Manulife Securities

ROYDS REPORT

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Forecast for Stock Markets

One of the biggest investment firms in the world is Blackrock out of the US. On July 9 the Globe & Mail published an interview with Blackrock's chief Canada strategist, Kurt Reiman, who undoubtedly has a huge research team behind him. He has some sobering projections about future returns, to bring us back to reality after the strong returns we've enjoyed over the last year, and opinions about investing in China and Bitcoin. Here are excerpts from his interview:
"Prices have risen, earnings have risen more. So valuations have not become extended …. When we look at U.S. and Canadian stocks, we don't see them as particularly expensive. In fact, they're right around their historical fair value. … For U.S. equities over the next 10 years, I think and expected return of 6.7 per cent seems reasonable, and that's in Canadian dollar terms. For Canadian equities over the next 10 years, we have it pegged at 5.6 per cent. … do investors want exposure to a rather fastgrowing , key part of the global economy, where currently the market cap of the Chinese equity market and the Chinese government bond market is a considerable distance away for the weight that the Chinese economy has in the global economy. All of these things argue for a specific China allocation. … I don't think an allocation to bitcoin and other cryptocurrencies makes sense strategically because it's hard to identify the cash-flow stream that enables you to judge the valuation. … For Canadian aggregate bonds, our mean expected returns in 1.7 per cent over 10 years. Mix that with a return for equities that is a fraction above 6 per cent, add inflation and we're talking about returns in the low single digits."

Headwinds for Bitcoin

The Globe & Mail on June 5, 2021 published an opinion by a former parliamentary secretary to the Minister of Finance on why central banks, like the US Federal Reserve and the Bank of Canada, will crush bitcoin. Some of the best points were that if cryptocurrencies replace central bank currencies:

- governments won't be able to control monetary policy (one of the tools it uses to help the country out of a recession)
- it could be even easier for criminals to launder money and perpetrate cyber scans anonymously
- the role of banks to bring lenders and borrowers together could end (which could also happen if governments' central banks create their own digital currencies)

The following reason was missing. Bitcoin uses an enormous amount of electricity, and is therefore actually very costly with an environmentally unfriendly carbon footprint. If Bitcoin were a country, it would rank 29th out of roughly 196 countries in the world for electricity consumption, using more electricity than Norway, or the 167 Million people of Bangladesh. It uses more than 17 times the electricity of Google, and 61% of that electricity comes from non-renewable resources, including a lot from coal, because China is the largest cryptocurrency "mining" or processing centre, and it is also the largest user of coal in the world for electricity production.

Comparison of Country Economies vs Tech Giants

The list below shows you the size of countries' GDP versus the market capitalization (market value) of some of the world's biggest companies. It may surprise you just how many resources some companies have at their disposal to influence the world and at what countries and companies have bigger GDP or market capitalization than Canada, and which countries are no bigger (like Russia)! You

U.S.	$21.4 Trillion	Russia	$1.7 Trillion
China	$14.3 Trillion	South Korea	$1.6 Trillion
Japan	$5.1 Trillion	Australia	$1.4 Trillion
Germany	$3.9 Trillion	Spain	$1.4 Trillion
India	$2.9 Trillion	Mexico	$1.3 Trillion
United Kingdom	$2.9 Trillion	Indonesia	$1.1 Trillion
France	$2.7 Trillion	**Facebook**	$ .9 Trillion
Apple	$2.1 Trillion	Netherlands	$ .9 Trillion
Italy	$2 Trillion	Saudi Arabia	$ .8 Trillion
Microsoft	$1.9 Trillion	Turkey	$ .75 Trillion
Saudi Aramco	$1.9 Trillion	Switzerland	$ .7 Trillion
Brazil	$1.8 Trillion	Poland	$ .6 Trillion
Google	$1.7 Trillion	Sweden	$ .5 Billion
Amazon	$1.7 Trillion	Nigeria	$ .5 Trillion
Canada	**$1.7 Trillion**	Thailand	$ .5 Trillion

Something is Wrong with This

The Chief Investment Officer of Fidelity in Canada said in a webinar on July 15, that he's seen a study that showed Canadians had spent more money on realtor fees in the last year that they collectively spent on food. So all the work of farmers (and the return they should get for their investment in expensive farmland and equipment), and the work of the people who transported, prepared and sold food to us (plus their gas, truck, and building costs) weren't worth as much to the country and Canadians as the work of realtors? That doesn't make sense to us. Covid has led to a lot of review about racial and pay equity and about how business operate and the possibility of working from home. Hopefully it will fix imbalances like this too.

"A new analysis by Scotiabank economists found that Canada has the worst housing undersupply among G7 countries, with only 424 units per 1,000 people (France and Germany have more than 500)…. Canada has built only 188,000 new homes in the past 10 years – and its population is growing. Our "chronic insufficiency of home supply," as the economists put it, is what's making housing expensive." "Average

rents declined in Toronto during 2020-21, a period in which a lot of new rental towers were coming online." Source: The July 17, 2021 Globe & Mail Of course Canadians have to wrap their heads around the notion of higher density building and building up, not out, as the rest of the world has, to preserve our farmland, before building project approvals will go through faster.

Wisdom about Investing

Warren Buffett said, "The stock market is a device for transferring money from the impatient to the patient."

A saying in the investment industry is that your portfolio is like soap. The more you touch it, the more it shrinks.

Environmental, Social and Governance Impact on Investing

We've written before about how Environmental, Social and Governance (ESG) factors are being considered by our fund managers when choosing stocks. Perhaps this will help you understand better what ESG really means.

Environmental – Carbon Emissions, Water Stress, Opportunities in Clean Technology

Social – Privacy & Data Security, Controversial Sourcing (like goods from child labour), Community Relations

Governance – Business Ethics, Executive Compensation/Bonuses, Tax Transparency

The top 5 topics most ESG fund managers are concerned about are "Climate Change/Carbon Emissions, Sustainable Natural Resources/Agriculture, Board Issues (number of women and minorities), Anti-Corruptions and Executive Pay." *Source: VisualCapitalists.com*

Increasingly, results are showing that stocks which rate high on these factors are more profitable, which is why so many of our fund companies screen for ESG before they look for Growth At a Reasonable Price, and we're adding ESG funds to people's portfolios, because some of them have terrific returns. We're avoiding some of the growthy ESG funds which may hold trendy, overvalued environmental stocks.

Changes in our Operation

As doing business in many areas of our lives got simpler due to computerized systems (for example, you can now complete a real estate purchase electronically using your phone, rather than going to the lawyer's office to sign a stack of forms), getting financial and investing advice has gotten more complicated. In the government regulators' attempts to ensure that clients get appropriate advice and are protected from unqualified or unscrupulous people in the financial planning world, and to reduce money laundering and other fraudulent transactions, more and more regulations have been put in place, with even more, called "client focused reforms", are coming in the next few months. Hopefully some "bad apple" advisors have been weeded out or changed their ways and some criminal activity has been stifled by the huge increase in regulation. The other impacts on investors, advisors and investment dealerships have been huge. Here are some of the things that have changed from when Elaine started as an advisor:

- the level of disclosure clients must make about their lives and financial affairs has increased to the point where some clients are finding it quite intrusive. Clients are questioned about all their

assets elsewhere, about with whom they live and those people's occupations, about where the clients work/or worked even if they haven't been employed anywhere for 50 years, about their citizenships, all their income sources, their plans for their investments, why they are withdrawing lump sums, about relatives or close associates with important jobs and many other things

- the amount of paperwork for a client to open and maintain investments accounts keeps getting worse. In Elaine's early days as an advisor, she could open a new account with 2 pieces of paper. Today it can take 11 multi-page documents just to set up a single new account. Some of these documents have become electronic, requiring electronic signatures, thus eliminating mailing times. The volume has increased so much that it takes multiple times more clerical time to prepare and process all this extra paperwork

- to do financial planning, the educational requirements have soared (both with costly course requirements and continuing education hours that have to be completed annually) and now we must also have expensive and laborious software (requiring an additional 12-40 hours of work per financial plan) to validate our projections or even to be allowed to prepare a plan or call oneself a planner. (No wonder that a Globe and Mail study published on July 31 showed that advisors who only do planning, no investments, charged an average of $4,000 plus HST for financial plans, with more complicated plans costing as much as $10,000.)

- the number of investment products that must be assessed and monitored to find the best options and opportunities keeps expanding. New regulations now require the documentation of the assessments and the monitoring which further increases the time to do it

- a regular review meeting generally used to take 1 hour of client time, 3 hours of preparation or post-meeting processing time by an advisor or assistant, and 1 hour of meeting time for the advisor. Now an average review meeting takes 1 ½ hours of client time, 5 hours of preparation or post-meeting processing time by an advisor or assistant, and 3 hrs of meeting time by either 2 advisors or an advisor and an assistant

- initial meetings to get to know a client and open their first account always took a long time, because we tried to be thorough. The paperwork added over the last decade lengthened that meeting time by at least a half hour and the impending regulations will increase it again by at least 30 more minutes, if not an hour

- the supervision of and the documentation of the supervision of advisors and the daily scrutiny for suitability of every purchase in every investment account is hugely time consuming for head office branch managers, despite some mechanization, and the processing of all the extra paperwork to meet regulatory requirements takes lots of extra staff.

We sympathize with you for having to put up with all the questions and tedious paperwork, but we have to follow regulations. We don't see regulators simplifying those requirements any time soon. And you certainly wouldn't want advisors who selectively abided by the rules, because where would they draw the line at breaking rules.

Years ago other firms and advisors adjusted to the increasing burden of paperwork, regulations and the resultant costs by setting minimum account sizes at $300,000 - $1,000,000. We resisted because

sometimes the people with the smallest savings need our help most. We absorbed the extra costs and coped with all these changes by moving from operating with one advisor and one assistant to 3 advisors and 2 assistants (adding another assistant this coming winter). We had to double our office space, desks, computers etc to accommodate these staff increases and be able to maintain our service level for clients. As regulations and costs kept increasing, we reluctantly had to stop accepting clients with small accounts, unless they were relatives of existing clients.

With recent and impending new regulations and the expenses they are bringing, we are going to have to further limit whom we can take on as new clients or to whom we can give full service. For some new clients we may only be able to provide investment advice, for others investment advice and verbal financial advice on topics as they arise, and others will get comprehensive financial planning and written plans. We will continue to take on clients' family members as a service to existing clients, but the family member will need to accumulate $25,000 to invest first, and until their accounts get substantially larger than that, we will only be able to provide investment advice and basic financial counselling to them. We hope you understand why we need to take these measures to maintain our high level of service to existing clients.

"Modern slaves are not in chains. They are in debt." (quote from @Mentormedia.inc)

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