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THE ELEPHANTS EAR

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Dog Days of Summer: Market Update

As summer 2025 draws to a close, I am reflecting on a season that delivered its fair share of surprises, market resilience, and cautious optimism. From earnings reports to inflation updates, Trump and global developments, the markets navigated a complex landscape. Major indices posted moderate gains over the summer months.

The S&P 500 rose steadily, buoyed by strong performance in tech and Ai-driven sectors. The Nasdaq outpaced other indices, continuing its upward momentum thanks to investor enthusiasm for innovation and productivity-enhancing technologies. The Dow Jones Industrial Average saw slower growth, reflecting a rotation out of traditional blue-chip stocks in favor of growth-focused plays. Still, all three major indices ended the season in positive territory, signaling investor confidence despite mixed signals from the economy.

On August 25, 2025, U.S. stock markets surged dramatically. The Dow jumped about 800 points, reaching new record highs, while both the S&P 500 and Nasdaq soared—propelled by renewed investor optimism after Federal Reserve Chair Jerome Powell hinted at a potential rate cut in September during his Jackson Hole speech. At Jackson Hole, Fed Chair Powell said the U.S. economy has “shown resilience in a context of sweeping changes in economic policy,” but the “balance of risks appears to be shifting”. He described the labor market slowdown as “a curious kind of balance” and warned that this “suggests that downside risks to employment are rising,” which could lead to “sharply higher layoffs and rising unemployment.” On inflation, Powell noted that tariff-driven price increases are “now clearly visible” but expects them to be “relatively short lived—a one-time shift in the price level.” Following the speech markets raised the odds of a September rate cut from about 75% to 90%, reflecting growing expectations for easing.

That said, caution remains. Analysts note that while Powell adopted a more dovish tone, actual policy shifts will hinge on upcoming economic indicators—particularly the jobs report and consumer price index due in early to mid September.

Q2 earnings reports revealed a mixed but generally better-than-expected corporate landscape. While some sectors—like retail and real estate—faced pressure from rising costs and cautious consumer spending, others like semiconductors, cloud computing, and industrial automation reported strong revenue growth.

Big tech continued to lead the charge, with companies leveraging Ai integration and cost efficiencies to boost margins. Energy stocks saw modest rebounds, while financials remained stable amid changing rate expectations.

As we move into the fall, markets may face more volatility driven by election news, Fed policy decisions, and global political economic data. Early fall seasonally is generally a poor performing month. We all come back from vacation and reality sets in for the markets as well. As always we plan for the worst and expect the best.

“Lots of eggs in lots of different baskets” - Darryl Murphy

Darryl Murphy, CPA, MBA

Mutual Funds Advisor –Investia Financial Services Inc.
Life Insurance Advisor – Manulife Securities Insurance Inc.
Tax Advisor - Red Oak Financial

PEI Office
535 North River Rd. Unit 2
Charlottetown, PE
C1E 1J6

Bedford Office
1148 Bedford Hwy
Bedford, NS
B4A 1B8

Tel: 902-629-6290
Cell : 902-266-2442

RESP, What is it, how does it work?

What Is an RESP?

A Registered Education Savings Plan (RESP) is a savings account specifically designed to help Canadians save for a child's post-secondary education. The plan allows investments to grow tax-free until the money is withdrawn for educational purposes.

Key Features of an RESP

Money invested in an RESP grows tax-free. You won't pay taxes on investment income (interest, dividends, or capital gains) while it remains in the account. The government helps you save with contributions through the Canada Education Savings Grant (CESG):

- CESG: The federal government matches 20% of annual contributions, up to $500 per year (maximum $7,200 per beneficiary over the plan's lifetime).

- Additional CESG: Low- and middle-income families may qualify for extra grant amounts. Canada Learning Bond (CLB): For eligible low-income families, up to $2,000 may be provided with no personal contribution required.

- Lifetime maximum contribution limit per beneficiary of $50,000

Withdrawing Funds: How It Works

When your child enrolls in a qualifying post-secondary program, you can start withdrawing funds in two ways:

- Educational Assistance Payments (EAPs): These come from the investment income and grants. They are taxed in the student's hands—often at a very low tax rate due to limited income and tuition tax credits.

- Refund of Contributions: The money you put in can be withdrawn tax-free. You can use this for any purpose, not just education.

Receipts are not required to withdraw from the plan just a confirmation of enrollment in a post secondary institution. If the money is not needed for school due to scholarships and/or grants or work income then the money can be rolled over into a TFSA (if there is room) or other non registered account for use at another time.

What If the Child Doesn't Go to School?

If the beneficiary doesn't pursue post-secondary education, you still have options:

- Transfer the RESP to another eligible beneficiary (such as a sibling).

- Withdraw your contributions tax-free, but you'll repay any unused grant money to CESG and withdraw the income on your and CESG money and pay tax on the growth.

For more information:

https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/registered-education-savings-plans-resps.html

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