Canaccord Genuity Wealth Management

Summer 2021

WEALTH Perspectives

Kruger Laine GROUP

Cutting Through the Noise

Noise, according to Nobel-prize winning economist Daniel Kahneman, is the unwanted variability that can cloud judgment and impact decision making. We can make different decisions when influenced by noise, such as when we are upset, tired or hungry compared to calm, rested or well-fed. Kahneman shows how doctors give drastically different diagnoses to identical patients due to this noise. Most of the time, we are unaware of the noise; yet, by reducing it we can make better decisions.[1]

In the excitement of rising markets, there has been a particular amount of noise to distract investors. Strong markets give confidence to some investors to take on greater risks. We are also living in a period of technological change. New innovation can make it difficult to assess risks, as expectations are largely driven by hope and uncertainty about the future.

In May, the cryptocurrency Dogecoin, a joke named after a "doge meme,"[2] became the fourth most valuable digital currency after gaining over 14,000 percent this year. This was a surprise to its cofounder, who created it in "a few hours" and sold his holdings in 2015.[3] As well, SPAC issuances have surged, prompting regulators to warn investors not to be "lured into participating in a risky investment."[4] SPACs sell shares with the objective of buying a private company and taking it public. They are known as "blank cheque" companies for a reason: they have no operating business and often no stated acquisition targets.

As investors, we must cut through the short-term noise as we invest for the longer term. It's easy to get caught up in the excitement — we'd all like to ride the next superstar investment to financial freedom. We may also feel that we aren't successful investors unless we are in the middle of the action. Yet, when there is too much enthusiasm for what appears to be a good thing, it can prove unsustainable — the warning signs sometimes only apparent to the astute.

What is the opposite of noise? According to Kahneman, it is discipline. Some of the most successful investors are able to ignore the noise when they make portfolio decisions. They follow the specific rules established to control risk within a portfolio. While such an approach may not produce the results that make overnight headlines, it provides a good litmus test to avoid being carried away by the enthusiasm of the moment. In a world of noise, discipline can be one of the investor's greatest assets.

Today's investing landscape looks particularly different than one year ago, with some economies reopening, strengthening commodities prices and increasing inflationary pressures. The changing times are precisely when trusted advisors can provide thoughtful scrutiny in investment choices, shifting gears where necessary to position for change.

Enjoy the market advances, but don't be led astray by the noise. Maintain discipline and continue to look forward, using our resources to help you achieve your investment goals.

1. Kahneman, Sibony, Sunstein. *Noise: A Flaw in Human Judgment*. Harper Collins, 2021; 2. Meme: an amusing captioned picture/video widely spread online through social media; https://en.wikipedia.org/wiki/Doge_(meme); 3. https://markets.businessinsider.com/currencies/news/dogecoin-price-rally-eclipses-xrp-4th-largest-crypto-doge-2021-5-1030391242; 4. Special Purpose Acquisition Company; https://sec.gov/oiea/investor-alerts-and-bulletins/celebrity-involvement-spacs-investor-alert

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To Our Clients:

We've needed particular endurance in the return to normal, but there is hope that we are emerging from the worst of the pandemic. With the arrival of summer, our resilience should be rewarded.

We would like to extend our sincere thanks to those who have introduced us to friends and family. We are here to provide support, whether it is a fresh opinion on an existing portfolio or advice relating to a new situation. Thank you for your confidence in our services.

Here's to many days of well-deserved relaxation and fun this summer.

GOVERNMENT POLICY CHANGES

Federal Budget 2021: Changes that May Affect You

In April, the federal government released its first federal budget* in two years. It was largely focused on supporting economic recovery in the fight against Covid-19. The budget extended various emergency benefits, resulting in a record deficit and significantly higher projected debt for the foreseeable future.

Some would argue that this ongoing and excessive spending has Canada wading into "Modern Monetary Theory" (MMT) waters. MMT suggests that federal government spending shouldn't be constrained by its revenues, which are largely created through taxation. It suggests that countries that issue their own fiat currency should determine what their requirements are and spend accordingly, not worrying about running larger deficits as long as inflation is under control. Given the pledged spending, it may seem as though Canada is embracing this new way of economic thinking. And we're not the only ones. Many governments have followed suit, with an estimated US$12 trillion spent globally in just the first 8 months of the pandemic.[1]

While the future economic consequences are yet to be seen, the injection of significant liquidity into the economy appears to be having inflationary effects. We see increasing commodity prices (lumber prices have more than tripled this year!) and steepening grocery bills, as just some examples. Beyond the spending spree, the budget had no changes to personal or corporate income tax rates. Here are some changes that may affect you:

Extending Benefits for Seniors — If you are 75 years or older as of June, 2022, you will receive a one-time Old Age Security (OAS) payment of $500 by this August. For this same group, monthly OAS payments will be increased by 10 percent beginning in July, 2022. If you aren't in need of these funds, consider investing them. If you haven't maxed out contributions, a tax-free savings account is an ideal way to potentially grow funds on a tax-free basis.

Dedicating Billions to Green Investing — The budget pledges $8.8 billion over five years to support a greener future, including the issuing of $5 billion of green bonds to finance green projects. The budget suggests that the presence of government backed-bonds may support more mature investors who are "looking for a green portfolio but also need to manage their investment risk."[2] With the rise in support for green investing, if you are interested in incorporating green investing into your portfolio, please get in touch.

Taxing Luxury Spenders — If you're considering the purchase of a luxury vehicle in the near future, you may want to do so by Dec. 31, 2021. As of January 1, 2022, sales of cars and personal aircraft with a retail price of over $100,000, as well as boats priced over $250,000, will incur a new tax. It will be calculated at the lesser of 20 percent of the value above those thresholds, or 10 percent of the full value of the vehicle.

Supporting Business Owners in Accounting for Capital Assets — If you operate a Canadian-controlled private corporation, the business will now be able to purchase up to $1.5 million of certain capital assets and fully expense these as they become available for use. This includes eligible assets purchased on or after April 19, 2021 and before 2024. There may be tax benefits achieved by immediately expensing certain assets so please consult a tax professional as it relates to your situation.

For greater detail on the initiatives proposed, see the Government of Canada website: budget.gc.ca/2021/home-accueil-en.html

1. https://theglobeandmail.com/business/article-whatever-we-may-think-of-modern-monetary-theory-its-day-in-the-sun-has/; 2. Budget 2021: A Recovery Plan for Jobs, Growth and Resilience, Government of Canada, page 166.

*At the time of writing, the budget proposals had not been passed into law.

INVESTING PERSPECTIVES

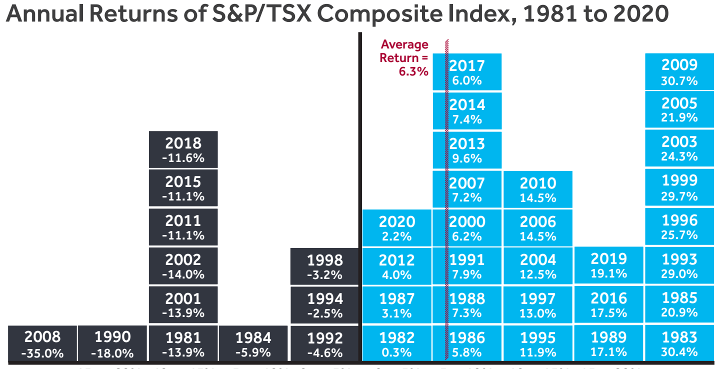
Stock Market Returns: Never a Constant

During buoyant market times, it may be easy to forget that advances in the equity markets often do not happen at a constant rate.

The chart to the right shows the annual returns of the S&P/TSX Composite Index over the past 40 years. It's worth pointing out how the distribution of returns has significantly varied over this period. In fact, only 20 percent of annual returns fall within the long-term average return of 6.3 percent over the past four decades.

Most of us are longer-term investors and will invest over multiple market cycles. While we should enjoy the market's advances and new market highs, we shouldn't forget that patience, through time in the markets, is often key in helping to provide predictability in investment returns over time.

Annual Returns of S&P/TSX Composite Index, 1981 to 2020



Source: S&P/TSX Composite Index annual returns, dividends not reinvested, 1981 to 2020.

PLANNING AHEAD

Estate Planning: What Have You Told Adult Children?

In our work with clients, it isn't uncommon for us to find parents who haven't had any discussions with their adult children about their estate plans. Estate planning may be a difficult topic to approach: not many people like to talk about death, and the intensely private subject of finances can further complicate matters.

However, excessive secrecy can make a potentially difficult situation even worse. How will anyone know how to deal with your assets in the case of death? Or, in the situation where you are alive but unable to act for yourself, how can those appointed to act on your behalf ensure your wishes are carried out as intended?

The health-related consequences of Covid-19 have been a stark reminder of the value in having end-of-life planning discussions with family members. It isn't necessary to divulge any detailed information about your finances or your will in advance, but it may make sense to inform family members of your intentions.

In some cases, parents have appointed adult children as executors but haven't made them aware. Others may be aware, but have not been provided with information on where power of attorney (POA), will and other important documentation is stored. It is important for an attorney (the person appointed under a POA document*) or next-of-kin to know where to find these documents in an emergency situation. This can help prevent a needless search or avoid other complications, such as incorrectly assuming a will does not exist.

Communicating what is important to you, how you would like to be remembered and your desired legacy may also be important to family members. Without any instruction, survivors may struggle with doubt about whether they made the right decisions. This can be especially difficult during a time of grief. Some individuals plan their funeral arrangements in advance; others may wish to make loved ones aware of causes or charities important to them. Having a dialogue with adult children may also provide an opportunity to pass along family values.

If you own a business and wish to see it continue within the family, it is important to have discussions with family members in advance. Planning today can not only provide clarity over your intention for the business' succession, but it can also help provide tax and other financial benefits down the road.

While these discussions can be difficult, having them while you are alive and well may provide comfort to you and your adult children that you continue to support them, even after you are gone.

*The name, terms and conditions of the POA document vary by province (e.g. known as a mandatary in Quebec).

CURRENCY MARKETS

Digesting Currency Changes: The High-Flying Loonie

Over the past year, the Canadian dollar (CAD) has been gaining strength. By the end of May, it had appreciated to reach a six-year high above 0.83 U.S. dollars (USD). What's driving the loonie's flight?

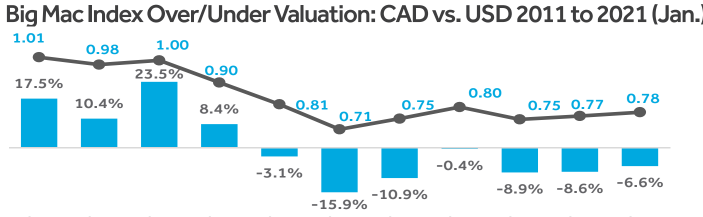
Strong demand for commodities, along with the continued belief that interest rates will remain low, has helped to push up the CAD. This is quite a contrast from just over a year ago, when oil futures prices briefly turned negative in April 2020 and the loonie fell to a low of around 0.69 USD. The CAD is largely impacted by commodities prices since Canada earns a large portion of its USDs from the sale of oil and other natural resources.

At the same time, the USD has been losing its lustre. Significant U.S. stimulus actions have increased the money supply, creating concerns about future inflation and placing downward pressure on the greenback. With near-zero interest rates and a yield on U.S. government bonds closer to that of other developed nations, this has helped to reduce demand for U.S. Treasurys and further weaken the USD.

Will the loonie continue its upward flight? The "Big Mac Index" provides some food for thought. Published by *The Economist* magazine, it is a fun tool to make exchange rate theory digestible by comparing the purchasing-power parity (PPP) of global currencies. PPP suggests that over the long run, exchange rates should adjust so that an identical basket of goods/services costs the same in each country. Instead of using a basket of goods, it creates an exchange rate by comparing the cost of a Big Mac hamburger in a nation's currency to its cost in the U.S. Comparing this to the prevailing exchange rate determines whether a currency is considered under or overvalued. The bar chart shows the under/over valuation of the CAD versus the USD based on the Big Mac. The actual exchange rate is shown on the grey line. In January, the model predicted that the CAD was undervalued.

Currency fluctuations are a normal part of the financial markets. While a stronger CAD may provide better buying opportunities to purchase U.S. assets, for longer-term investors the impact of currency changes on returns often has the tendency to even out over time.

Big Mac Index Over/Under Valuation: CAD vs. USD 2011 to 2021 (Jan.)



Source: January data: https://github.com/TheEconomist/big-mac-data, accessed 2/11/21.

Retire Up to 30 Percent Wealthier: But, Why Not More?

You may have heard an oft-repeated advertisement in the media today that suggests that by reducing investment management fees, you have the potential to retire up to 30 percent wealthier.[1] While few would choose to forego this amount down the road, it may be worthwhile to take a deeper look at these claims.

It is true that management fees vary for different products. This makes sense given that an actively managed fund would need to compensate experienced managers for their day-to-day decisions. However, choosing an investment based on the lowest possible cost doesn't necessarily mean the greatest returns. In fact, when comparing the balanced fund portfolio of a self-directed company that promotes these lower fees with a similar balanced mutual fund, over three years the managed fund performed better, providing an overall greater return even when including the cost of higher fees (chart below).[2]

Sample Comparison: Managed Fund vs. Non-Managed Fund Returns[2]

	2020	2019	2018	3-Year Cumulative	MER
Managed Fund Balanced	8.1%	14.2%	-2.0%	20.3%	1.08
Non-Managed Fund Balanced	6.5%	13.4%	-4.5%	15.4%	0.13
Difference	1.6%	0.8%	2.5%	4.9%	0.95

Of course, this wouldn't hold true for every balanced fund investment option available in the market — and, we don't know what future returns will look like or how individual investments will perform. However, as this investment performance comparison shows, eliminating fees does not necessarily generate better overall returns.

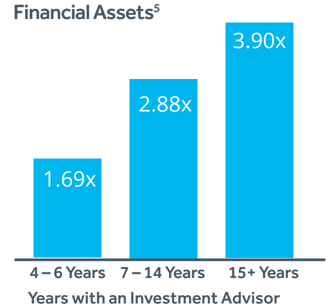
But, Why Not More than 30 Percent?

Advice also goes beyond just the investments within a portfolio, and this advice can support future wealth accumulation.

Investors who work with advisors have a significant increase in savings rates. A 2020 study by the Conference Board of Canada showed that having a relationship with an advisor led to a greater accumulation of retirement savings. It suggested that the support of financial advice could increase an individual's retirement savings by 55 to 60 percent.[3] A U.S. study suggests a similar impact — those with financial coaching increased their annual retirement plan contributions from 6.0 to 9.4 percent of their income.[4] Assuming a 30-year time frame, a 3.5 percentage point increase per year would yield 60 percent greater savings, and this doesn't include the effect of any investment returns!

Over the longer term, the wealth accumulation opportunity can be significant. The average Canadian who works with an advisor has almost 3.9 times the assets than a non-advised investor after 15 years.[5]

Ratio of Advised vs. Non-Advised Financial Assets[5]



Advice may also be valuable when navigating difficult times. Consider the impact of last year's market drops. If you left the stock market for cash in March 2020 and missed out on the five best days of the S&P 500 Index in 2020, this would have resulted in a loss of around 30 percent.[6]

There may be other benefits that are derived from wealth management support. Beyond conventional portfolio management activities like portfolio diversification and rebalancing, broader wealth management strategies and tactics, including tax and estate planning, provide opportunities to further enhance an investor's wealth position.

The point, of course, is to suggest that while costs should be an important part of any decision, including within investing, they shouldn't be the sole driving factor. As we invest for the future, we should keep in mind the bigger picture, remembering that the advice which supports wealth planning today has the potential to yield significant benefits down the road.

1. Based on a balanced fund 0.38% annual fee vs average fee of 2.17% on initial investment of $30k; $3k annual contribution over 30 years; 2. https://www.questrade.com/questwealth-portfolios/etf-portfolios#balanced; https://www.sunlifeglobalinvestments.com/en/slgi-funds/sun-life-granite-managed-solutions/sun-life-granite-balanced-portfolio/?mp=SLMBF&lang=en&fundCurrencyCd=CAD; 3. https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=24991&lang=en_CA; 4. https://www.cnbc.com/2019/05/31/retirement-saving-improves-when-workers-get-help-with-financial-life.html; 5. https://www.cirano.qc.ca/files/publications/2016s-35.pdf; 6. https://www.bloomberg.com/news/articles/2020-07-03/the-cost-of-bad-market-timing-decisions-in-2020-was-annihilation

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