

January E-Letter

Dear Clients,

In this newsletter we will be covering recent developments in the financial markets, discussing key topics of interest, and bringing you engaging content and advice from the world of financial planning.



Market Update

January was a relatively good month for stock markets, with the NASDAQ up 8.8%, the S&P 500 up 4.7%, and the TSX up 6.27%. Bond markets also improved globally in January, with long-term US bonds up 6.8% and all other areas of the bond market posting positive returns.¹

This month we saw the Bank of Canada raise the interest rate another 0.25%, and the Federal Reserve is also expected to raise their interest rate by 0.25% when they meet on February 1st.

Inflation continued to fall in Canada. Canada's annual inflation rate fell to 6.3% in December of 2022, the least since February 2022 and below market expectations of 6.4%. The US inflation rate also fell, down to 6.45% from 7.11% the month before, and 7.04% a year ago.²

While the Bank of Canada signaled its intention to stop raising rates for now, all eyes will be on the Federal Reserve to see if they plan to do the same.

Corporate earnings season is also underway and is encouraging thus far. As of January 30th, 144 companies of the 500 in the S&P500 have reported, with 67% beating their earnings expectations.³

Morgan and Taylor
Advisory Group
CIBC Wood Gundy
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Estimated time to read:
5 minutes

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MARKET UPDATE

Important updates on what is going on with the market.

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¹ Thomson One

² Thomson One

³ <https://lipperalpha.refinitiv.com/2023/01/sp-500-earnings-dashboard-22q4-jan-30-2023/>

What is Chat GPT?

Wes Taylor

In recent news you may have heard about a powerful new Artificial Intelligence (AI) technology called Chat GPT that is taking the world by storm. Developed by American company, Open AI, and made publicly available in November 2022, Chat GPT is a “chatbot”; a type of artificial intelligence that can understand and generate natural language text. It is trained on large amounts of text data and uses an algorithm called a transformer to learn how to generate text that is similar to human conversation.

Much like using a search engine such as Google, users of the platform can input a wide range of requests into the program and it will quickly generate some astounding human-like responses by collecting and interpreting data from millions of internet pages and data sets. Even though it is only a few months old, the abilities of the program seem endless and far superior to previous “chatbot” technologies.

From simple questions like “write a 3000 word essay on 20th century American foreign policy” to more complex tasks like “design a 6 week nutrition plan that accommodates my dairy allergy and excludes root vegetables”, the outputs have been generally impressive.



However, the program presents many societal challenges. It is especially good at answering the types of analytical open-ended questions that appear on school essay assignments, and many Universities are struggling to figure out how they will adjust take-home assignments now that this type of technology is publicly available.

It is also limited in understanding current events, as it’s data sets are built on information before 2021 (for now). It has also been designed to

avoid providing outputs for racist or criminal purposes, but of course some users have attempted to circumvent the program’s restrictions.

Both socially and economically, the world is very much just starting to grapple with the impacts of this type of technology. One thing is for sure, which is that these types of AI, technologies will only continue to improve. Chat GPT is already being compared to the iPhone in terms of its potential impact on society and the next version is rumored to be vastly superior. That version, called Chat GPT-4, is expected to be released sometime next year.

The Progression and Embrace of Exchange Traded Funds

Dave Morgan

The Exchange Traded Fund Industry (ETF) was born in Canada in March of 1990 with the introduction of the first ETF representing the Toronto Stock Exchange (TSX) 35 Index and known as Index Participation Units. This single security gave the owner exposure to thirty-five of the largest and most liquid companies that traded on the TSX at that time. ⁴

Following this a US ETF, based on the Standards & Poor's 500 Index (S&P500) was created and launched in January 1993. The significance of the S&P500 ETF was to bring onto the investment scene, an ability for any investor to gain exposure to broad indexes like the S&P500 without having to purchase all the different shares that made up that index.

The impact of this is felt decades later. A global embrace has occurred in the subsequent thirty plus years. By the end of 2021 according to Statista, assets in ETFs worldwide approached \$10 trillion and show no signs of stopping.

The embrace of ETFs is an evolution within the area of finance. The ownership of an ETF provides the holder with transparency, liquidity and efficiency. It is no small wonder that most institutional money managers today consider ETFs an integral part of their asset management approach.

The ability to trade the security at any time during a trading session and know the current value of all the securities (net asset value-NAV) which make up the ETF is an important part of the transparency and liquidity of ETFs.

The flexibility of ETFs permits investors to gain exposure to a geographic area (Europe, Asia and others) or a particular sector such as healthcare or rare earth minerals.

Early ETFs were more passive in nature, providing the holder with exposure to an index with the same holdings and weightings as the index. Today, ETFs have evolved to provide not only passive exposure but actively managed exposure to investment styles, geographic regions, sectors. Many ETFs now have the ability to use options which can enhance a portfolio manager's ability to offset risk.

Managing wealth is about managing risk. ETFs provide an effective way for every investor, be they institutional or an individual to achieve this.

⁴ <https://www.bankofcanada.ca/wp-content/uploads/2014/12/fsr-december14-foucher.pdf>

Ongoing Reminders

Here are some things to keep in mind as we approach the end of 2022:

- The Tax-Free Savings Account (TFSA) contribution room for 2022 is \$6,000.00 and the contribution limit for 2023 is \$6,500.00.
- For your Registered Education Savings Plan (RESP), you are able to contribute to qualify for the 2023 Canadian Education Savings Grant (CESG).
- Did you know that the cost of preparing your taxes increases every time your tax preparer contacts you or your advisor for information? To control the cost of tax preparation, make sure you have all your tax documents before you visit your tax preparer.
- With tax season approaching did you know that you can receive your digital tax documents through the Wood Gundy Online and they will be available there starting early February. If you are set up for online and would like to switch your tax documents that can be done under “Preferences” and then “Change Mailing Options” and check the box for online. If you would like to be set up Online, please reach out to anyone on the team and we can assist with that.

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There are ongoing fees and expenses associated with owning an Exchange-Traded Fund (ETF). An ETF must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

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