OnPoint
PRIVATE WEALTH COACHING

SMITH MANOEUVRE GUIDE

Comparing the Smith Manoeuvre Investment Vehicle Options

The Smith Manoeuvre itself is simply a debt conversion strategy. The real question is what asset sits on the other side of the deductible investment loan.

The four most common approaches each solve a different problem:

Vehicle	Primary Goal
Low-cost ETFs	Maximize long-term expected return
Dividend Stock Portfolio	Generate income and tax-efficient cash flow
Segregated Funds	Reduce downside risk and provide guarantees
Participating Whole Life Insurance	Maximize certainty, estate value, and tax efficiency

The right answer depends less on investment performance and more on the investor's risk tolerance, time horizon, tax situation, and objectives.

OPTION 1

Low-Cost ETFs

Typical Implementation

- HELOC borrowing
- Broad-market ETFs

Examples:

Vanguard VEQT | Vanguard VGRO | iShares XEQT | BMO ZGRO

Advantages

✓ **Lowest fees**

Typical ETF costs:

0.05% to 0.30% MER

This leaves more of the return available to exceed borrowing costs.

✓ **Highest expected long-term return**

Historically, diversified equity portfolios have generated the strongest long-term returns among the four options.

✓ **Maximum diversification**

Thousands of holdings across: Canada, U.S., International markets, Emerging markets

✓ **Most evidence-backed**

The strongest research supports broad diversification and low costs.

Drawbacks

✕ **Highest volatility**

A 30%-50% decline can occur.

✕ **Behavioral risk**

Many leveraged investors fail because they stop during market declines rather than because the strategy itself failed.

✕ **No guarantees**

If markets decline, the HELOC balance remains unchanged.

Best For

- Age 30-55
- High risk tolerance
- Investors seeking maximum wealth accumulation
- Long horizon (15+ years)
- Strong cash flow

OPTION 2

Dividend Stock Portfolio

Typical Implementation

Examples might include:

Royal Bank | TD Bank | Enbridge | Fortis | Canadian Natural Resources | Bank of Nova Scotia

The strategy relies on dividend income helping offset borrowing costs.

Advantages

- ✓ **Regular income**
  Dividends can help service HELOC interest.
- ✓ **Attractive Canadian dividend tax treatment**
  In taxable accounts, eligible Canadian dividends receive preferential tax treatment.
- ✓ **Investor comfort**
  Many investors find it easier to hold dividend-paying companies through difficult markets.
- ✓ **Potential inflation protection**
  Many dividend growers increase payouts over time.

Drawbacks

- ✗ **Concentration risk**
  Owning 10-20 stocks creates substantially more risk than owning thousands through an ETF.
- ✗ **Sector concentration**
  Canadian dividend portfolios often become heavily exposed to: Financials, Utilities, Energy
- ✗ **Dividend cuts happen**
  Even strong companies occasionally reduce dividends.
- ✗ **Lower diversification**
  Compared with ETFs.

Best For

- Investors who value income
- Investors comfortable owning individual securities
- Retirees or pre-retirees
- Those who want visible cash flow from investments

OPTION 3

Segregated Funds

Typical Implementation

Providers include:

Equitable | Canada Life | Sun Life | Manulife | Empire Life

Common guarantees: 75% maturity guarantee, 75% death benefit guarantee, 100% death benefit guarantee

Advantages

- ✓ **Downside protection**
  A portion of principal is guaranteed at maturity.
- ✓ **Estate planning benefits**
  Proceeds may pass directly to beneficiaries.
- ✓ **Potential probate avoidance**
  Depending on provincial rules and beneficiary designation.
- ✓ **Potential creditor protection**
  When properly structured.
- ✓ **Easier to stay invested**
  Values tend to feel psychologically safer than a fully exposed equity portfolio.

Drawbacks

- ✗ **Much higher fees**
  Typically:
  2.0% to 3.5% MER
  Compared to ETF costs of roughly 0.05%-0.30%.
- ✗ **Reduced expected returns**
  The guarantee is not free.
- ✗ **Loan risk remains**
  The investment may have protection, but the HELOC still must be repaid. Canadian regulators consistently emphasize that borrowing-to-invest amplifies risk because debt obligations remain even when investment values fall.
- ✗ **Complexity**
  Guarantee periods, resets, and withdrawal rules vary by insurer.

Best For

- Conservative investors
- Investors focused on estate planning
- Business owners seeking creditor protection
- Those uncomfortable with full market risk

OPTION 4

Participating Whole Life Insurance

Typical Implementation

Often structured through:

Equitable | Canada Life | Sun Life | Manulife

Usually part of: Immediate Financing Arrangements (IFA), Insured Retirement Plans (IRP), Leveraged insurance strategies. Borrowed funds are used to fund premiums, building: Cash surrender value (CSV), Death benefit, Tax-sheltered growth

Advantages

- ✓ **Greatest stability**
  Cash values do not generally fluctuate like stock markets.
- ✓ **Tax-sheltered growth**
  Growth inside an exempt policy accumulates tax efficiently.
- ✓ **Strong estate planning value**
  Death benefits can materially exceed invested capital.
- ✓ **Reduced sequence-of-return risk**
  Market crashes have much less impact than ETF portfolios.
- ✓ **Potential collateralization opportunities**
  Cash values can support future borrowing strategies.
- ✓ **High likelihood of staying the course**
  The smoother values reduce emotional decision-making.

Drawbacks

- ✗ **Lower liquidity in early years**
  CSV often lags premiums initially.
- ✗ **More complex**
  Policy design matters tremendously.
- ✗ **Lower expected returns than equities**
  Typically prioritizes certainty over maximum growth.
- ✗ **Long commitment**
  Generally best suited to 15-20+ year horizons.
- ✗ **Insurance costs**
  The strategy must overcome policy expenses and borrowing costs.

Best For

- High-income professionals
- Physicians
- Affluent retirees
- Investors prioritizing certainty over growth
- Incorporated business owners
- Dentists
- Estate-focused investors

Side-by-Side Comparison

Factor	ETFs	Dividend Stocks	Seg Funds	Whole Life
Expected Return	Highest	High	Moderate	Moderate
Volatility	Highest	High	Moderate	Lowest
Principal Protection	None	None	Partial	Strongest
Diversification	Excellent	Limited	Good	N/A
Fee Level	Lowest	Low	High	High
Tax Efficiency	Good	Good	Good	Excellent
Estate Benefits	Minimal	Minimal	Strong	Strongest
Creditor Protection	No	No	Potential	Potential
Complexity	Low	Moderate	Moderate	High
Liquidity	High	High	Moderate	Lower Early On
Behavioural Suitability	Lowest	Moderate	Good	Best

A Practical Advisor Framework

Rather than asking "Which one performs best?", a better question is:

If the client says...

"I want the highest probability of maximizing wealth over 20+ years." → **Low-cost ETF portfolio.**

"I want income and I like owning Canadian blue-chip companies." → **Dividend portfolio.**

"I like growth but I need a safety net." → **Segregated funds.**

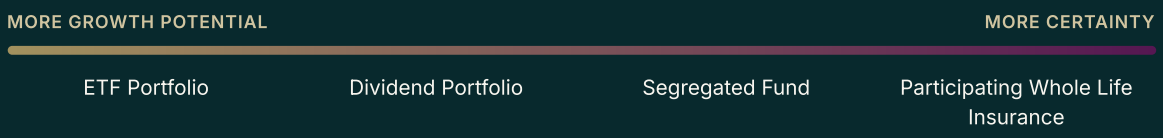
"My priority is estate planning, tax efficiency, and certainty." → **Participating whole life.**

The Key Truth

All four approaches can be suitable within a Smith Manoeuvre framework.

The trade-off is remarkably consistent:

As certainty and guarantees increase, expected returns tend to decrease.



There is no universally superior solution. The most suitable structure is the one that aligns with the investor's objectives, risk tolerance, cash-flow capacity, time horizon, estate goals, and ability to remain committed during adverse conditions. Canadian regulatory guidance on leveraged investing consistently emphasizes that investor suitability is more important than the specific investment chosen.

IMPORTANT DISCLOSURE

Is borrowing to invest right for you?

Borrowing money to invest is risky. You should only consider borrowing if:

✓ You are comfortable with taking risk.
✓ You are comfortable taking on debt to buy investments that may go up or down in value.
✓ You are investing for the long term.
✓ You have a stable income.

You should not borrow to invest if:

- You have a low tolerance for risk.
- You are investing for a short period of time.
- You intend to rely on income from the investments to pay living expenses or to repay the loan. If this income stops or decreases, you may not be able to pay back the loan.

What is different about borrowing to invest?

When cash is used for a purchase, the percentage gain or loss equals the increase or decrease in the value of the investment. A purchase using borrowed money magnifies the gain or loss. This effect is called leveraging.

If the investments go down in value and you have borrowed money, your losses are larger than if you had invested using your own money. For example, if a $100,000 investment is purchased with $25,000 of your own cash and $75,000 of borrowed money, and the value declines by 10% to $90,000, your equity has declined by 40% — from $25,000 to $15,000.

Whether a leveraged purchase involves undue risk is a determination each investor must make, and it varies with your circumstances and the investments purchased.

Loans secured by investments or your home

It is important to understand the terms of your loan. Lenders may require that the amount outstanding not rise above an agreed percentage of the market value of the investment or your home. If that happens, you must pay down the loan or sell a portion of the investment to return the loan to the agreed percentage.

In the example above, the lender may require that the loan not exceed 75% of the market value. On a decline to $90,000, you would have to reduce the loan to $67,500 (75% of $90,000). If you do not have cash available, you must sell part of the investment at a loss to reduce the loan — and money is still required to pay the interest. Investors who leverage are advised to have adequate financial resources, both to pay interest and to reduce the loan if the borrowing arrangements require it.

You can end up losing money

- Whether your investments make money or not, you still have to pay back the loan plus interest, and you may have to sell other assets or use money you had set aside for other purposes to pay it back.
- If you used your home as security for the loan, you may lose your home.
- If the investments go up in value, you may still not make enough money to cover the costs of borrowing.
- Discuss the risks of borrowing to invest with Tyler before implementing a leverage strategy.

Tax considerations

- You should not borrow to invest just to receive a tax deduction.
- Interest costs are not always tax deductible. You may not be entitled to a tax deduction and may be reassessed for past deductions. Consult a tax professional to determine whether your interest costs will be deductible before borrowing to invest.