



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

May Seminar wrap-up.

We held our semi-annual review for clients last week. May 23 in Duncan and May 30 in Comox. One hundred clients attended. For those who missed it we're providing some highlights. Here's our agenda:

Tonight's Topics

- Wealth in Canada
- Taxation in Canada
- Economic Cycle
 - Inflation
 - Interest Rates
 - Financial Markets
 - Why do stocks go up?
 - What's next
- Portfolio Returns



Given the political narrative around 'The Rich' paying their 'Fair Share' (implying they haven't been and aren't) we looked at what Rich means in Canada. What it takes to be in the upper income and asset brackets? We looked at these groups' share of national assets, income and tax revenue.

INCOME:

- Top 1%: \$512,000 (\$378K USD) = 22% of all tax paid
- Top 5%: \$236,000
- Top 10%: \$174,400

ASSETS. SHARE OF TOTAL. SHARE OF TAXES PAID:

Wealth in Canada: Top % Thresholds

%	Threshold	Total \$B	Share of Assets	Share of Income	Share of Fed Tax paid
Top 1%	\$6.3 million	\$2,903	24.8%	10%	21.1%
Top 5%	\$2.4 million	\$5,008	43.5%	22.8%	28.8%
Top 10%	\$1.6 million	\$6,653	56.9%	33.1%	39.6%
Top 20%	\$1 million	\$8,643	73.9%	44.6%	61.4%
Bottom 20%	n/a	n/a	n/a	5%	< 1%

Source:
 PBO: 'Estimating the top tail of the family wealth distribution in Canada: updates and trends 2019'
 Fraser Institute: 'Contrary to rhetoric, highbome families pay most taxes in Canada' 2022



The current government was elected in Oct/2015. What has happened to tax rates over the past 10 years? For middle incomes not much change. As one goes up the income ladder, the tax burden has been increased significantly. We compared tax on current bands to the inflation adjusted equivalent 10 years ago.

Combined Fed & BC Marginal Rates 2013 vs 2023

	<u>2023</u>	<u>2013 Equiv</u>	<u>Change</u>
Earnings	\$65,000	\$50,995	
Tax \$	\$11,334	\$9,044	
Avg Tax rate	17.44%	17.74%	-1.68%
Earnings at start of top bracket	\$240,716	\$195,334	
Tax \$	\$81,717	\$65,551	
Avg Tax rate	33.95%	33.56%	1.16%
	<u>2023</u>	<u>2013 Equiv</u>	
Earnings	\$300,000	\$235,358	
Tax \$	\$113,434	\$83,041.77773	
Avg Tax rate	37.81%	35.28%	7.17%
	<u>2023</u>	<u>2013 Equiv</u>	
Earnings	\$500,000	\$392,263	
Tax \$	\$220,434	\$151,608.83	
Avg Tax rate	44.09%	38.65%	14.07%

Source TaxTips.CA/CRA
 Cumulative inflation 2013-2023 27.5% (Bank of Canada)



What about the very top group on income earners?

Change on \$1,000,000 earnings

	2023	2013 Equiv			
Pre-tax Earnings	\$1,000,000	\$784,527			
Tax \$	\$487,934	\$323,028			
A-Tax Net	\$512,066	\$461,499			
Avg Tax rate	48.80%	41.20%	18.45%	Increase	
	\$512,066	\$588,273		a-tax income 2013 inflated to 2023	
A-tax Income deficit	\$76,207				
Pre-tax Income 2023	\$1,164,000	\$784,527	48.4%	2023 pre-tax income reqd break-even	
Tax \$	-\$575,674				
Avg Tax rate	49.50%	41.20%	20.15%	Increase	

48.4% more pre-tax income to achieve 2013 purchasing power
 27.48% from inflation.
 20.15% from increased taxes.



Adjusted for inflation, \$1 million today equals \$784,527 in 2013. Our 2013 rich earner saw a 27.5% erosion in purchasing power to inflation added to a 20.15% erosion from increased tax burdens. To maintain the same after-tax and inflation purchasing power of 2013’s \$784,000, today’s pre-tax income must exceed \$1,164,000. A 48% increase in income means zero increase in lifestyle. \$1 million income earners can afford clever accountants and financial advisors who will point this out. Eventually this matters.

We’re not sure what a ‘fair share’ is but taking 20% more already looks like a lot.



How does BC compare to Washington State?

Combined Marginal Tax Rates: BC vs. Washington State

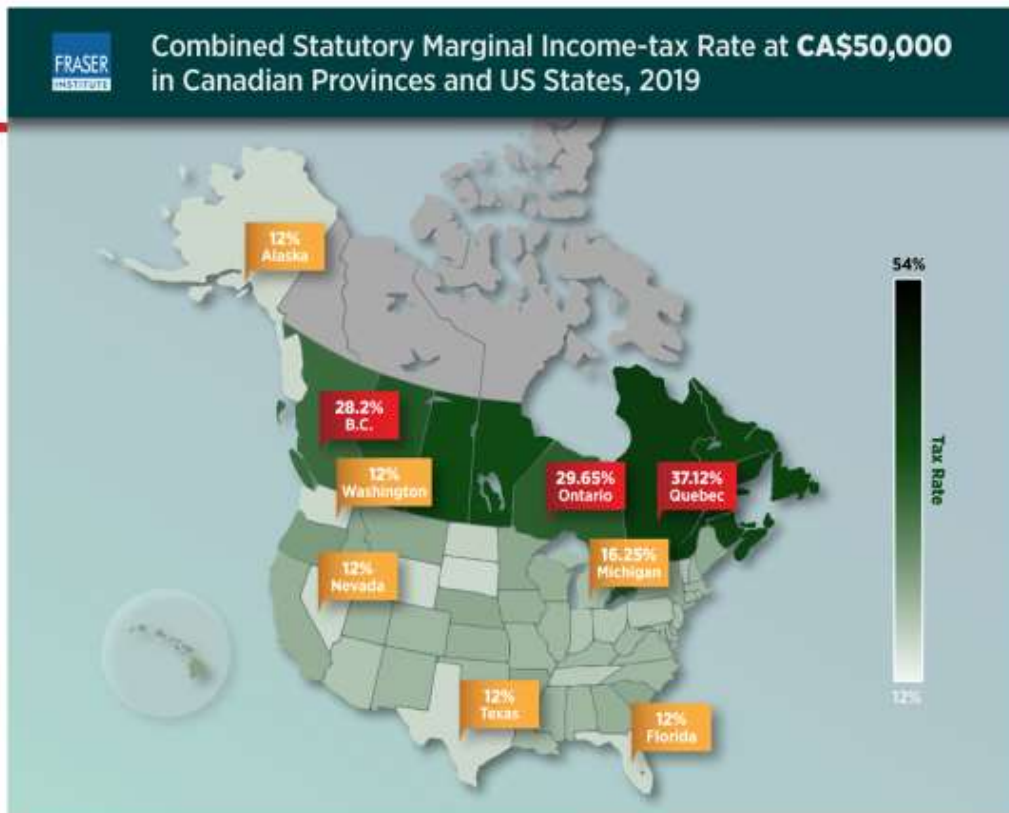
- \$300,000 Canadian
 - BC: 49.8%
 - Washington State: 35%
- \$150,000 Canadian
 - BC: 45.8%
 - Washington State: 24%
- \$75,000 Canadian
 - BC: 28.2%
 - Washington State: 22%
- \$50,000
 - BC: 28.2%
 - Washington State: 12%

*Washington State has no state income tax.

Source: 'Canada's Rising Personal Tax Rates and Falling Tax Competitiveness' 2019 Fraser Institute

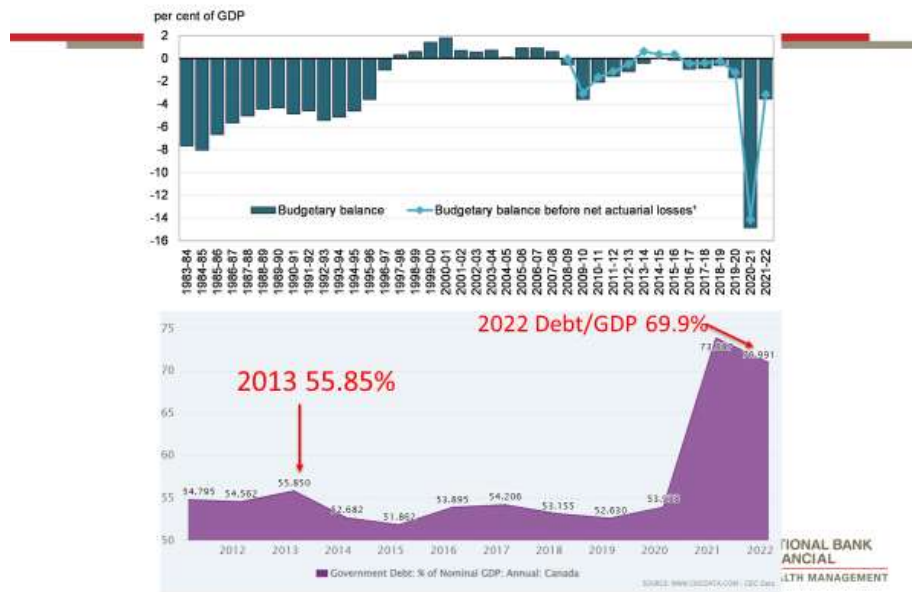


What about taxation for middle-class taxpayers earning \$50,000 CDN?



If taxes are up, what is happening to the revenue? We're balancing the books, right?

Have increased taxes covered Government expenses?



Uhhmmm. Okay what about the future? We're going to be balance then, right?

Table 1: Federal Budget 2023 Forecast Summary

(C\$ Billion, Unless Otherwise Specified)

Fiscal Year	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Budgetary Revenues	413.3	437.3	456.8	478.5	498.4	521.8	542.8
Program Expenses	468.8	435.9	446.6	463.3	475.9	489.2	505.4
Public Debt Charges	24.5	34.5	43.9	46.0	46.6	48.3	50.3
Net actuarial losses	10.2	9.8	6.4	4.2	2.8	0.0	1.1
Total Expenses	503.5	480.2	496.9	513.5	525.3	537.5	556.8
Budget Balance	-90.2	-42.9	-40.1	-35.0	-26.9	-15.7	-14.0
Federal Debt	1,134.5	1,180.7	1,220.8	1,255.8	1,282.7	1,298.4	1,312.5
Per cent of GDP							+15.7%
Budgetary Revenues	16.5	15.7	16.3	16.4	16.4	16.5	16.5
Program Expenses	18.7	15.7	15.9	15.9	15.7	15.5	15.4
Public Debt Charges	1.0	1.2	1.6	1.6	1.5	1.5	1.5
Budget Balance	-3.6	-1.5	-1.4	-1.2	-0.9	-0.5	-0.4
Federal Debt	45.2	42.4	43.5	43.2	42.2	41.1	39.9

Note: Totals may not add due to rounding. Source: Department of Finance Canada, TD Economics. **Debt/GDP Goes Down?** 9.3% GDP Grwth

Source: TD Fed Budget 2023 Review: Mar 28, 2023

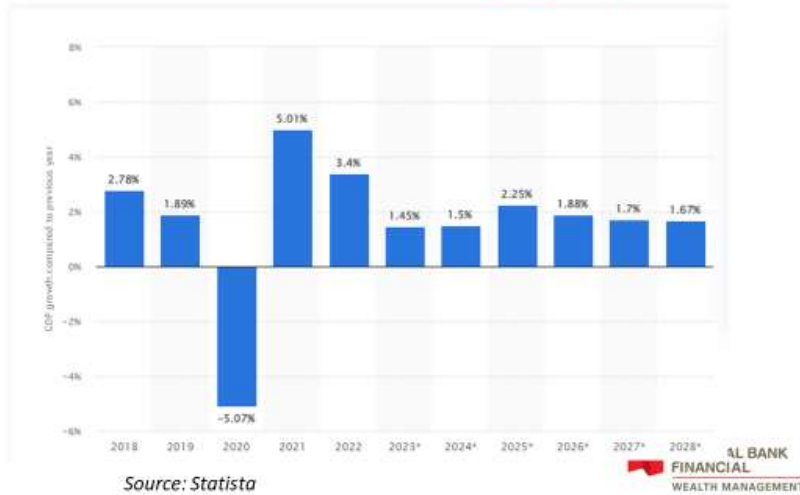


The Parliamentary Budget Office (PBO) deficits each year out to 2028. Happily, the PBO predicts Federal 'Debt-to-GDP' is predicted to fall from 2023's 45.2% to 39.9%. Note the line 'Federal Debt' goes from \$1.134 Trillion in 2023 to \$1.213 Trillion in 2028 = +15.7% over 5 years. If debt is going up 15%, with debt-to-GDP projected to fall, this implies GDP will grow faster than the debt, 16%+. What do private economists predict?



How likely is 15.7% cumulative GDP growth? Not

Canada GDP Growth YoY 2018-2028 (projected)



Private sector economist consensus is +9.3% over the next 5 years.

How accurate are PBO projections? Here's what the PBO (under the current government) predicted 5 years ago in 2018.

What did the PBO Predict in 2018

Summary Table 2 Fiscal outlook

\$ billions	Projection						
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Budgetary revenues	313.6	325.3	337.7	352.0	364.1	377.8	392.0
Program expenses	310.7	321.0	331.5	338.5	345.6	353.8	364.6
Public debt charges	21.9	23.7	27.4	30.9	33.3	35.3	36.8
Total expenses	332.6	344.7	358.9	369.4	378.9	389.1	401.4
Budgetary balance	-19.0	-19.4	-21.3	-17.4	-14.8	-11.2	-9.4
Federal debt	671.3	690.6	711.9	729.2	744.1	755.3	764.7
Federal debt (% of GDP)	31.3	30.9	30.7	30.3	29.9	29.3	28.7

Sources: Statistics Canada, Finance Canada and Parliamentary Budget Officer.

Ooops!



In 2018 the PBO predicted total **Federal** debt of \$755 billion being 29.3% of GDP. We ended up at \$1.13 trillion/45.2% of GDP. Canada's combined Federal + Provincial debt is 74.6% GDP.

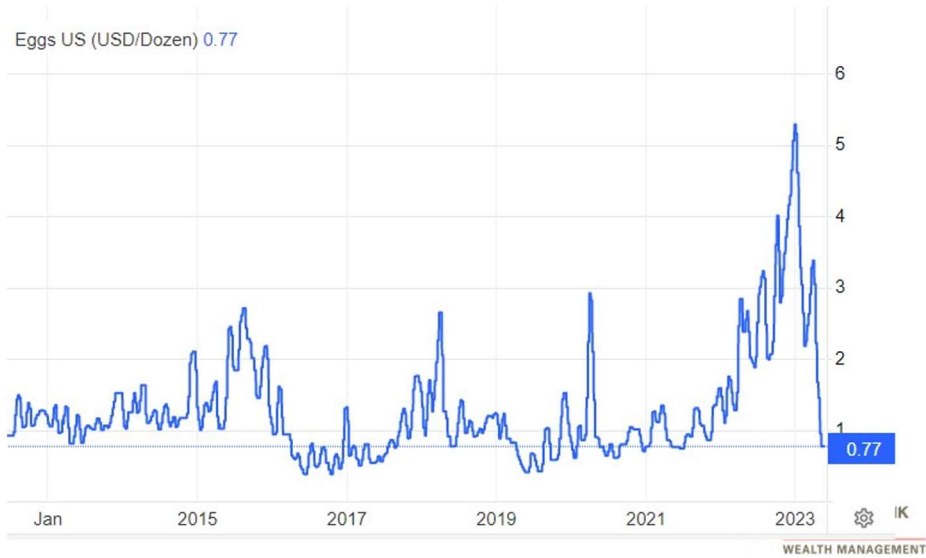


Higher than projected deficits and higher than projected debts are likely. As tax hikes on the rich haven't solved deficits (they never do) expect more tax increases for a broader sector of the population pared with austerity measures.

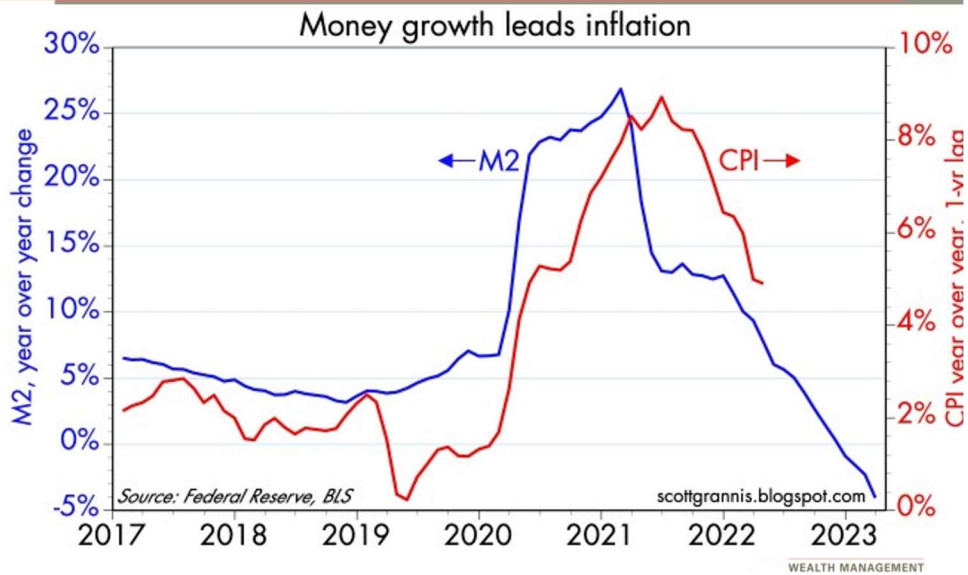
'The trouble with socialism is eventually you run out of someone else's money' Margaret Thatcher.

Moving on to inflation. We think it's peaked. Interest rates are likely to decline...some.

US Wholesale Price for 1 Dozen Eggs has crashed



The Fed's work is done. Interest rate trend to reverse



What do we like? We're seeing a yard sale of bargains. As an example, we liked buying \$10,000 value Bank of Nova Scotia held since I was licensed in 1989.

Bank of Nova Scotia 1990 to 2023



Scotia Bank: Get paid to wait. Why patience is a virtue

- Jan 1, 1990 price: \$4.06 (split adjusted)
- BV: \$3.85 P/B 1.05
- Shares acquired: 2,462 shares = \$10,002
- Jan 1990 Ann Div (split adjusted): \$0.22 = \$541 = 5.4% yield
- DRIP Shares acquired: 6,651
- End share count: 9113
- End dividend per share: \$4.12 = 6.09% yield. Growth rate 9.2%
- Ending 12 mos. projected div income: \$37,545
- Compound dividend growth: 13.5%
- April 30 2023 share price: \$67.63 = price-only growth rate 8.8%
- BV: \$54.68 P/B 1.23
- Ending Value: \$616,329 Compound return: 13.16%

DISCLOSURE: I hold Bank of Nova Scotia common personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days.



We noted the investing public's general reluctance to buy stocks. The public narrative is bearish. Our contrarian antennae sense opportunity.

Staying with the banks, this week, NBF's Award winning bank analyst Gabriel Deschaine review the latest quarterly earnings for the bank sector.

***'Canadian Banks: Q2/2023 Earnings Recap: mostly misses and downward revisions.'* – NBF Gabriel Deschaine May 31, 2023**

The report is full of industry jargon and abbreviations. Here's a list of terms:

- **ACL: Allowance and Coverage Ratio:** Ratio of funds set aside to cover loan and other losses to those losses. Higher means easier to cover losses. Higher means less profits.
- **BPS or bps: Basis Points.** 100ths of 1 percent. 244 bps = 2.44% total change.
- **CET 1: Common Equity Tier 1 ratio.** The ratio of the bank's shareholder's equity to loans. Brought in after the 2008 Credit Collapse to ensure banks had adequate funding.
- **CRE: Commercial Real Estate.** Loans to corporate borrowers. Typically more profitable.
- **EPS: Earnings Per Share.** Net earnings attributed per common share.
- **GILs: Gross Impaired Loans.** The nominal value of loans in trouble. Not the likely recoup.
- **NIM: Net Interest Margin.** Profit on all loans made.
- **NIX: Non-interest expense.** Costs from operations & loan losses vs. market interest rate costs.
- **OP-rated: Outperform Rated.** Having NBF's analyst 'Outperform' opinion.
- **P&C: Personal and Commercial.** IE all the bank's customer lending activities.
- **PCL: Personal Credit Lines.** Retail customer lending.
- **ROE: Return on Equity.**

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=fd8048d5-f828-42fb-8be3-9d91df829bb0&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

The report discusses the bank sector's posted lower results. In that sense it's not encouraging reading. At **-14%** from mid-March/2023 highs, investors appear to have priced for lower earnings in advance of the latest quarter reveal. Unless things are headed for a lot worse, this report is priced in. Here's more on why we see a buying opportunity.

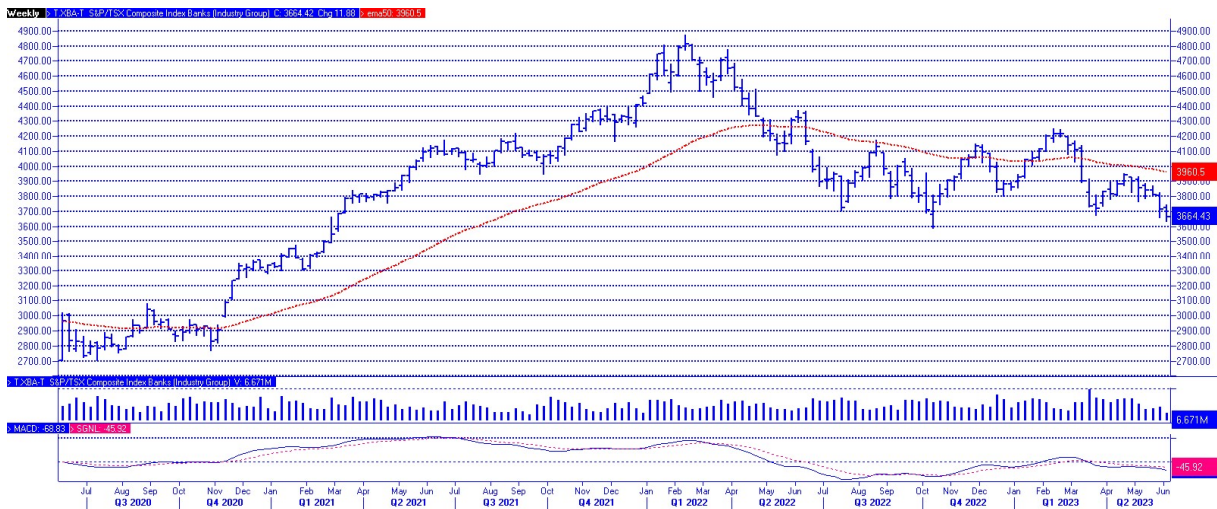


TSX Banks Subgroup – daily ranges 6 months



The latest business cycle high saw investors drive Canada’s bank sub-index to a 4871 peak in Feb/2022. The subsequent comedown from COVID funding splurge had investors panic, driving the Banks to lows in June, 2022, a rally into the summer and a final (so far) bottom of 3586 in October 2022. Peak to trough **-26.4%**. Peak to last **-24.7%** proving owning the shares of even great companies will try investor patience.

TSX Banks Subgroup – weekly ranges 3 years



Some perspective is in order. The Canadian Banks soared +71% from the 2,800 ranges in mid-2020 to the Feb/2022 peak. We can thank the ‘sugar high’ of too much COVID money chasing too few stocks, a relief rally that the world didn’t end. At this writing, Canada’s bank subgroup remains above the 2019 pre-COVID ranges. In the meantime, dividends have increased nicely. Bank of Nova Scotia, CIBC and TD are at or below their own 2019 ranges. Since 2019...Scotia’s share price is down while their dividend is up 17.8%. CIBC’s shares are flat while the dividend is up 21%. TD’s share price is flat while their dividend is up 30%.



We've had 2.5 years of earnings accumulate inside all three. If earnings have accumulated, the dividend is up while the share price is the same, the shares are a better deal now than in 2019. Seems simple enough. Don't make it too complicated.

The Big 6 current dividend yields as of Thursday June 1, 2023:

- Bank of Montreal: 5.1%
- Bank of Nova Scotia: 6.4%
- CIBC: 6.1%
- National Bank: 4.0%
- Royal Bank: 4.4%
- TD: 5.0%

An even dollar allocation brings 5.1% average yield. The average of the top 3 is over 6%. Banks tend to hike their dividends. The long run average increases have been at or above 7%. Dividends could double in 10 years. If the dividends double the stock price won't remain where it is today. There is no guarantee dividends will double and certainly none the prices will either. *"The race is not always to the swift, nor the battle to the strong, but that's the way to bet."* Daymon Runyon

Our Portfolio Returns: Whadda' ya' done for me lately?

Jan/2022: Selected US & Canadian

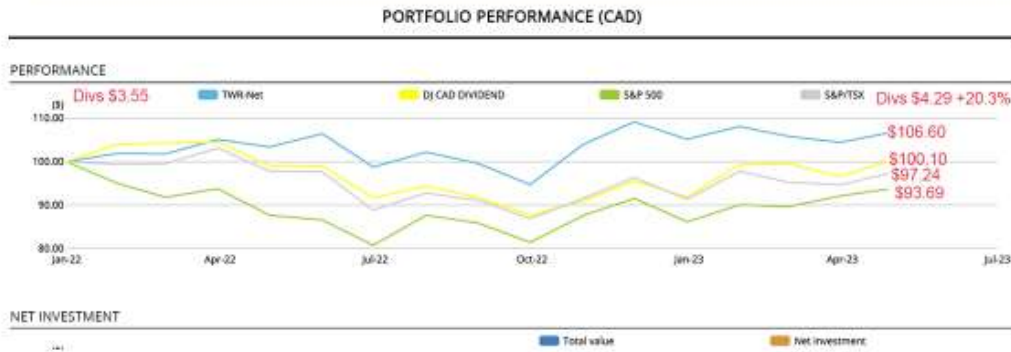
Description	Oct 21/2022	% From High	Year to Date
S&P500	3752.75	-22.1%	-21.3%
US Div Achievers	3281.06	-18.1%	-17.6%
FAANG+TM Index	4663.85	-42.15%	-37.2%
TSX Composite	18860.95	-19.5%	-11.1%
TSX Banks	3816.9	-21.6%	-13.6%
DJ Cda Select Div Index	276.0	-20.1%	-14.7%
Hilberry Cdn Div Growth	n/a	-9.6%	-1.3%
Hilberry US Div Growth \$CDN	n/a	-5.5%	+0.10%
Hilberry Div Growth Blended	n/a	-7.4%	-0.5%



What about Jan/2022 to date? Markets have recovered. How do we compare?



Bear Market Survival: Jan/2022 to Apr/2022 +6.6% total



Per \$100:

- S&P500 \$C: \$93.69
- TSX \$97.24
- DJ Cdn Div Index \$100.10
- Portfolio \$106.60. Divs now 4.29% +20.3%



Broad markets remain below the Jan 2022 levels. We're up roughly 6.6% total. 4.95% annualized. Ho Hum. Our dividend income has jumped 20%. An investor who started at the 'worst possible time' is up 6% and has 20% more income. We expect dividends to climb further. We think prices will likely follow higher...eventually. We don't know when and we could be wrong!

Have a Great Weekend

Steve & Anna Hilberry



Steve & Anna Hilberry



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Anna Hilberry
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FOR THE RECORD June 2, 2023

DOW INDUSTRIALS:	33,629
S&P 500:	4,278
S&P/TSX COMP:	19,942
WTI:	\$71.75
LOONIE IN \$USD:	\$0.7439 \$US

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