Manulife Securities

ELAINE'S NEWS & VIEWS

JAN 2018

Humans versus Goldfish

"A Microsoft Corp. study in 2015 concluded that humans now have an attention span of just eight seconds. Goldfish have an attention span of nine!...Luckily, our attention span is longer than a squirrel's which is only one second. Unless the squirrel is focused on an acorn, then it grows to four minutes! …We write about this distraction because:

- An eight-second attention span is detrimental to your financial health
- An eight-second attention span means most of you won't make it to the end of this commentary

…In 2000, we had a 12-second attention span meaning we've dropped 33% in just 15 years…. We don't see shortened attention spans as a good thing for society as a whole. On the flipside, we have far more opinions on how shortening attention spans can be great for your pocketbooks….Obviously the collective shortening of our attention spans also contributes to increasing turnover on stock exchanges. Investors who hold stocks for weeks or just months are great counterparties for the long-term thinker….We're not sure eight-second blurbs will work well for investors going forward. For example, buying an index fund simply because it has a low fee is almost comical when you think of how little goes into that decision. Who asks about the price of the securities you own in that index fund…wait for it…nobody. Does overvaluation of the securities you own offset your annual savings?...It's more important than ever to take the time for true sustained thought about future business models …[and] remain focused on the long term as more and more do the opposite." (A IIIQ2017 Edgepoint Commentary by Geoff MacDonald) The author was one of the early Trimark fund managers who made Trimark so legendary in the 80's and 90's. He makes really good points about caring more about the value and strategy of your funds than their fees and about keeping one's focus on the long-term.

More Assistance (assistants)

In the last 7 years our paperwork requirements due to new regulations have increased about threefold. It is almost impossible to have a meeting these days without accessing a computer during the meeting to mail out fund fact sheets on the spot and review the salient points in them, or to do on-line questionnaires to update paperwork. And of course the advance preparation time is greatly increased for our admin assistant. Luckily I have had Jordan for the last 2 yrs to help get things ready, to pull things up on the computer, take notes, and help with other paperwork during the meetings. Still after the meeting we usually find we have lots more paperwork to finish up and sometimes clients are waiting while we finish up with something before we can move on to the next issue. So we are experimenting with having an assistant sit in on meetings too, to help with the computer and/or paperwork. Hopefully this will shorten meetings for you and prevent errors from rushing. To this end we now have Sarah Breimer in the office. She has a Bachelor of Commerce and used to be a bookkeeper in a law office. Our other new assistant, Sadie Lee, is new to this industry but has lots of administrative experience and enthusiasm. So don't be surprised to see the new faces or even get a phone call from one of them to set up an appointment.

It Will Be Tax Time Soon - Check Your Mail

In January you will start to get lots of yearend statements. Some of those statements will be from fund companies. Make sure you examine the contents of every envelope for the next 3 months since there could be tax slips in the envelopes. Also, if your year-end statement from a fund company shows you received a distribution in an unregistered account (account number ending in A, or sold some units through the year, then that is your clue that you will need a capital gains report or T3 or T5 slip to report the distributions or capital gains/loss to the Canada Revenue Agency, the CRA).

One thing you can do to protect yourself from missing tax slips (which could increase your chance of a reassessment or audit by the CRA) is to register on-line for a My CRA account. You can learn all about it just by googling My CRA Registration and choosing the Canada.ca government website. And if you do your own taxes using software, your software can probably download all the slips from this website for you to save you typing them in. This is a real time and error saver.

On-Line Viewing Change

Manulife Securities Incorporated now has 3 systems of on-line viewing for clients to see their accounts. The oldest is provided through something called Client Zone. It's a legacy from the Berkshire days. That system will be defunct as of Jan 22, 2018. If you have that system, you will be directed to register for the newest system. The system which my office has been adding clients to for years, or migrating clients to, is offered through Client Manager Web. That on-line viewing system may be replaced in the next couple of years too, but at the moment it is the most fully featured system Manulife has in my view. The newest system through Manulife.ca is just being developed. I don't think it is the best yet because clients cannot see the whole household's accounts with one log in, but in 2018 it will have so much functionality added to it that it may become the best in the industry in Canada. When the newest system's improvements are rolled out, we will actively work with you to migrate there. In the meantime, if you use Client Zone or lose your on-line viewing you can call my office to get set up on the Client Manager Web system or follow the on-line instructions from Client Zone after Jan 22.

This is not an area I work on much, so please call Sadie or Sarah for password resets, or anything to do with on-line viewing. Their emails are at the end of this newsletter and they share my phone number.

Stick to the Plan

It may seem to you like the market has been volatile, but in historical terms it hasn't been. We are expecting both a short correction (which is more than a 10% drop) and a market tumble due to a recession (at least 20%) within the next few years. The important thing to remember is to stick with the strategy and give your investments time to work over the course of a full market cycle. We might reposition to find more opportunity when the market falls, but we won't be getting out of the market. We would miss the rebound. So, just be prepared to be patient and to see some turbulence.

Four in Ten Canadians are in Trouble

Another new study done by Ipsos in Sept, as reported in the Oct 24/17 Hamilton Spectator, found that 4 out of 10 Canadians expect to be in financial trouble if interest rates rise at all. Interest rates are expected to rise in Canada about 3 times in 2018. 42% of those surveyed said they were within $200 or less from financial insolvency and wouldn't be able to handle unexpected bills or expenses. The International Monetary Fund is warning of Canada's personal high debt levels, which are at record highs.

And yet another studies commissioned by Seymour Management Consulting, as reported in the Nov 17 Globe and Mail, found that already 34% of Canadians are stressing about being able to pay their mortgage and an equal number are stressing about being able to pay the minimum on their credit cards. Apparently young adults 18-34 are the most stressed and baby boomers the least stressed. And, nearly half of all mortgages in Canada are up for renewal between Dec 2017 and Nov 2018. So many of them will face higher interest rates. (Globe and Mail Nov 29, 2017)

Our Investment Style

It's hard to argue with Warren Buffett's success as an investor and he is our role model, but there are academic studies that back up why we favour Quality, Value and Low Volatility. Franklin Templeton Investments' Oct 2017 Topic Paper summed up the research nicely:

QUALITY – Buffett's teach from Columbia Business School, Benjamin Graham, who wrote The Intelligent Investor, showed as early as the 1930's that "companies with solid balance sheets, good profitability and continuous earnings growth performed better than other stocks over long periods."

VALUE – Working with his colleague David Dodd with whom he wrote Security Analysis in the 1930s, Ben Graham also confirmed that "value stocks systematically outperform growth stocks. Then, in the 1990s Fama and French published their findings that value stocks have outperformed growth stocks." There are periods when that isn't the case, but over the long term, value wins over momentum or growth.

LOW VOLATILITY – "In the 1970s, Michael Jensen and Fischer Black demonstrated that low volatility stocks outperformed stocks with higher volatility over prolonged periods. … Jensen and Black's results have been borne out by multiple studies since their initial paper".

There is conflicting research about whether momentum investing works (it may work in the short term) or whether Contrarian investing is better (like the Dogs of the Dow strategy where one invests in last year's losers because they may outperform this year's winners. That strategy work for many, many years. But long-term there is no practical application for it and it conflicts philosophically with Value investing. So we just don't use that strategy.

Over the long-term our chosen strategies have been working nicely and without as bumpy a ride as index investors experience. We don't see any change on the horizon.

Hope everyone has a healthy and happy New Year. Call whenever you have financial questions and you never have to wait till we call for an appointment. If you want a meeting, just call.

L. Elaine Royds, MBA, CFP *Senior Financial Advisor, Certified Financial Planner, Life Insurance Advisor*

Manulife Securities Incorporated, Manulife Securities Insurance Inc.
Suite 209, 1685 Main St. W., Hamilton, ON L8S 1G5
(905) 393-0787 extn 302 or 1-855-640-1857 Fax: (905) 393-0788
E-mail: **elaine.royds@manulifesecurities.ca**

Financial Advisor, Manulife Securities Incorporated: Jordan Royds extn 304
jordan.royds@manulifesecurities.ca

Executive Assistant: Sarah Breimer extn 301 **sarah.breimer@manulifesecurities.ca**
Administrative Assistant: Sadie Lee extn 303 **sadie.lee@manulifesecurities.ca**

Website: **Roydsfinancial.com**