MacDougall Wealth Management Group Newsletter

Spring 2025

In this edition

A New Age of Uncertainty 1

Tax Time: The Taxation of Investments—A Refresher 2

Estate Planning Wisdom From the Legendary Warren Buffett 2

During Uncertain Times: The Value of Diversification 3

Spring Training? The Health & Wealth Connection 4

MacDougall Wealth Management Group

4719 48th Avenue, Suite 200
Red Deer, AB T4N 3T1

Tel.: 403-348-2600
Toll-free: 1-866-348-2633
Fax: 403-348-0203

We are thrilled to announce that we have a new addition to our team! Please join us in giving a warm welcome to **Chelsea Woodman**, our new Senior Wealth Associate, who brings with her an impressive 17 years of experience in the financial services industry. Her extensive knowledge and expertise will undoubtedly be a valuable asset to our clients.

A few fun facts about Chelsea:

- She is an avid hiker and traveler.
- She has a dog named Maple
- She has recently been enjoying fitness classes at Orange Theory.

A New Age of Uncertainty

It has been said that there are known knowns—the things we understand; known unknowns—the uncertainties we are aware of; and unknown unknowns—the surprises we don't realize exist until they happen.[1]

The start of 2025 may well be defined by the "unknown unknowns" as the markets responded to two largely unforeseen events: the emergence of an allegedly cost-competitive Chinese AI model DeepSeek, and U.S. President Trump's decision to unleash a trade war with Canada and Mexico. Uncertainty often drives short-term market behaviour. Technology stocks took a hit, with Nvidia losing over $550 billion in market capitalization, while concerns over a 25 percent tariff were acknowledged by the financial markets as tariffs were deferred in February, implemented in March and then adjusted days later.

Times like these highlight the importance of diversification. Until now, Canada's heavy reliance on the U.S. as its primary export market has largely been overlooked: 77 percent of Canadian exports go to the U.S., while no other destination accounts for more than 5 percent. Just as diversification is important in portfolio management, it is equally critical in trade. Canada's reliance on a single trade partner makes it especially vulnerable to unexpected shifts in U.S. policy. The evolving trade war also serves as a wake-up call. In this new era of rising national protectionism, there is much work to be done to strengthen Canada's economic position.

In recent years, diversification may also have taken a back seat in investing focus due to strong market gains, largely driven by a handful of dominant U.S. tech giants. However, DeepSeek's emergence serves as a reminder that no sector remains unchallenged—disruption is inevitable in any innovation cycle and technology continues to evolve at an unprecedented rate. Could this mark the beginning of AI democratization? One of the best ways to navigate uncertainty is to prepare for multiple possible outcomes, and diversification is intended to position portfolios to withstand changing environments and varying market conditions.

Similarly, the rapidly shifting rhetoric on tariffs suggests we have entered a new age of uncertainty, influenced by the current U.S. administration. As advisors, we continue to assess the evolving developments and their potential impact on portfolios—while emphasizing the importance of discipline. Unknown unknowns can tempt investors to react hastily. However, even the "known unknowns"—such as fluctuating interest rates, high inflation, economic declines or stock market drops—remain beyond the investor's control. Yet, more often than not, an investor's reactions to these uncontrollable events can have the greatest impact on long-term outcomes.

If the first months of 2025 are any indication, the next four years will bring considerable speculation about Trump's next moves. The challenge will be to look beyond the headlines. A longer-term perspective reminds us that policy changes can take time to unfold, are often subject to revision and may not always have consistent or predictable effects. Markets and economies also don't always react as expected, as we saw in the aftermath of the pandemic. While the near term is likely to bring new unknown unknowns, the underlying forces that drive progress—resilience, adaptation and innovation—will endure over time.

1 Attributed to Former U.S. Defense Secretary Donald Rumsfeld in a speech given in 2002.

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

MacDougall Wealth Management Group

Tax Time: The Taxation of Investments—A Refresher

With tax season back in full swing, here's a refresher on common types of investment income and how each is taxed. This overview focuses on investments held in non-registered accounts. Keep in mind that the type of account where investments are held can also impact tax obligations. While this article doesn't address investment location, we are here to provide perspectives.

Interest Income — Income earned from interest-producing bank accounts and fixed-income investments, such as GICs, government Treasury bills, bonds and fixed-income mutual funds/ETFs is taxed as ordinary income. It is fully taxable at your marginal rate, making it one of the least tax-efficient types of investment income. Generally, interest income is taxable in the year it is earned and must be reported on a tax return, regardless of whether it has been received.

Dividends From Canadian Corporations — Canadian dividends are designated as either "eligible" or "non-eligible" and are included in income at a grossed-up rate. However, they qualify for the dividend tax credit, which reduces the taxes you pay. Eligible dividends—typically received from larger publicly-traded Canadian corporations—qualify for an enhanced tax credit. Non-eligible dividends are typically received from Canadian private corporations—small businesses that pay corporate tax at a lesser rate. In general, Canadian dividend income receives preferential tax treatment compared to interest income. That said, since the grossed-up amount is reported on your tax return, it can potentially impact income-tested government benefits, like Old Age Security.

Dividends From Foreign Corporations — Dividends from non-Canadian corporations are fully taxable at your marginal rate and do not qualify for a dividend tax credit. Additionally, they may be subject to foreign withholding taxes at source. A foreign tax credit may be available to reduce the taxes payable.

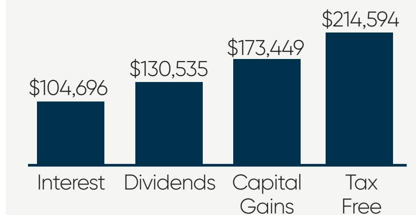
Capital Gains — When a capital asset, such as company shares, is sold for more than its adjusted cost base (ACB—generally its cost plus any expenses to acquire it), the profit is considered a capital gain when realized. Since 2000, one-half of a capital gain has been included in computing a taxpayer's income. The proposal to increase the inclusion rate has been deferred until January 1, 2026.

Mutual Funds & ETFs — There are additional considerations for mutual funds and ETFs. In general, when held in a non-registered account, two situations require you to report information on an annual tax return: i) when a fund makes a distribution, and ii) when you dispose of some or all of your fund holdings.

- **Distributions —** A distribution represents the earnings being passed to the investor/unitholder. Distributions are taxed based on type (i.e., dividends, interest, capital gains) and are taxable whether you receive the distribution in cash or reinvest it in additional units. The amount of the reinvested distribution is also added to the ACB of your investment.
- **Return of Capital (ROC) —** A return of capital may be reported as a distribution and represents a return of your original investment. This generally occurs when the amount distributed exceeds the fund's earnings (income, dividends and capital gains). A ROC is not considered income and is non-taxable, but generally reduces the ACB, as long as the ACB is positive.

It's important to keep records of changes to the fund's ACB as a result of reinvested distributions and ROC. When the fund is eventually sold, this must be reported on a tax return and any capital gain/loss resulting from the disposition will be based on the ACB.

After-Tax Value of Investing $50,000 Over 25 Years at 6% Annual Return



Tax rates are based on the average of 2024 combined federal, provincial/territorial marginal tax rates for $250,000 of ordinary income, eligible dividends or capital gains: 50.00%, 34.78% and 25.00%, respectively.

Reminder: You should have received most investment-related tax slips by the end of February. However, T3 and T5013 slips do not have to be sent before the end of March. Please call if you have questions.

Estate Planning Wisdom From the Legendary Warren Buffett

"Father time always wins...before long, he will get around to me."
— Warren Buffett

Just months ago, Warren Buffett announced that he was donating 1,600 Berkshire Hathaway shares, valued at more than $1 billion, to four family foundations. The move was in keeping with his 2006 commitment to donate 99 percent of his wealth to charity. Yet, it wasn't the donation itself that captured attention. Alongside the announcement, Buffett released a memo filled with his signature wisdom, addressing mortality and the importance of getting one's affairs in order.

Here are four estate planning takeaways from Buffett's memo, echoing advice he has championed throughout his life:

1. Transparency can go a long way. Buffett encourages parents to share their wills with their grown children while still alive. This approach allows parents to explain their decisions, address potential concerns and answer questions. "You don't want your children asking 'why?'... when you are no longer able to respond." Without these conversations, he has witnessed families driven apart after unexplained directions in a will left beneficiaries confused and angry. In contrast, he has also seen such discussions bring families closer.

Takeaway: While it may not always be appropriate to share every detail of a will or financial plan, open conversations, while you are alive, can help preserve family harmony once you are gone.

2. Estate plans—and beneficiaries' abilities to manage an estate—can change over time. Buffett reminds us that estate planning is not static. When his first wife passed away 21 years ago, he felt his children were not prepared to manage significant wealth. Yet, over time, he has gained confidence in their ability. At age 94, Buffett now also recognizes that their lifespans—at ages 71, 69, and 66—have materially diminished. He updates his will every couple of years and stresses the importance of simplicity.

Takeaway: Revisit your estate plan regularly, as circumstances and priorities can change (such as in Buffett's case, his beneficiaries' ability to manage the estate as they have grown and gained experience).

3. There are disadvantages to creating dynastic wealth. Buffett believes an inheritance should empower recipients without diminishing drive and purpose: "Wealthy parents should leave their children enough so they can do anything, but not enough that they can do nothing."

Takeaway: An effective estate plan often goes well beyond just transferring wealth. It can help pass along your values, or protect beneficiaries when needed. By thoughtfully planning how assets are distributed—such as through trusts, insurance or other mechanisms—you can create a legacy for future generations while fostering independence and purpose.

4. Express love while you are alive. Buffett closes his memo with heartfelt words for his children, expressing pride in their values and approach to life: "They enjoy being comfortable financially, but they are not preoccupied with wealth. Their mother, from whom they learned these values, would be very proud of them. As am I."

Takeaway: There is no time like the present to let your loved ones know how much they mean to you.

For the full memo, please see: https://www.berkshirehathaway.com/news/nov2524.pdf

Please note that the material above is copyrighted and used with permission from Warren Buffett.

During Uncertain Times: The Value of Diversification

Volatility made a comeback to start 2025, fueled by the introduction of DeepSeek's AI platform and U.S. President Trump's imposition of tariffs, serving as a reminder of the value of diversification.

At the end of January, China's DeepSeek claimed to have developed top-tier AI for just $6 million—a fraction of other players' costs without relying on Nvidia's expensive chips. While this figure has since been disputed, it has shaken market assumptions about the dominance of certain U.S. AI players. In March, the U.S. launched a trade war by imposing tariffs on Canada. Both events serve as strong reminders of why diversification remains one of the investors' best allies.

Sector Dominance & Rotation — The AI boom has fuelled market optimism in recent years. The capitalization-weighted return of the top five U.S. technology companies relative to the S&P 500 in 2024 alone (chart below) highlights how a handful of names have come to represent a disproportionate share of the benchmark. DeepSeek's announcement may have unsettled markets, but consider that innovation inherently requires disruption—a concept often described in Schumpeter's Creative Destruction theory.[1] Indeed, the progress of humankind is a result of incessant product and process innovation.

2024 Capitalization-Weighted Return of Tech Stocks[2] vs. S&P 500

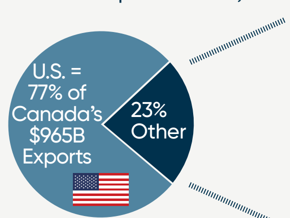
Top 5 Tech: Meta, Microsoft, Amazon, Nvidia, Alphabet.

This may encourage constructive sector rotation into non-tech areas, some of which have been overlooked amid the intense focus on technology, with a greater focus on earnings growth and strong fundamentals as the driver of stock prices. It may also be a reminder that companies, sectors, geographies and even asset classes can fall in and out of favour over time.

A Changing Geopolitical Landscape — Trump's tariff stance has underscored Canada's vulnerability to trade disruptions. Canada remains heavily reliant on the U.S. as its primary export market, with 77 percent of the C$965 billion in exports going to the U.S. (2023). No other country accounts for more than 5 percent of export values (chart below). Just as diversification is essential in portfolio management, it is equally critical in trade. Overreliance on a single partner carries significant risk should conditions change.

With the imposition of tariffs in March, we would be wise to remember that their magnitude and duration—as well as their potential economic impact—can evolve over time

Canada Export Markets, 2023



Non-U.S. Export Destinations[3]

No other nation accounted for more than 5% of Canada's export volumes.

The Continuing Importance of Diversification

A core principle in our approach as advisors has been the importance of diversification. This may be even more important in today's environment, which is heavily tilted toward uncertainty. While we can never predict the future with certainty, a well-diversified portfolio can help to dampen volatility and, perhaps most importantly, prepare us for multiple possible outcomes.

1 https://www.nytimes.com/2000/06/10/your-money/IHT-half-a-century-later-economists-creative-destruction-theory-is.html
2 Capitalization-weighted return of top tech stocks versus the S&P 500 adapted from BMO Portfolio Advisory Team
3 https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.canada-and-us-economics-.canada-and-us-decks.trade-stats--january-31--2025-.html

Spring Training? The Health & Wealth Connection

It likely comes as no surprise, but physical, mental and financial well-being are interconnected. One of the most direct links between health and wealth is the financial impact of maintaining unhealthy habits. In Canada, while we are fortunate that our social system helps cover many healthcare costs, there are still tangible financial effects. For instance, quitting a $5-per-day smoking habit could save $1,825 annually, an amount that could grow to around $150,000 over 30 years with a 6 percent annual return.

Yet, the link between health and wealth extends beyond the cost of poor habits. Numerous studies highlight a strong correlation between physical and financial fitness.[1] To some extent this is because greater wealth provides access to better resources to support health. However, the connection may run even deeper. The principles of accumulating wealth and improving health share common ground: both require consistency and discipline. Whether it's saving and investing to build a nest egg or adopting healthier habits through regular exercise and a balanced diet, consistency can pay dividends down the road. The benefits of both investments can compound over time. Many people falter in their health or financial goals by giving in to immediate temptations and losing sight of their long-term objectives. As one expert notes, "dollar-cost average your energy into healthful activities and the returns might surprise you." The same can be said about investing.

The first 20 or 30 years of our careers are often focused on building wealth, and less time may be dedicated to concentrating on health. The good news is that it's never too late to shift priorities. While starting to save for retirement at age 70 is far from ideal, a focus on health can begin at any age. Consider Richard Morgan, a 93-year-old, four-time rowing champion with the fitness level of a 40-year-old. Feeling "somewhat at loose ends" in retirement, he began training at age 73 after attending his grandson's rowing practice.[2] Similarly, the world's oldest marathoner, who ran a marathon at age 100, took up running at 89 to cope with grief.[3]

Better lifestyle choices are also linked to greater longevity. With the rising prevalence of diseases like obesity, Alzheimer's and early-onset cancer, many studies suggest that basic lifestyle changes including exercise, a healthy diet and adequate sleep may be keys to addressing their disproportionate growth.

Indeed, adopting consistent and disciplined approaches in both health and wealth management can yield profound and far-reaching returns. It's good food for thought in the pursuit of living long and prospering.

Health, Wealth & Investing—An Expanding Ozempic Effect

The healthcare industry has been in the spotlight as a result of weight-loss drugs that mimic the hormone GLP-1. A recent article in The Economist went as far as to suggest: "Few drugs, if any, have promised to have such a revolutionary impact on human health, longevity and happiness."[4]

Indeed, the impact of GLP-1 drugs may extend beyond weight loss, with clinical trials showing they hinder the progression of certain cardiovascular, kidney and liver diseases, potentially even slowing Alzheimer's development and reducing addictive behaviours around alcohol and nicotine.

Goldman Sachs projects the global market for obesity drugs alone will reach $100 billion by 2030, not including these other applications.[5] Moreover, we may be at a pivotal moment, marking the early stages of a revolutionary period in the development and commercialization of drugs to cure a wide range of afflictions. Driven by advances in biotechnology, AI and information technology, this transformative period may present compelling opportunities for investors.

1 https://internationalservices.hsbc.com/content/dam/hsbc/hsbcis/docs/reports/asia-wealth/hsbc-life-factor-study.pdf
2 https://washingtonpost.com/wellness/2024/01/16/fitness-aging-richard-morgan/
3 https://www.cbc.ca/news/world/world-s-oldest-marathon-runner-completes-last-race-1.1379478
4 https://www.economist.com/briefing/2024/10/24/glp-1s-like-ozempic-are-among-the-most-important-drug-breakthroughs-ever
5 https://goldmansachs.com/intelligence/pages/anti-obesity-drug-market.html

A client referral is the greatest complement our team can receive. If you are aware of a friend, family member, or business associate who could benefit from the services our team provides, please have them call or email our team directly.

Iain MacDougall, B.Sc.Ag.Econ, CIM®
Senior Wealth Advisor & Portfolio Manager
iain.macdougall@nbc.ca

Samantha Jones, B.Mgt.Fin., MBA, CIM®
Wealth Advisor & Portfolio Manager
samantha.jones@nbc.ca

Kit Richmond, B.Sc., MBA, CIM®
Wealth Advisor & Portfolio Manager
christopher.richmond@nbc.ca

Kellsey Leckie
Wealth Associate
kellsey.leckie@nbc.ca

Deanna Eng
Associate
deanna.eng@nbc.ca

Chelsea Woodman
Senior Wealth Associate
chelsea.woodman@nbc.ca

MacDougall Wealth Management Group
4719 48th Avenue, Suite 200
Red Deer, AB T4N 3T1
Tel.: 403-348-2600
Toll-free: 1-866-348-2633
Fax: 403-348-0203

Regulated by CIRO
Canadian Investment
Regulatory Organization

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Canadian Investment Regulatory Organization (CIRO) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). This newsletter has been prepared under contract for the Investment Advisor noted by J. Hirasawa & Associates, and is published for general information only. Content copyright by the publishers and may not be reproduced without written permission. Statistics, factual data and other information are from sources that we believe to be reliable but we cannot guarantee their accuracy. It is furnished on the basis and understanding that the author and its affiliates are to be under no liability whatsoever in respect thereof.