Winter 2021

Financial Focus

New year, new normal: what's the best strategy?

As the new year begins, it's difficult to know what kinds of financial and investing challenges await us. All indications are that we will continue to live with the effects of the pandemic for some time, but those effects may not be straightforward. Last year, the markets showed themselves to be surprisingly resilient while the "real" economy and job market faced substantial headwinds.

The way forward? Build financial resilience into your household balance sheet while maintaining your commitment to your long-term investing goals.

Assess your liabilities

A good place to start is to make a realistic assessment about how secure your income is that supports your family and household. Many of us live in two-income families. Are both incomes secure for the foreseeable future? If not, it makes sense to examine how to best get by without the income you are most worried about.

Have you reassessed your household budget or spending since the pandemic? You may be surprised at how it has changed. In 2020 we spent a lot less on travel and events, and a lot more on groceries, deliveries, and in-house entertainment. Some "discretionary" spending like streaming services may seem more necessary during lockdowns and restrictions. Even if you don't keep a formal household budget, ask yourself where you would cut back if 2021 looks a lot like 2020.

If you are counting on available credit options like credit cards or a Home Equity Lines of Credit (HELOC) to see you through any difficulties, think carefully. While credit can be a useful financial tool, building up unnecessary debt can be toxic to your long-term financial goals. And, keep in mind that many credit arrangements like HELOCs can be lowered or ended by the lending institution at their discretion.

Assess your assets

The wisdom of an emergency fund to cover short-term financial bumps was really brought into focus when the pandemic hit. If you don't have one and your income is secure, it's a great time to establish yours. Aim to cover your essential expenses for about three months.

If you have been putting off contributing to your long-term investing goals, reconsider the wisdom of that strategy. By growing our wealth when we can, we are also building flexibility into our overall economic situation. An assessment of your net worth can give you a comprehensive picture of where you stand.

Next steps: If short-term financial resilience is a key goal, let's make sure it's part of your investing strategy. And, let's assess where you are in meeting your long-term goals. An investment strategy review can help with both.

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Happy New Year! Please accept our best wishes for a year full of happiness and prosperity. Whatever the year ahead holds, we are grateful for your continued confidence and trust in our services. If you are setting goals for the year and they include financial ones, please let us be of service and help you achieve them. While there will no doubt be challenges ahead, we remain optimistic that the future holds promise. Let us help you make the most of your investments and reach your goals this year – and far into the future. We're here for you!

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The shape of recoveries: V, W, U, L and what it could mean for your plans

It may be testament to the inherent optimism of the human species, but almost as soon as most major economies entered into recession last year, we began speculating on what the recovery would look like and when it would take place. Perhaps because of the sudden shock of a global pandemic with a steep drop in economic activity, the media was full of talk about a "V-shaped" recovery. Other pundits quickly joined the debate arguing for a W, or a U, or even the dreaded L. Confused? Here's what it's all about and what it might mean for you.

The quick rebound of a V. As indicated by its shape, in a V-shaped recovery the market experiences a sharp decline, but recovers strongly and relatively quickly, resuming its previous trend of either growth or consolidation. This is the most optimistic scenario coming out of a recession. In the first days of the pandemic, many economists were initially hopeful of such a recovery, especially if the virus outbreak was short-lived or treatments were easily found. In fact, stock markets did bounce back quickly (see the box on this page), but the broader economy continues to suffer. For those of us who are everyday consumers and investors, a "V" recovery is, of course, the best-case scenario since things get "back to normal" relatively quickly. Because any disruptions are short lived, there is likely little damage to our long-term financial situation and investing plans.

The "double-dip" of the W. A W-shaped recovery is often called a "double-dip" recession. In this situation, the economy begins to recover rapidly, but then experiences a second decline before returning to growth. Due to the unpredictability of the spread of the virus, and the varied responses of individuals and governments, many U.S. experts project a W-shaped recovery.[1] The "W" is a frustrating kind of recovery for consumers, not least because it may first appear to resemble the more optimistic "V." However, as the second dip bites, it may be difficult to maintain confidence in financial decisions when the direction of the economy seems unclear. Similarly, companies may be hesitant to rehire or make major investments until the recovery firmly takes root.

Riding out the U. In the U-shaped recovery, the low point (or trough) lasts longer and the recovery is slower. The length of the trough is difficult to predict but, by definition, would last at least several quarters. In a poll of economists by Reuters in April 2020, most predicted the U.S. would experience a U-shaped recovery.[2] A U-shaped recovery can be damaging for many households, as it could entail a longer period of unemployment or lower business income. Savings and emergency funds can become depleted. Commitments to putting money aside for goals like further education or retirement might have to be put on pause. Once recovery takes hold, a review of investment plans may be in order to assess where you stand.

The unwanted L. The L-shaped recovery is the worst-case scenario: a sharp decline in economic activity followed by no recovery (or a very slow one) without a return to the previous growth trend. A well-known example would be the recession and slow recovery known as the "lost decade" caused by the property asset bubble that burst in Japan in 1990.[3] Such a significant disruption to the economy can lead to substantial changes in our personal financial situations as well. It is the fear of such a disruption that led the governments of most major economies to intervene to prop up families, businesses, and the economy as a whole with income support and other programs.

Next steps: When it comes to predicting the future, none of us has a crystal ball – not even the professionals. In the meantime, reports suggest that many Canadians are acting prudently, lowering their consumer debt loads, and revisiting their financial situations.[4,5] If you feel that a review of your investment plans is called for, we are here to help.

1. "Some experts predict a W-shaped U.S. recovery as Trump, Republicans press to reopen economy." *Globe & Mail*, May 11, 2020. https://www.theglobeandmail.com/world/us-politics/article-some-experts-predict-a-w-shaped-recovery-as-trump-republicans-press/
2. "U.S. economy likely set for a U-shaped recovery after deep rut: Reuters poll." Reuters.com, April 21, 2020. https://www.reuters.com/article/us-usa-economy-poll/u-s-economy-likely-set-for-u-shaped-recovery-after-deep-rut-reuters-poll-idUSKCN2231V6
3. "Alphabet soup: understanding the shape of a COVID-19 recession." Forbes.com, June 16, 2020. https://www.forbes.com/advisor/investing/covid-19-coronavirus-recession-shape/
4. "Consumer debt loads went down last quarter for the 1st time in a decade." cbc.ca, June 16,2020. https://www.cbc.ca/news/business/consumer-debt-equifax-1.5613674
5. "How pandemic has forced clients to engage with plan." Wealthmanagement.ca, June 24, 2020. https://www.wealthprofessional.ca/news/industry-news/how-pandemic-has-forced-clients-to-engage-with-plan/330797

Bear one month, bull the next: why you should ignore these gimmicks

On March 11, 2020, much was made in the media as the longest bull market in history (in Canadian and U.S. stocks) came to an end after 11 years. As the COVID-19 crisis took its toll on the global economy, stock markets around the world tumbled and most indices entered "bear market" territory.

A bear market is declared when an asset or an index closes down at least 20% from its most recent 52-week high. That decline in the indices was certainly newsworthy, and investors rightly continue to be concerned about the effects of the virus on the global economy and on asset prices. But, by the same definition, the bear market was the shortest in history as major North American stock indices entered a new bull market by mid-April after climbing more than 20%.[1]

For most investors, however, the numbers that really matter are those in your individual portfolio and the extent to which you remain on track to meet your financial goals. While the bulls and bears can provide broad indications of the sentiments in the markets, they are just concepts. And, as 2020 showed us, they can be of limited value in telling us what is going on in the real world.

1. "How To Trade The New Bull Market As The Economy Begins To Reopen. Nasdaq.com, April 24, 2020 https://www.nasdaq.com/articles/how-to-trade-the-new-bull-market-as-the-economy-begins-to-reopen-2020-04-24

If you're close to retirement, this year calls for a review

During times of economic uncertainty and market volatility like these, investors with a long time horizon can take some solace in the fact that they have time to ride out current conditions. But what if you are looking to retire now, or in just a few years?

Test your assumptions

The good news is that any retirement plan has a number of variables which you can adjust to keep your strategy relevant under all kinds of financial environments. Why not take some time this year to revisit those assumptions and make sure they still apply? But remember, first focus on the retirement you want, followed by the financial strategies that will get you there.

When do you want to retire? What is your target age for retiring? How firm is that? Is it related to tradition or company policy, such as age 65? If working just a little bit more, perhaps one year extra, could improve your financial situation in retirement, would you be willing to make the sacrifice? If you've decided now is the time, then move on to other aspects of your plan to make it happen.

Will you work in retirement? It may seem like a contradiction, but many Canadians want to work after they have formally retired. According to a survey in January of 2020, 50% of Canadian pre-retirees say they plan to work after retirement. Why? While 64% said it was to stay mentally and physically active, 43% said it was to generate income.[1] If your post-retirement work generates income, be sure to factor that into an updated plan. Be realistic: some retirement jobs are hobby businesses and won't make much difference to your retirement-income projections.

Has your attitude toward risk changed? When investment markets experience a significant correction as happened last year, we all get a "real world" test of our risk tolerance. How did it feel to experience this so close to your own actual retirement? Do you recall the "expected rate-of-return" assumption in your retirement plans? If so, consider whether this still applies. Do you need to adjust it downward? Conversely, did you take the correction in stride? You may want to consider whether a higher target return rate is appropriate, and what it could mean for other aspects of your plan, such as your retirement date or an upgrading of your retirement-lifestyle goals.

How much income do you need? The general rule is to plan for 70% of your pre-retirement income after you retire. But, this figure is too general to be of much use in your unique plan. Many of us live on much less, but some require much more – especially if they have big plans such as extensive travel. Did living through the Spring 2020 lockdown challenge some of your assumptions about your own lifestyle, and the income you'll need to support it? If your income was decreased during lockdown, how did you feel about that? For some, a required adjustment to spending was easily adopted – for others, less so.

Putting it all together

An effective retirement strategy is a bit like a puzzle that you piece together to enable you to live the life you want. A change in any one variable may affect the others. For instance, an increase in your targeted rate of investment return may produce a higher income which, in turn, may fund a more enjoyable lifestyle.

Next steps: Only you can determine your desires and goals for retirement, but be sure to rely on professional advice to implement the investment strategies that can make these happen.

1. Ipsos, RBC Retirement Myths and Realities Poll, published January 16, 2020. http://www.rbc.com/newsroom/news/2020/20200116-rrsp-poll.html

'Out of sight, out of mind' can hinder your investment potential

Have you accumulated several financial services providers over the years, with your savings and investments spread among a number of banks, brokers, fund companies, and others? Consider this: When you hold investments across numerous different accounts or at multiple institutions, you may be leaving yourself open to a host of potential shortcomings that can hinder your financial progress – and could cost you money.

Consider consolidation

As well as shining a light on any shortcomings or oversights in your holdings, consolidating your investments can also help capitalize on opportunities.

Taking a scatter-shot approach can result in duplication, lack of diversification, portfolio sprawl, excessive fees, and less-than-optimal tax efficiency.

In addition, managing more than one account can eat up your personal time as you grapple with multiple statements, tax slips, and account representatives.

A fuller picture

On the other hand, having all of your investments under the same umbrella offers the following advantages:

» We can more easily track and manage your holdings and keep your weightings in alignment with your goals.

» We may have a clearer line of sight to potential tax-saving strategies, such as tax-loss selling and determining when to crystallize capital gains.

» It makes it easier to allocate your investments to the most tax-friendly account (for example, holding income-producing securities in a registered plan).

» Being able to see all your securities at a glance means we can fine-tune your portfolio as your needs change.

Next steps: Let's talk about how we can ensure all your investments are working together as efficiently as possible.

Investing

How can investors tailor retirement strategies for each stage of life?

In a recent study, over half of Canadians (53%) aren't sure they are saving enough for retirement. Among those on the cusp of retirement (aged 55+), only 14% had a formal retirement plan and were saving regularly to meet their retirement goals.[1] Perhaps it's something you've worried about, too. Or, if you're younger, perhaps you're wondering whether you should be worrying.

What's the best way to feel confident about achieving your retirement goals? Whether you're 30 years from retirement or three, having a diversified, well-managed portfolio can help provide the right mix of security, income, and growth you need, as these examples from each life stage demonstrate.

The building years

"Go for growth" is likely to be your investing mantra at this stage of life. Thanks to kids, mortgages, and a propensity for accumulation, these years tend to be typified more by spending rather than saving. However, time is totally on your side. With a long investment horizon, you can focus on growth-oriented investments, knowing that you'll have plenty of time to ride out any temporary market downturns. You'll also benefit the most from compound investment growth.

Whatever else is going on in this busy stage of life, consider beefing up your holdings with investments that have the best potential for long-term capital appreciation. If building a retirement nest egg is your primary objective, you'll need to ensure that you have an optimal cross-section of domestic and international equity investments. It may also be appropriate to consider investments that are more niche, concentrating in specific high-growth regions or sectors to enhance diversification and capitalize on specific opportunities, currencies, or economies.

Peak earning years

At this stage in your life, you may be mortgage free (or close to it) and be earning the highest salary of your career. Your children have left home and hopefully are no longer financially dependent on you. With more income and fewer expenses, these are typically your biggest saving years and (not coincidentally) your biggest tax-paying years.

For most people at this stage, there is still lots of time for the growth potential of equities. However, it's a good idea to pay attention to your tax burden. It goes without saying that this is also the time for us to make doubly sure you're fully availing yourself of tax-advantaged accounts, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Pre-retirement years

With retirement on the horizon, this is the stage when we want to start gradually shifting your portfolio away from capital appreciation, and toward capital preservation and income generation. Now may be the time to set up your portfolio to be able to provide a retirement-income stream. This shift doesn't mean selling off all your growth-oriented investments. But, by starting well in advance, you can enjoy the luxury of prudent rebalancing. Even if your anticipated retirement is 10 (or more) years away, let's talk about what's next and set up the steps we'll need to implement your plans.

Whatever life stage you're in, it's important to ensure your portfolio is within your own tolerance for risk so that you can sleep at night. Remember, we're here to help.

Next steps: Professional advice can help to clarify your short-, medium- and long-term goals, and craft a portfolio strategy to help you reach your financial objectives. Over time, as your life evolves, we can make sure your portfolio stays aligned to your changing needs and objectives.

1. The Retirement Savings Poll, Angus Reid Forum, January, 2018.

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