,977	4. Cambridge, UK	$50,589
2. MIT, USA	$88,873	5. Oxford, UK	$60,007
3. Stanford, USA	$93,600	13. Tokyo, Japan	$6,036

Rankings based on www.cwur.org; Tuition based on undergraduate, bachelor of arts (or equiv.), 2025/26 full year, international student. Exchg. rate at August 16, 2025. Notably, Harvard and MIT have both announced they will offer free tuition to undergraduate students whose families make $200,000 or less per year.

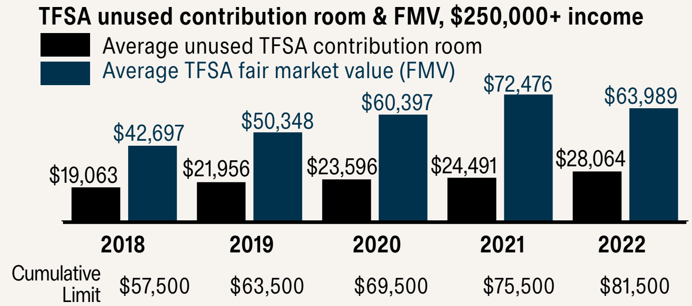
HNW investors: Are you overlooking the tax-free opportunity?

There are few "gifts" that the government gives us, and the Tax-Free Savings Account (TFSA) is one of them. The ability to invest and grow funds tax-free over a lifetime should not be overlooked.

Yet, many high-net-worth (HNW) individuals are not taking full advantage. According to the latest 2024 statistics (for the 2022 tax year), HNW taxpayers earning over $250,000 left around 35 percent of their contribution room unused. While many of us gripe about high taxes, we certainly aren't doing a great job of maximizing tax-advantaged accounts. The average TFSA fair market value also falls below the cumulative contribution limit. An investor who contributed the full amount each year since the TFSA's inception in 2009 could have over $159,000, assuming a 5 percent annual rate of return.

Why the shortfall? Several factors might be at play. When the TFSA was introduced, it was often mistaken for a simple 'savings account,' leading some to misconstrue its long-term growth potential. Others treat it as a short-term fund, withdrawing funds instead of allowing them to grow. The opportunity cost is significant. An investor who contributes the 2025 cumulative contribution limit of $102,000 plus $7,000 annually would accumulate almost $675,000 after 25 years at a 5 percent annual rate of return. This could be withdrawn and used completely tax-free! Yet, this assumes that contributions and investment gains are left untouched in the TFSA, allowing for growth.

TFSA unused contribution room & FMV, $250,000+ income



https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/tax-free-savings-account-statistics.html

Another factor may be that some investors have taken a riskier approach with TFSA investments. This can be harmful for two reasons. If an investment realizes a substantial loss, that contribution room is lost forever. And, there is no tax relief. Unlike a non-registered account, TFSA losses cannot be claimed on an income tax return.

How about you? Are you fully maximizing your TFSA? Don't overlook the potential for significant future tax-free growth. Call for assistance.

Thinking ahead: Planning a tax-efficient withdrawal strategy

"A dollar's value depends on the tax trail it travels."

With our tax liabilities rising significantly over the decades (chart), tax planning continues to be an important part of wealth management. How and when you draw income can affect taxes, eligibility for government benefits and long-term financial health. Whether you're building wealth, nearing retirement or already retired, a tax-efficient withdrawal strategy can make a meaningful difference. Here is a brief look at common income sources, with ideas to help you optimize withdrawals or manage income streams more effectively:

Non-registered accounts — Tax treatment depends on the type of income: interest (fully taxable), dividends (eligible for a dividend tax credit) or capital gains (50 percent is taxable). Tax-loss harvesting can offset capital gains to reduce your overall tax bill.

RRSP — Withdrawals are fully taxable and subject to withholding tax. Importantly, once funds are withdrawn, contribution room is permanently lost.

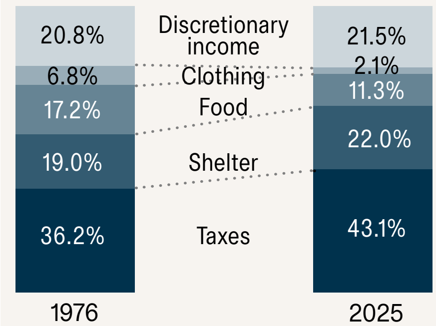
TFSA — Offers significant benefits as growth is tax-free and withdrawals are not taxed. This means withdrawals do not affect income-tested government benefits. Any amount withdrawn can be recontributed in the following calendar year.

Employment income — If you continue to work while drawing income from other sources, consider how employment income will stack with taxable withdrawals. In high-income years, deferring benefits (if possible) or adjusting withdrawals may help reduce the tax burden.

Here are additional considerations for those nearing retirement:

Canada/Quebec pension plan (CPP/QPP) — CPP/QPP benefits are taxable income. Timing matters: starting early reduces benefits by 7.2 percent per year before age 65. Delaying increases payments by 8.4 percent per year after age 65, to a maximum of 42 percent by age 70. The total benefit received can impact income level and tax situation.

Our tax liability has grown since 1976
Average income expenditure allocation (%)



Old Age Security — Old Age Security (OAS) is a taxable benefit starting at age 65. OAS is reduced by 15 percent of the excess if net income exceeds $93,454 (2025) and is fully clawed back at $151,668 (ages 65 to 74). Delaying OAS increases the benefit by up to 36 percent by age 70.

Registered retirement income fund (RRIF) — Mandatory withdrawals begin the year after opening the RRIF, increasing taxable income. Some start RRSP withdrawals earlier to manage future tax exposure or reduce the risk of triggering the OAS clawback.

Company Pension — Pension income is taxable. After age 65, the pension tax credit may help offset the tax liability. Consider timing your pension's start with other sources of income to manage the tax liability.

Income Splitting — Couples can sometimes lower their combined tax burden by splitting certain types of income when one has significantly higher income. For retirees, shifting eligible pension income may reduce taxes or the OAS clawback. For those still working, coordinating taxable income (particularly after 65) may yield tax savings over time.

The many benefits of portfolio rebalancing

Rebalancing a portfolio involves adjusting the allocation of assets to bring it back in line with your investment strategy, ensuring it remains consistent with your risk and return profile. Why is this important? Over time, some assets may grow faster than others, shifting the balance. Rebalancing prevents any single investment or asset class from becoming too dominant, helping to manage and control risk. No matter how promising a particular security, industry or asset class might appear, maintaining an appropriate balance according to your risk profile can help protect from excessive downside exposure.

Regular reviews and adjustments are essential for effective diversification and asset allocation. Rebalancing can also provide benefits beyond just managing risk. Here are four:

1. **Helps keep emotions in check** — Rebalancing can remove emotions from buy-and-sell decisions by relying on allocation targets rather than market sentiment. While the principle of "buy low and sell high" seems simple, it may be difficult in practice: stocks are priced low during downturns when fear dominates and investors are focused on selling, not buying. In strong markets, investors may hesitate to sell.
2. **Enables strategic capital deployment** — Rebalancing doesn't always mean selling assets. At times, redirecting new cash flow to underweighted areas can restore portfolio balance. This approach offers the added discipline of focusing on potentially undervalued asset classes or sectors, supporting the "buy low" principle by positioning new investments in areas that need more weight.
3. **Balances gains and losses** — Selling an overweight position may trigger taxable gains outside registered plans. These can be offset by selling loss positions or carrying forward past losses. Within registered plans, there will be no tax implications if securities are traded and funds remain in the plan, making asset location an additional consideration when rebalancing.
4. **Supports charitable giving** — As you rebalance, consider the opportunity to "do good" by donating appreciated holdings to a charity, instead of selling them directly, to benefit from the tax opportunity. This not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax.

Beyond asset allocation, rebalancing can strengthen portfolio discipline and wealth management. To discuss this, or any other aspect of wealth management, please reach out.

Rising equity markets: You asked—Do valuations matter?

Amid equity market enthusiasm and rising P/E ratios, stock valuations are back in the spotlight. Given elevated equity market valuations, we're increasingly asked: Do valuations still matter?

There are many ways to value a company or stock, but there are two main categories: absolute and relative valuation.

— **Absolute valuation** quantifies a company's intrinsic value based on fundamentals such as cash flows or growth. A widely used model is the discounted cash flow (DCF) analysis.

— **Relative valuation** compares a company to others in its peer group, typically using financial ratios. Most notably, the price-to-earnings (P/E) ratio compares share price to earnings per share.

A closer look at today's valuations

Where do markets stand today? At the end of June, the forward-looking P/E ratio for the S&P/TSX Index was 17.0x.[1] For the S&P 500, it was around 22.0x, with the top 10 stocks in the index at 28.8x—both significantly above long-term averages:

S&P 500 P/E ratios – Next 12 months, 1996 to July 2025

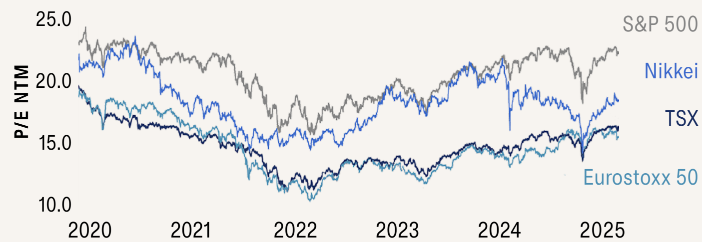
	Current	Average	% of Average
S&P 500	22.0x	16.7x	132%
Top 10	28.8x	20.7x	139%
S&P 500 Less top 10	20.7x	15.8x	131%

Data as of 6/30/25. https://awealthofcommonsense.com/2025/08/meme-stocks-mr-market/

When compared to other markets, Canada's index typically trades at a lower valuation than the S&P 500 (top graph). This reflects a greater concentration in value-oriented sectors like energy and financials, versus the larger growth-sector weightings in the U.S.

To understand why valuations are elevated, it helps to consider the factors that drive stock prices. The price of any security reflects what investors are willing to pay, influenced by both fundamentals and sentiment. Several factors may help explain elevated valuations today:

P/E Ratios next 12 months, various indexes, 2020 to July 2025



Source: BMO Private Client Strategy Committee. Data as of 6/30/25. FactSet.

— **Lower interest rates** — When future cash flows are discounted at a lower rate, their present value increases.

— **Earnings expectations** — Higher anticipated profit growth can support higher valuations.

— **Growth leadership** — High-growth sectors, particularly big tech, often justify elevated multiples if strong returns, innovation and productivity gains are expected to persist.

— **Market sentiment** — Periods of optimism (and euphoria) can push prices well above historical norms, exceeding intrinsic value. Conversely, when the dominant emotion is fear, prices often fall short of value.

"Price is what you pay; Value is what you get"[2]

While markets can occasionally outpace or fall behind fundamentals, history shows a strong long-term relationship between stock prices and corporate earnings.[3] Over time, fundamentals such as earnings growth, profit margins and return on capital tend to reassert themselves—even when short-term dislocations occur. Elevated valuations can limit upside potential if prices already reflect optimistic future outcomes, and amplify downside risk if expectations aren't met or macro conditions worsen.

The price you pay remains important to achieving strong long-term outcomes. Valuations still matter: while they cannot predict short-term market movements, they remain a reliable compass for investors, guiding decisions that balance opportunity with risk.

1 Projected, as of July 31, 2025, S&P Global
2 Attributed to Warren Buffett
3 See Exhibit 119, Page 179: https://privatewealth.goldmansachs.com/outlook/2025-isg-outlook.pdf

Emergency planning: Preparing financially & beyond

With the unfortunate reality of wildfires, floods and even a tsunami alert impacting various regions of Canada over the summer, emergency preparedness is no longer just an isolated concern—it's becoming increasingly relevant to many of us. While many high-net-worth families have long planned for unexpected life events through emergency funds and insurance, short-term crises like natural disasters often require an added layer of readiness.

In a previous newsletter, we discussed the importance of an emergency fund: typically three to six months of living expenses set aside to weather unexpected challenges such as a job loss, medical emergency or home repairs. This article focuses on actions you can take now to help support physical safety and financial continuity in response to a fast-moving, adverse event.

Your financial readiness checklist

Before a crisis

- **Keep cash on hand:** Store $200 to $500 in smaller denominations in a waterproof container.
- **Safeguard documents:**
  - Store printed copies of IDs, insurance, deeds and key account details in a fire/waterproof folder.
  - Back up digital versions of financial documents and estate plans to encrypted cloud storage.
- **Review insurance:** Understand your home and auto policy coverage: What is included (e.g., flooding or evacuation-related costs)? Know your deductibles.
- **Leverage technology:** Download mobile apps for key financial accounts and enable alerts.
- **Create a communication plan:** Establish an out-of-town contact and family meeting place in case of separation. Keep a list of emergency contacts, including family, friends and professional advisors.
- **Prepare for vulnerable dependents:** Plan for pets, seniors, children or those with mobility/medical or other special needs.
- **Have essentials ready:**
  - Keep your vehicle at least half full of gas (where possible).
  - Maintain a three-day supply of medications.
  - Keep water, food and batteries stocked (see inset: "Planning for Your Emergency Kit").

After an adverse event

- **Document everything:** Photograph and document any property damage before cleanup.
- **Keep receipts** for all related expenses.
- **Contact financial and insurance advisors promptly** to access emergency funds or initiate claims.

Planning for your emergency kit

This kit should contain essentials to sustain a 72-hour period:

- Water—four litres per person per day
- Non-perishable food
- Flashlight and extra batteries
- First-aid kit and medications/prescriptions
- Battery-powered radio
- Important documents (ID, health cards)
- Multi-tool (e.g., Swiss Army tool)
- Power bank and backup phone charger
- Masks, gloves, hand sanitizer

For more information, see the government website: https://www.getprepared.gc.ca/

The bottom line

While no one expects a natural disaster to affect them directly, the reality is that we're all potentially vulnerable. Taking a few simple, proactive steps today can go a long way toward reducing stress and protecting your financial security during an emergency. We certainly hope to never rely on these measures, but having a plan in place can provide critical support when it matters most. As always, we are here to help ensure your financial plans are designed to support you—both in everyday life and in the face of the unexpected.

Estate planning & joint ownership: The good, bad… & ugly

Owning assets jointly has grown in popularity, with spouses and, more frequently, between parents and children. While there are benefits, be aware of the potential pitfalls.

Joint ownership occurs when an asset is owned by more than one person. There are two forms: "Joint tenancy" (with the right to survivorship) refers to an arrangement in which the ownership of the asset passes directly to the surviving owner(s) upon the death of one of the owners.[1] As such, the asset passes outside of the deceased owner's estate. Under the alternative "tenants in common" arrangement, owners each hold separate ownership interests in the asset that can generally be sold, transferred, or bequeathed without the consent of the other owners.

In this article, the focus is on joint tenancy, increasingly used in estate planning. While there are benefits, be aware of the bad—and potentially "ugly"—implications prior to entering into this arrangement:

The good…

Ease of asset transfer — Upon the death of one owner, the surviving owner(s) automatically becomes the owner of the asset, with few legal or administrative hassles upon transfer.

Bypass probate — Since assets pass to joint owners outside of the will, no probate or estate administration fees are assessed, in provinces where applicable.

The bad…

Tax implications — There may be potential tax consequences to joint owners. For example, if real estate is owned jointly between a parent and a child who already owns a residence, there may be a proportionate loss of the principal residence exemption. Adding a joint owner to a property could also result in the incidence of land transfer tax. For jointly-owned investment accounts, even if tax slips may be received in the names of the joint owners, the Income Tax Act could require attribution of the income earned and owned by one taxpayer to another taxpayer for tax purposes, based on who provided the capital, and what proportion was used to acquire the assets in question. Depending on the circumstances, adding another party as a joint owner could also result in the recognition of some gains or losses for tax purposes.

Loss of control — Joint ownership may mean that the original owner no longer has total control over the assets. With property, decisions regarding its maintenance or sale need to be made jointly. With financial accounts, such as a bank account, a joint owner generally has the ability to withdraw or use funds.

The ugly…

Estate equalization issues — If the majority of assets are held in joint ownership (outside of the estate), the estate may not have sufficient assets to fund legacies or gifts outlined in the will, or to cover potential tax liabilities. If an estate is to be divided equally but a jointly-owned asset hasn't been considered, expensive and divisive legal action could result. It also may not be clear if a joint-tenancy arrangement was done for ease of administration or if a change in beneficial ownership was intended.

Exposure to creditors or matrimonial claims — Jointly held assets may be exposed to claims by a joint owner's personal or business creditors, or ex-spouse. This could force the sale of an asset to cover the payment of debts or claims of the joint owner.

As always, please seek the advice of legal and tax advisors as it relates to your particular situation.

1 Not applicable in Quebec, where the laws differ and an automatic right of survivorship does not exist.

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