F&A
FOSTER & ASSOCIATES

Quarterly Report

Fourth Quarter Report 2021

Getting Ready for 2022

Based on the incredible surge of equity values in 2021 and the increase in earnings per share, we believe 2022 will be a year of moderation.

2021 is now behind us. How are we positioning our managed accounts for 2022? What do we believe we have to look forward to and what sectors do we believe we should allocate to and when?

These, of course, are great questions. Currently, the world is enduring the increased cases of the Omicron variant. Being much more contagious than previous variants, time will tell how severe the overall impact will be on economies, country by country and sector by sector.

Based on the incredible surge of equity values in 2021 and the increase in earnings per share, we believe 2022 will be a year of moderation. Moderation will occur in almost every sector class: energy, commodities, equities, bonds, inflation and subsequently portfolios.

Equities enjoyed a very accommodative Central Bank environment in many countries in 2021, with very low interest rates, fiscal stimulus and money supply expansion continuing aggressively. We believe 2022 will be the year that this begins to unwind. Canada and the US are "talking" about raising interest rates. We'll see if either one does. Our belief is that Canada will do so in the first half of the year, but the US won't until later in 2022.

Our view is that stocks will have muted returns over the full calendar year. This can be seen as a positive outcome, given that the interest rate increases we anticipate might be seen as hurting equity prices. A more balanced, less aggressive, approach to portfolio construction is now preferred.

If things work out as we foresee, the first quarter of the year will be a Goldilocks scenario - not too hot, not too cold. Interest rates will remain roughly where they are, and corporations will muddle through the current pandemic as best they can. The second and third quarters will see some moderation as slowing growth will cause a pause in the upward trajectory of equity prices.

		2021 Q4	12 Month Returns
S&P/TSX*	21223	5.7%	21.7%
S&P 500	4766	10.6%	26.9%
Dow Jones	36338	7.4%	18.7%
Nasdaq	15645	8.3%	21.4%
$CAD	$0.7912	0.3%	0.8%
Crude Oil	$75.21	0.4%	55.8%
Gold	$1,829.20	4.1%	-3.6%

**The S&P/TSX, the S&P500, the Dow Jones and Nasdaq indices are not investable indices, and as such are not a direct comparison to any investment product available at Foster & Associates Financial Services Inc, and therefore should therefore be considered hypothetical in nature and for illustrative purposes only.*

Bonds could do better this year as interest rates will remain muted while the world successfully works through the various supply chain issues remaining from 2021. The fourth quarter will return to a growth scenario providing positive returns overall for 2022.

Precious metals may finally break out from their sideway price action of the past few years as economic growth begins to slow and inflation remains stubborn. With respect to global political risk, there are plenty of things to worry about. However, our base assumption is that most of this will be media noise and will have little effect on total market returns.

Here's wishing you and your families great success in your personal and financial lives in 2022.

R. Martin Lochran, CIM, CIWM, LLQP
Martin Lochran is a Portfolio Manager in the Foster Family Office Group

Giving Well

The final numbers aren't in yet on how the pandemic has impacted charitable giving by Canadians, but early indications are pretty grim. Despite obviously increased need, estimates are that there has been a double-digit drop in donations by Canadians since the dawn of the Covid health crisis.

The trend over the past decade isn't great, either. According to the Fraser Institute's Generosity Index, Canadians only gave 0.53% of their reported income to charity in 2019, vs 0.60% in 2010.

While there isn't much individual Canadians can do to change this unfortunate trend, those inclined to give to charity can at least do everything they can to give efficiently. That means saving every tax dollar possible associated with your donations, because the more tax you save, the more you can afford to give!

Stock donations are a brilliant way to give to charity AND to save tax dollars. No matter how much a stock may have appreciated, when you give stocks, you get a full charitable deduction for the current value of the donated stock, plus you don't pay any capital gains tax on any appreciation. As you may be aware, Foster & Associates is a big supporter of The Centre for Addiction and Mental Health (CAMH), and we host a stock donation account on our books to make it easy for clients and staff to give shares to the CAMH Foundation.

A lesser-known charitable donation opportunity involves the planned donation of Life Insurance policies. Insurance can be complex at the best of times, but generally there are two ways to donate insurance policies to charity:

- If you happen to have a paid-up permanent insurance policy, you can change the beneficiary on the policy to the charity of your choice. You don't get an immediate deduction when you do this, but your estate will get the tax benefit. Best of all, there are expanded tax benefits for charitable deductions made as part of your estate, so your heirs will thank you.
- If you really want to super-size your gift to a particular charity, consider taking out an insurance policy in their name. You will get deductions along the way for your payment of premiums AND the charity gets a big cheque when you pass. If you're looking for some sort of recognition, many charities will acknowledge the death benefit immediately, so it can be a great method for a donor of modest means to punch way above their weight.

Please speak to your financial advisor and/or tax specialist before embarking upon any of the above strategies.

The 12-Month Market Outlook

This table represents the way the firm is leaning in particular market sectors over the next 12 months. It does not represent a trade recommendation, nor does it play a major role in our portfolio construction, which involves much more than having a view on a particular market index, currency or commodity.

Sector	Outlook
Stocks (U.S.)	▲
Stocks (Canadian)	▲
Bonds (US)	--
Bonds (Canadian)	--
Canadian dollar	--
Crude Oil	--

Swimming in Deep Water

Briar Foster
is a retired Portfolio Manager and remains an active investor.

The views as articulated in this article are those of Briar Foster alone and do not necessarily reflect the opinion of Foster, and do not constitute a solicitation to engage in any specific investment or strategy.

Usually there is a web of conditions needed to create an inflationary period. Rarely is it a single-cause phenomenon. The current inflation is no exception. It is attributed, rightly I believe, to a breakdown of the supply chain of goods, the slightly mysterious shortage of labour, and the flood of money created by central bank bond purchases to relieve the economic distress of the pandemic.

The cruelty of inflation is that it hits the poor the hardest, those who can least afford higher grocery bills and rent increases. Those better-off have to adjust to the startling increase in gasoline prices, the rapid rise in the price of a single-family home, the price of a family dinner out, and the inability to get someone to come fix your refrigerator without having to take out a bank loan. The very wealthy are concerned merely with the tax increases that will accompany attempts to curb inflation.

As of mid-December, the announced annual inflation rate in the United States is 6.8%, and 4.7% in Canada. What is worrisome is that the rate in both countries shows a strong upward trend, and both are far above the 2% inflation rate targeted by their central banks.

In an inflationary period, it is better to be a borrower than a lender, better to spend than try to save. One reason the demand for houses is so strong is that the mortgage rate is much less than the inflation rate. On the investment front, the margin rate at securities firms runs between 3.5% and 4%, compared with the availability of many sound securities yielding in excess of 6%. No surprise that banks have recently reported a significant rise in consumer borrowing. In other words, if borrowing costs are significantly less than the inflation rate, why not buy now?

Understandably, low interest rates have been mandated to speed the recovery from COVID-19 lock-downs and to limit the carrying cost of government deficits. But with Canada now near full employment, the wide disparity between the inflation rate and the cost of borrowing has provided inflationary pressure by encouraging consumers to spend.

For investors, the period immediately ahead has too many uncertainties to see a clear course of action. Other than senior healthcare stocks, the equity markets lack leadership. Major tech stocks are currently somewhat out of favour and while energy stocks have performed well, the question is for how much longer. The case for resource stocks should remain strong, but the slowdown in China is a worry.

Insurance may be a potential bright spot. As interest rates rise, insurance companies will do better. Not only will they earn more interest on their fixed income portfolios, but inflation may make people want more insurance. Indeed, with inflation causing the replacement cost of all assets to rise, owners of these assets are well-advised to increase coverage.

Apart from this, we appear to be in a market environment where investor attention will be drawn toward more volatile small-cap companies. While the world seems rife with uncertainty, inflation encourages risk-taking, so investors should be prepared for a continuation of speculative markets.

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Foster Family Office

Don't Be Fooled

Part of the inspiration for launching the Foster Family Office was to address the disturbing amount of self-dealing we have seen among our investment industry peers. And it's not just us that is alarmed, securities regulators have become concerned as well.

Starting this year, new rules will require that financial advisors have a more thorough knowledge of the products they sell, as well as being able to address the inherent conflict involved when selling products their own institution manufactures. Put simply, if a financial planner in a bank branch recommends a bank-branded mutual fund, then they best have boiled the ocean to make sure there isn't a competing non-bank product that would better serve the client.

This would seem like a great idea. But in response, three of the big six Canadian banks have instead limited the range of funds that their financial planners can sell. This clearly makes the planner's job easier. It's no longer necessary to evaluate the universe of possible alternatives when you have only in-house products to evaluate. Problem solved. For everyone except the client. Moving forward, those banks' clients and their planners alike will remain completely in the dark as to whether the recommended fund is truly their best option.

How Foster Family Office is Different:

- We do not market our own investment products. We consider ALL securities, funds and alternative investments before putting anything into one of our portfolios. No proprietary products here.
- We eat our own cooking. The next time you're pitched a portfolio by a bank-owned firm, ask them how many of their executives own it. Our Family Office Group's first clients were principals of the firm. If you own it, we own it. Plus, we pay the same fees. No special deals.
- The World is your oyster. When banks think about things like private equity, hedge funds and private debt, all they see is complexity and risk. We see an opportunity to get True Diversification. Institutional investors have long understood that it's hard to get protection against bear markets just by owning a broad range of stocks and bonds.

The Foster Family Office Group caters to clients who are serious about seeking wealth preservation, not just for their own comfortable retirement but for the next generation as well. If you think it might be right for you, please speak to your investment advisor to arrange an initial consultation.

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P.S. WE'VE MOVED TO A WONDERFUL NEW HOME

Our new office space at 25 King West, 21st floor, is in the Commerce Court North Tower, a beautifully renovated historic Toronto building that combines old world charm and ultra-modern amenities. We look forward to welcoming you when we can open to the public again.