

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to ensure you are well informed. We sift through the noise and only bring you important topics of discussion and planning points useful to you.

We believe Knowledge Pays and we want our knowledge to pay for you.

PRINCIPAL RESIDENCE EXEMPTION – THE GREAT WHITE NORTH’S GREATEST TAX BREAK

The principal residence exemption (PRE) is an income tax benefit that provides an exemption from paying tax on the capital gain realized when selling your principal residence. Perhaps underappreciated in its early days, the PRE has helped Canadian homeowners capture the entirety of the significant capital gains accrued on their homes over the past few decades, strengthening Canada’s middle class.

For those who own more than one property, the PRE allows you to avoid capital gains tax on the sale of either property, whether it be your city home or rural cottage, as long as you “ordinarily inhabit” that property during each year in question. Note that you may only elect to use the PRE for one property in each calendar year.

It typically makes the most sense to use the PRE to offset capital gains taxes on your home as one’s home is most often worth more than one’s cottage or condo and similar percentage gains on both properties often results in more capital gains on the home, in dollar terms. That said, cottage country has experienced a banner year and some cottages may have appreciated considerably. When and how quickly each property appreciated alters how best to allocate the PRE between your properties.

Consider the situation below. The house has appreciated by 300% over sixteen years and the cottage 100% over three years. Many would be tempted to elect to use the PRE exclusively on their house as it has a much larger capital gain.

Property Type	Purchase Yr	Cost + Additions	Sale Proceeds	Capital Gain
House	2005	\$500,000	\$2,000,000	\$1,500,000
Cottage	2018	\$500,000	\$1,000,000	\$500,000

If both properties were sold and the PRE was used exclusively to exempt the capital gain on the house, this household would need to pay tax on **\$375,000 in capital gains**. Due to the “plus one year rule”, part (25%) of the cottage capital gain is excluded.

If instead, the PRE was used for the house from 2005-2017 and the cottage from 2018-2021, this household would need to pay tax on **\$333,333 in capital gains**.

Life is seldom this simple. It is rare to sell both properties in the same year so determining how to best allocate the PRE is difficult when you sell only one property. When you sell one of your properties, it pays to **do the math** to determine whether to shelter the entire capital gain from tax using the PRE.

The discussion above applies to Canadian tax filers only. US persons living in Canada or US tax filers who own Canadian property face additional considerations. If this sounds like you, we invite you to read **our most recent issue of Wealth Without Borders** which discusses this topic.

Current Rates & Data

Govt of Canada

90 day	0.17%
1 year	0.24%
2 year	0.42%
5 year	0.79%
10 year	1.12%
30 year	1.70%

U.S. Treasury

90 day	0.06%
1 year	0.07%
2 year	0.21%
5 year	0.74%
10 year	1.23%
30 year	1.90%

Canada Prime Rate

2.45%

U.S. Prime Rate

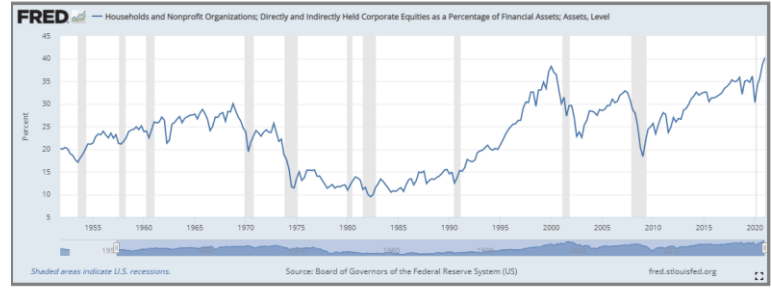
3.25%

Exchange Rates

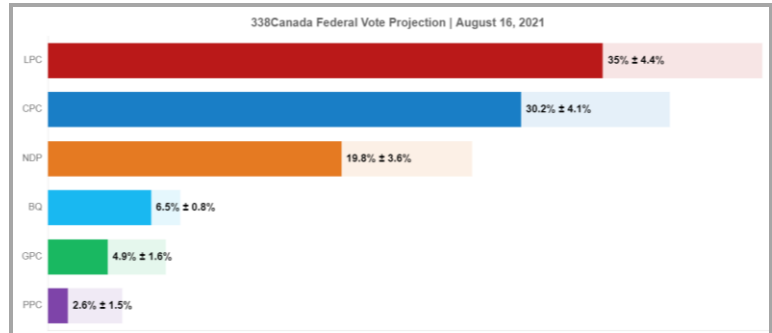
CAD/USD	0.792
USD/EUR	1.171
JPY/USD	109.6

ECONOMIC TIDBITS HOUSEHOLDS/NON-PROFITS NEVER OWNED MORE EQUITY & CANADIAN ELECTION NOW!

- US households and non-profits have never owned more equities as a percentage of their financial assets. Similar highs in this measure mark historic market tops, which is concerning. Low interest rates and the growing day trading community are reasons for greater equity ownership. Despite low yielding cash and bonds, investors may be underestimating the odds and degree of loss associated with equities.



- On Aug. 15, Prime Minister Trudeau called for parliament to be dissolved and a snap election be held on Sept. 20. Pollster [338Canada](#) has the Liberals, Tories and NDP at 35%, 30% and 20% support, respectively. If these numbers end up being accurate, another Liberal minority is likely. [Trudeau's approval rating](#) is the lowest since early 2020 but is in line with the period before the 2019 election.



LE JIT A “JUST-IN-TIME” RUNDOWN OF OUR CURRENT INVESTMENT THEME

Stocks That Could Continue to Perform Well If We Are Destined to Live with COVID a Long Time

- **Clorox (CLX)** and **Alpha Pro Tech (APT)** are two ideas related to this theme.
- The stocks are ~30% and ~80% below their post-COVID peaks, respectively, but demand for their products could remain elevated for quite some time.
- **Clorox** is a leading global manufacturer and marketer of consumer products. The company has a long list of products but its bleach and other sanitizing/cleaning products remain core to the business. Demand for these products saw a massive jump post-COVID, demand which is likely to remain in place, if not grow, should the COVID pandemic continue. The stock trades at ~17x trailing EV/EBITDA, a ~20% premium to its historical average but well below the S&P 500's average premium.
- **Alpha Pro** is the largest North American pure play protective apparel manufacturer. The company's key products are face masks, face shields and other protective apparel. The stock trades at less than 3x trailing EV/EBITDA and ~15x its pre-COVID EBITDA. While the company will benefit from spikes in demand for protective apparel, if the pandemic ends sooner than later, the stock appears to be reasonably valued outside of a pandemic.

Key risk points: Both companies offer products that help fight COVID-19. If the pandemic ends sooner than expected, these stocks may underperform. Both are sensitive to equity market sentiment as well.

JEANNINE'S TIP O' THE MONTH Our First Pandemic Election Could be a Good Time to Try Mail-In Voting

Participating in elections is a high priority for many Canadians but the realities of the COVID-19 pandemic may make some hesitant to vote in person. The good news is that voting by mail is an easy and costless option. As many as two to three million voters are expected to vote by mail this time around.

The Canadian federal election is set for September 20, 2021. Those who wish to vote by mail must request a special ballot by September 14. Visit [Elections.ca](#) to request your special ballot which includes a pre-paid return envelope.

This newsletter has been brought to you by Steele Wealth Management

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CIM, CPCA
Kelly Edmonds | Nudrat Ahsan | Elizabeth Kernohan | Sam Ryder, CFA | Matthew Bell, CFA

Phone: (519) 883-6030 Toll-Free: 1 (877) 642-6408

Email: steelewealthmanagement@raymondjames.ca

Address: Unit 1, 595 Parkside Drive | Waterloo, Ontario | N2L 0C7

Website: www.steelewealthmanagement.com

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steelewealthmanagement@raymondjames.ca

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