

# ODLUM BROWN REPORT

## 01 2022



**ODLUM BROWN**  
Investing for Generations®

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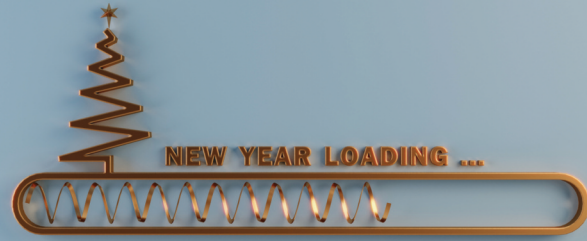
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## A Message from Our President and CEO

**Happy New Year!** I hope you and your loved ones had a wonderful holiday season and are feeling some sense of renewal as you turn your calendars to 2022.

While I want to stay forward-looking – believe me! – I do think it's worth looking back at a few of Odlum Brown's highlights as we closed out last year.

The greatest joy for me was seeing clients return to our offices. I have to tell you, I was so excited that first week of client meetings in Vancouver that I actually popped in to three of them just to say hi! Our relationships with our clients are at the heart of everything we do, so after many long months, this development was a meaningful one for everyone at the firm.

With this additional buzz around the office, the holiday season was all the more special. Through a combination of in-person and virtual initiatives, our team members were able to celebrate together and carry on many of our Odlum Brown traditions, including the annual Giving Tree in support of the Bob and Kay Ackles YMCA Nanook House and Woodward's YMCA Child Care Centre, and the Children's Holiday Card Competition.

We also ended 2021 by coming together for our community in light of the severe flooding and storm damage across the province. As a proudly BC-based firm, and one with two branch locations in the hard-hit Fraser Valley, we were devastated to see the catastrophic flooding affecting our communities.

To assist in the response and recovery efforts, Odlum Brown made two special donations: \$25,000 to United Way BC's United for BC Flood Response Fund, and \$25,000 to the BC Search and Rescue Association. If you or anyone close to you was

impacted by these events, please know our hearts are with you, and with all of our communities across BC that have been affected.

Much is still uncertain, both close to home and globally, but moving forward remains our goal. We are excited by what this year – our 99<sup>th</sup> as a firm – promises to bring as we continue to find new ways to support our clients, team members and communities.

In the coming months, we will be hosting our Annual Address presentation virtually once again. Building on the success of last year's event, we look forward to engaging with clients and other attendees, and hearing from Executive Vice President, Director, Investment Research Murray Leith and our outstanding team of Equity Analysts. Stay tuned for details on registering for this great event; I hope you will join us.

Speaking of the Annual Address, while we can't know exactly what 2022 has in store, what we do know is that we don't want to wait another year to connect with all of you in person, and we are looking into options for doing so later in the year.

Indeed, I am hopeful that 2022 will be the year of togetherness – and at Odlum Brown, that includes all of our clients, team members, friends and partners. On behalf of all of us, thank you for another year of trust and loyalty, and we look forward to seeing you soon.

Warmly,



**DEBRA DOUCETTE (HEWSON)**  
President and Chief Executive Officer

alumni UBC Volunteers  
Vancouver, BC  
Throughout 2022

Odlum Brown is proud to be the Presenting Sponsor of alumni UBC Volunteers. Through this program each year, thousands of generous UBC alumni and other volunteers share their time, knowledge and experience to build an exceptional UBC and a better world.

Recent initiatives include THE A PROJECT, developed to support community organizations focused on protecting the environment, food security, and access to education and resources. As part of this program, Odlum Brown team members wrote and sent holiday cards to local seniors, bringing cheer and encouragement to those who may be facing isolation.

For more information on the many alumni UBC Volunteers initiatives we support throughout the year, visit [alumni.ubc.ca/volunteer](http://alumni.ubc.ca/volunteer).



## OB Model Portfolio – Celebrating 27 Years and a Big Milestone

### COMPOUND ANNUAL RETURNS\* (Including reinvested dividends, as of December 15, 2021)

|   | YTD          | 1 YEAR       | 3 YEAR       | 5 YEAR       | 10 YEAR      | 20 YEAR      | INCEPTION**  |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Odlum Brown Model Portfolio</b>            | <b>25.6%</b> | <b>26.8%</b> | <b>17.9%</b> | <b>11.2%</b> | <b>14.8%</b> | <b>11.8%</b> | <b>14.7%</b> |
| <b>S&amp;P/TSX Total Return Index</b>         | <b>22.2%</b> | <b>21.9%</b> | <b>16.0%</b> | <b>9.7%</b>  | <b>9.3%</b>  | <b>8.1%</b>  | <b>8.8%</b>  |
| <b>S&amp;P 500 Total Return Index (\$CDN)</b> | <b>28.5%</b> | <b>31.2%</b> | <b>22.6%</b> | <b>17.1%</b> | <b>19.4%</b> | <b>8.5%</b>  | <b>10.8%</b> |

\* Except for YTD period. \*\* December 15, 1994.

Twenty-seven years ago, on December 15, 1994, our Research Department launched the Odlum Brown Model Portfolio with an initial investment of \$250,000. The purpose of this hypothetical, all-equity Model was, and still is, to showcase how we believe stock recommendations may be used in client portfolios, and to measure the quality of our advice and the effectiveness of our disciplined investment strategy.

The objective of the Model is to achieve better performance than the Canadian equity benchmark, the S&P/TSX Composite Total Return Index, while limiting risk and preserving capital. Typically, the Model holds 40-45 stocks. It is well diversified across economic sectors, with an emphasis on high-quality companies with sustainable competitive advantages, conservative financial leverage and strong management. In recent years, we have felt that foreign diversification is both prudent and essential to achieving good long-term returns. The Canadian market lacks diversity and has a limited number of world-class businesses. Thus, roughly half of the portfolio is currently invested in U.S. securities.

In November 2021, the value of the Model breached \$10 million, marking a 40-fold increase since inception. That represents a compound annual return of 14.7%.

While we are proud of the achievement, credit for the pace by which we reached this milestone this past year really belongs to the governments and central banks that super-charged the economic recovery with unprecedented amounts of fiscal and monetary stimulus. For the year through to mid-December, the Model appreciated by 25.6%, roughly in line with a blended 50/50 Canada-U.S. equity benchmark.

The question on everyone's mind is, "Can the good times continue?" From an economic perspective, there are reasons to believe global growth will slow materially from the impressive rate achieved in 2021. While stocks still have good long-term prospects, increased volatility and lower returns are likely in 2022.

As of writing, it appears that the Omicron variant will accelerate the already established winter-wave of COVID-19 cases and undermine economic activity. Although there are indications that Omicron is less deadly than the Delta variant, it's proving to spread much faster. Travel restrictions and lockdowns are becoming common once again, and this time they are happening as extraordinary government support programs are ending and central banks are starting to dial back cheap and easy monetary policies.

Investors are obsessed with inflation, and for good reason. It is running at its highest level in decades, and that is creating hardship for individuals and businesses alike. Many companies are struggling with supply chain issues and labour shortages, and the lack of investment in the traditional energy sector has caused energy prices to rise meaningfully in parts of the world.

Nonetheless, we don't fear an economic recession in the near term because there is so much fiscal and monetary stimulus in the economic pipeline. It normally takes 12-18 months for stimulus to work its way through the system, and it's more likely that economic growth will merely revert to the slow, muddle-through pace that existed prior to the pandemic.

Social unrest due to rising wealth and income inequality has long been a major concern, and the U.S. Federal Reserve and other central banks have exacerbated the worrisome trends by buying bonds and maintaining interest rates at such low levels. While these stimulative activities were absolutely necessary in reviving the economy, they also served to inflate the value of financial assets, thereby increasing income inequality given these assets are disproportionately owned by the wealthy.

Wages are rising at a decent rate, but unfortunately they are not keeping pace with consumer price inflation. From a purchasing power perspective, the average worker's inflation-adjusted income is falling. That likely explains why consumer confidence is extremely depressed.

While some businesses have been hurt by the pandemic and its effect on supply chains, labour availability and prices, most of the big companies that dominate the equity market benchmarks have been helped by inflationary trends. They have been able to raise prices at a faster rate than their costs have increased, which has fueled record profit margins and outstanding profit growth. The Canadian and U.S. equity benchmarks were up 22.2% and 28.5%, respectively, in 2021 (as of December 15) because the growth in earnings overwhelmingly offset a modest contraction in valuation multiples. What's unclear is whether corporations will be able to maintain these sizeable profit margins in 2022.

There is a risk that the monetary authorities will take the proverbial punch bowl away just as the economy is slowing, which could put pressure on corporate profit margins and undermine the overall demand for stocks.

High prices are already starting to take a toll on demand for homes, automobiles and other high-priced items, and central banks have started the process of reducing monetary accommodation to tame inflationary pressures. In particular, the U.S. Federal Reserve is expected to completely unwind its \$120 billion monthly bond-buying program over the next few months and start raising interest rates. That means there will be less liquidity in the market – that is, money looking for investments. In other words, there won't be a liquidity-driven rising tide lifting all investment boats.

The big companies that dominate the major North American stock market averages are generally holding their own, yet that masks the fact that many stocks are not doing well. Many of the more exciting, faster-growing businesses – those that

benefited from the pandemic, and also those with the most extreme valuations – have seen very significant corrections in their share prices (as of December 15, 2021). For example, the share price of the popular video conferencing company Zoom is down 67% from its high. It's an awesome business and platform, but it's also a very expensive stock. Peloton's exercise bikes are similarly impressive, but its stock is down 77% from its high. Shares of DocuSign, whose product has been invaluable in helping us get paperwork completed while working remotely, are trading at a 51% discount to their peak valuation.

Investors are learning that price matters. Shares of unprofitable businesses, or those whose share prices are hard to justify based on underlying fundamentals, have performed poorly lately. Large companies have fared better than small, and developed markets have outpaced those that are still developing. These patterns typically unfold when monetary policy becomes tighter or less accommodative, which seems likely in 2022.

It's quite possible that markets will be volatile in the near term as investors fret over the fallout from the Omicron variant and the extent to which central bankers will tighten monetary policy. Still, we have been humbled and surprised, both positively and negatively, too many times to make bold predictions about the economy or the stock market over the next six to 12 months. While a meaningful market correction is certainly possible, it's also conceivable that the authorities will reverse course and crank up monetary accommodation, as they did in 2019.

Our focus is always three to five years out, and over that horizon we expect economic growth and inflation to moderate. Against that backdrop, we believe we own a great complement of businesses with meaningful potential to be bigger, stronger and more valuable.

We are managing the heightened near-term uncertainty of COVID-19, inflation and the general economic outlook by ensuring our Model Portfolio is well diversified, and that we own reasonably priced, high-quality businesses with the ability to grow and raise prices to offset inflationary pressures.



**MURRAY LEITH, CFA**

Executive Vice President and Director, Investment Research

[@murrayleith](#)

The Odlum Brown Model Portfolio is an all-equity portfolio that was established by the Odlum Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

## ODLUM BROWN FINANCIAL SERVICES LIMITED

# Pension Income Splitting

**When tax season arrives, one of the easiest ways to reduce your family's tax bill is through pension income splitting, whereby spouses (including common-law partners) may split up to 50% of qualifying pension income when filing their income tax returns.**

### What type of income qualifies for pension splitting?<sup>1</sup>

Eligible income is not limited to traditional "pensions." Any income that qualifies for the pension income credit qualifies for pension income splitting. While a taxpayer's (pensioner's) age is relevant, their spouse's age is not.<sup>2</sup>

*Continued on next page*

| INCOME THAT QUALIFIES FOR PENSION SPLITTING  | TAXPAYER AGE 65+ | TAXPAYER UNDER AGE 65 |
|--|------------------|-----------------------|
| Lifetime retirement benefits (i.e., monthly) received from a <b>Registered Pension Plan</b>  | ✓                | ✓                     |
| Annuity payments from an RRSP or DPSP received as a result of the <b>death of a spouse</b>   | ✓                | ✓                     |
| Payments received from a Registered Retirement Income Fund (RRIF), Life Income Fund (LIF) or Locked-In Retirement Income Fund (LRIF) | ✓                | ✗                     |
| The taxable portion of certain annuities (typically, <b>prescribed annuity contracts</b> )   | ✓                | ✗                     |
| The taxable portion of certain amounts from foreign pensions, including Social Security  | ✓                | ✓                     |

Lump-sum withdrawals from RRSPs do not qualify for income splitting, nor do benefits from the Canada Pension Plan (CPP) or Old Age Security (OAS).<sup>3</sup>

### Creating Qualifying Pension Income

Opportunities to create or increase income to split with your spouse may include:

- Creating or increasing withdrawals from your existing RRIFs
- Transferring all or a portion of your RRSPs to a RRIF
- Transferring all or a portion of your RRSPs to a registered annuity
- Initiating income from a registered pension plan

In the example below, a couple who are both aged 65 could potentially save \$6,344 in income taxes and Old Age Security by splitting \$30,000 (50% of the taxpayer's eligible pension income) and both spouses claiming the pension income tax credit, based on combined 2021 Federal and BC tax rates.

|   | SCENARIO 1: BEFORE SPLITTING |                  |                   | SCENARIO 2: AFTER SPLITTING |                  |                   |
|---|------------------------------|------------------|-------------------|-----------------------------|------------------|-------------------|
|   | Taxpayer                     | Spouse           | Total             | Taxpayer                    | Spouse           | Total             |
| Interest and Other Income                             | \$ 45,000                    | \$ 10,000        | \$ 55,000         | \$ 45,000                   | \$ 10,000        | \$ 55,000         |
| Eligible Pension Income                               | \$ 60,000                    | \$ –             | \$ 60,000         | \$ 30,000                   | \$ 30,000        | \$ 60,000         |
| CPP   | \$ 13,000                    | \$ 13,000        | \$ 26,000         | \$ 13,000                   | \$ 13,000        | \$ 26,000         |
| OAS   | \$ 7,000                     | \$ 7,000         | \$ 14,000         | \$ 7,000                    | \$ 7,000         | \$ 14,000         |
| <b>Total Income</b>                                   | <b>\$ 125,000</b>            | <b>\$ 30,000</b> | <b>\$ 155,000</b> | <b>\$ 95,000</b>            | <b>\$ 60,000</b> | <b>\$ 155,000</b> |
| Income Tax (after Basic and BC Tax Reduction Credits) | \$ 29,354                    | \$ 3,211         | \$ 32,565         | \$ 19,943                   | \$ 10,479        | \$ 30,422         |
| Less: Age, Pension Credits                            | \$ (351)                     | \$ (1,408)       | \$ (1,759)        | \$ (351)                    | \$ (1,109)       | \$ (1,460)        |
| OAS Clawback  | \$ 6,773                     | \$ –             | \$ 6,773          | \$ 2,273                    | \$ –             | \$ 2,273          |
| <b>Total Tax and Clawback</b>                         | <b>\$ 35,776</b>             | <b>\$ 1,803</b>  | <b>\$ 37,579</b>  | <b>\$ 21,865</b>            | <b>\$ 9,370</b>  | <b>\$ 31,235</b>  |

### How to Elect to Split Pension Income When Filing Tax Returns

To split income, you must both file Form T1032 (*Joint Election to Split Pension Income*). The spouse wishing to reduce their taxable income claims a deduction on Line 21000 (*Deduction for elected split-pension amount*) of their income tax return for up to 50% of their eligible pension income, and the other spouse must include the same amount on Line 11600 (*Elected split-pension amount*). How much income is split (if any) can be changed each year to suit your evolving tax situation. When deciding how to allocate income between spouses, be sure to incorporate any negative tax consequences into your analysis, such as losing OAS benefits, medical expense tax credits, age credits or child tax benefits.

If you are interested in learning more about pension income splitting, or about the products and services available through Odium Brown Financial Services Limited, contact us through your Odium Brown Investment Advisor or Portfolio Manager.



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<sup>1</sup> Qualifying income before age 65 is detailed here: [canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-31400-pension-income-amount/which-pension-annuity-income-qualifies-pension-income-amount.html](https://canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-31400-pension-income-amount/which-pension-annuity-income-qualifies-pension-income-amount.html).

<sup>2</sup> While a taxpayer can split eligible pension income with a spouse of any age, their spouse's age is relevant to claim a Pension Income Credit on the spouse's income tax return.

<sup>3</sup> CPP "sharing" is possible under separate legislation, by applying to Service Canada once both spouses have applied for CPP retirement benefits.

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