Manulife Securities

ROYDS REPORT

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On-Line Access Changes

There are different versions of on-line access for Manulife accounts. The oldest one has now been retired. The instructions for getting the newest access were included with your last statement. If you can't find that, or if you ever need a password reset, you now call Head Office for that, not us any longer. Our Manulife online access specialists will be happy to help:

Email - onlinesupport@manulife.ca

Phone - 1-833-363-0699

Monday to Friday, 8 a.m. to 6 p.m. (ET).

The US Election

Election week was very strong for the markets. The TSX was up 4.5%. The US NASDAQ was up 9% and the S&P was up over 7%. Basically the market figured that if Biden got in, there would be a big stimulus package that would offset any tax cut reversals that Biden has promised. High tech expects an easier time under Biden and so do emerging markets, which were also up on the expectation of a Trump presidency. Oil companies may have a harder time under Biden. We heard someone comparing Exxon (which owns Esso and major refineries) to Kodak. Both companies could see a future which didn't include much of their current business, but they didn't/haven't yet pivoted to the technologies that did/will replace them. This comparison may not be too farfetched, but a few years ago, no one would have forecast the total demise of Exxon, one of the world's largest companies.

The history of how markets have done in the 1st year post presidential elections, have all been positive (anywhere from 3-27%), except for the year the tech bubble burst (2000), which was hardly the result of a president. Source: National Bank Monthly Edition Sept 2020

Risk Ratings of Your Fund Holdings

The Securities Commission sets out rules, based on 10 years of previous volatility where possible, to determine the risk rating of all funds, stocks, GICs and other investable assets. Note that volatility is the measurement of price changes upwards, as well as downwards. These ratings are important, because when we set up your accounts, and when we update them, we have to specify your maximum Risk Tolerance for each account. The risk rating chosen (or percentage of your account allowable for each level of risk) set limits on what percentage of your holdings can be in the high, medium high, medium, low to medium and low risk categories. We know it's really hard to know what risk levels you can tolerate or what each category means. We try to guide you based on your time horizon for investing, your past investment experience and your stated comfort with or confidence in the market. But people don't always know how they will react to a market drop, until they've experienced it. After past market drops, we have always encouraged anyone who was really uncomfortable with how much their portfolio dropped, to call us to revise the risk tolerance levels in their accounts and adjust their holdings if necessary. Virtually no one has ever done this. Our clients have been very good at holding on until the recoveries come and then their portfolios have gone on to make returns that were enough better than GIC or high interest returns to be worth the discomfort of riding the market rollercoaster.

Now we have just gone through another market drop. It wasn't a kiddie size rollercoaster ride, but it also wasn't a deathdrop style either, like in 1929 or 2008, both over 50% drops. This was a medium size market crash, it just happened faster than ever before. Nonetheless, you weathered it and your portfolios recovered. It's a good time to look at how funds at each level of risk actually performed. This could help you assess whether your assets are in the categories you want to be in, in the proportion you want them for the future.

The following table shows the average and the worst Feb 1-Mar 31,2020 returns for funds offered in Canada in each of the five risk/volatility categories. These numbers start 3 weeks before most stocks hit their peak prices and end one week after the recovery started, so they are really understating the full extent on drops experienced from peak to trough.

RISK RATING	Low	Low-Med	Medium	Med-High	High
Average Return	-0.54%	-13.40%	-18.30%	-18.90%	-25.30%
Lowest Return	-24.80%	-32.40%	-55.90%	-59.50%	-72.40%

Source: Funddata Canada; Highview Financial Group: Globe & Mail Aug 27, 2020

The lowest return figures on the chart point out that when a shock hits the market, even the lower volatility rated funds or stocks can fall dramatically, and high volatility funds can pay a huge price. So, if you say you have a high risk tolerance or tolerance to volatility, you have to be prepared for this, even though we try to avoid such disasters. Historically our Growth At A Reasonable Price funds have protected in the past against such extreme drops, but that is no guarantee for the future. On the other hand, if you want to make enough money to keep ahead of inflation, you may not succeed without taking on more than just low risk and you have to consciously accept that you could experience sizeable periodic drops. Most importantly, throughout history, even huge drops like the medium-high and high volatility sectors experienced on average did not prevent strong long-term returns, if you were invested in quality.

The actual peak to trough price drops were worse that shown in the chart above. The market's peak to trough lasted 4.5 weeks, and didn't include the strong gains of the first 3 weeks of February or the huge recover of the last week of March, like the chart above shows. The market fell about 35% and small to mid cap size stocks fell about 40%. So the average drops for at least the medium and greater risk categories should have been at least that 35%.

In March, we started tracking and charting the main funds we use and found that our low-medium category balanced funds fell about 4-10% from peak to trough. We thought that was bad enough and after some recovery, we called people to reposition people from some that fell 10% to ones that had fallen 4-6%, for future protection and for better recovery prospects. Some of our pure equity funds had been categorized as low-medium officially, but we always counted them in the medium category, because we felt it was inevitable that they would get re-categorized. Some of them did fall -25%. Most of our pure equity funds, whether in the low-medium, medium or medium high categories, fell between 15-34%, peak to trough, or probably 3-22% over the period measured in the chart above. So, while our funds were less volatile, when your account shows a higher Risk Tolerance category, you have to be prepared for drops periodically as bad as what the chart above shows.

Market Timing

Crystal balls don't work very well to time the market, but sometimes rear-view mirrors do. While we can't tell you if the market will be up or down next month, we can tell you if it is up or down now compared to last month or last year. There is value in that. A market strategist at CI who used to run an outstanding balanced fund and who has been in the financial industry for 44 years, Sandy McIntyre, wrote on in a CI newsletter on Jan 25, 2019, that if you invested or stayed invested, when the market was up 12.5% from its average price of the last 200 trading days (which is the case about 8.7% of the time), a year later you were likely to have made money 81% of the time. If you invested or stayed invested when the market was 12.5% below its 200 day average price (which is the case about 3.5% of the time), you would have been up a year later 91% of the time. And if you invested or stayed invested on the 1% of all days when the market was down at least 20% from the 200 day average, your portfolio was likely to be up 95.4% of the time. It doesn't make much difference whether the market was down 20% on its way to being down 35%, or was down 20% after having been down 35% before that. The important thing is to stay in the market or invest more in it when the market dips, because your chances to gains a year later are very high. That's a hard thing to do emotionally. One piece of information that might help you have the courage to do it, is a fact that Jurien Timmer, Fidelity's Global Macro Economist, reminded us of in a webinar on Oct 19/20, namely that markets usually recover 6 months before profits do. So even when current profits and GDP don't look great, markets may be ready for strong gains. Our confidence in future profits is strengthened when the Purchasing Manager's Index (PMI) is above 50, as it is now. Another variation on this is to go from less volatile assets to more volatile ones (perhaps by moving from a balanced fund to a pure equity fund) when the market is down, in order to capture a better recovery. Past results tell you what did happen, and history tells you what is likely to happen. It's not infallible; there is no guarantee, but this is the most successful way to time the market that we know of. One last thing – watch out for what are considered to be the most dangerous words in investing: "This time it's different." Many people use that notion as an excuse to remain scared and to stay out of equity funds. Sure, the next crisis will be far different than COVID or WWII or the Financial Collapse of 2008 or the Tech Bubble bursting were. But those crises were all serious and significantly different from each other, and still the market and the human psychology that fuels the market were the same.

Growth At A Reasonable Price Prevails

It pays to have an investment philosophy based on the teachings of the greatest investor in the world, Warren Buffett. His GARP style of investing has always been the basis for our choice of core funds. The value of sticking with this style was made clear when the SPIVA Canada Mid-2020 Report came out from S&P Global. It showed that in the first half of 2020, 89% of Canadian Mutual Funds did NOT beat the benchmark indices. This is in line with the 90% of funds which haven't beaten the index over the last 10 years. Beating the index is often not an investor's goal in investing. Many people are more concerned about not losing money or not having too bumpy a ride in the market and will give up return to achieve a smoother growth pattern. And of course, the cost of advice is taken out of mutual funds, but not out of the index, and the cost of transactions to buy and sell stocks to mirror the index is not taken out of the returns on the index. Those omissions give the advantage to the index. We did a quick check of our clients' equity funds and found that even after all costs were taken out of their returns, while no costs were taken out of index returns, 70% of our clients' equity holdings outperformed their indices, and most did so with way less volatility than the market. So while the GARP strategy may underperform some years (like right before the tech crash of 2001), over the long-run, it's a relatively low volatility strategy with strong returns and we will continue to use this as our core strategy.

Still, we always keep an eye open for new research on what makes for successful long-term investments, and for other factors we should be considering. And there is compelling new research to share with you, that is already shaping your investments.
The Credit Suisse Research Institute has been tracking the returns of all companies with no women on their Boards of Directors versus the returns of companies with at least one woman. They have found that the prices of the companies who had women on their Boards rose cumulatively over 40% more on average from 2006 to 2019 than the other companies. Some well-known companies with women on the Boards are Starbucks, Johnson and Johnson, Coca Cola and Estee Lauder. The research showed that 3 or more women in key leadership roles was where the real tipping point to better profitability lay. Woman in leadership roles is now one of the signs of good governance in a company. (As a side note, according to one report on Bloomberg news, the 19 countries with female heads of state suffered half the COVID infection rate on average compared to countries led by men.) Other signs of good governance and good social practices are things like equal pay for equal work, strong anti harassment policies, a diverse workforce, no child labour, strong safety records, abiding by the law etc. Such companies have lower employee turnover, and that typically results in lower productions costs. (Source: Goldman Sachs Global Investment Research) An example of how an investor can be hurt by bad governance would be Volkswagen. It's been 5 years since the fabricated diesel emissions test results scandal was uncovered. The stock price of Volkswagen is still down about 40% from the pre-scandal days. And remember how long Nike suffered for when it was reported that it was using child labour in Asia to sew some of its clothing. Companies with strong governance and social commitment tend to have more engaged employees, fewer lawsuits, even lower borrowing costs and better stock price growth.
Another increasingly important factor is good environmental stewardship. Companies which find ways to use less water or less energy in their production processes, are better for the environment and save on water and energy costs for themselves. On a conference call, Desjardins gave examples of a couple of companies making their environmental advances. For examples, Nike discovered a glue that isn't bad for the environment, that they could use to fasten soles to their running shoes. They gave the recipe for the glue to their competitors to further help the environment. Tim Hortons just announced a change to their cups to reduce non-recyclable waste. This may save them money as certain governments are starting to make companies collect their own waste from dump sites and deal with it themselves. The examples of efforts companies are making grows daily. While we certainly care about these things as

citizens of the world who like to breather clean air and drink clean water, it's also good for us to care about these things as investors. An investor who would have shunned BP Oil, because it was racking up a number of safety infractions before 2010, would not have had to suffer the price drop of BP stock due to the Deep Water Horizon Spill. BP stock, 10 years later, is still down 74% from its 2010 price. In fact, investors who screened their stock purchases for ESG (Environmental, Social and Governance) criteria would have avoided holding 17 of 19 of the major stocks on the S&P 500 index which went bankrupt between 2005 and 2017. In fact, screening for ESG factors provide the best protection yet found to avoid the stocks with the largest price declines, stocks with the largest earnings declines and stocks likely to go bankrupt within the next five years. (Source: Bank of American and Merrill Lynch)
"A review of 2,200 studies published since 1970 showed a neutral or positive relationship between ESG criteria and financial performance 90% of the time." (Source: The Journal of Sustainable Finance, 2015, and Desjardins) So increasingly, we are seeing fund companies, like Manulife Asset Management, Royal Global Asset Management, National Bank, Mackenzie Investments, Desjardins and others, using ESG factors and ratings to screen potential investments as part of their financial risk management process. Some funds are taking ESG much further, doing thematic/impact investing, which means that they look for areas to invest in, where social or environmental problems create a commercial opportunity for profits and growth. Desjardins even quantifies how much carbon emission is reduced or how many families are lifted from poverty for every $10,000 of investment in the companies in their funds. Some of the funds using ESG screening or doing Impact Investing are producing quite nice and competitive returns. Anyone interested in limiting their investments to responsible investing (where ESG factors could eliminate an investment, and typically munitions, alcohol and tobacco stocks are also excluded) or interested in going further into thematic/impact investing, let us know. Chances are that you already have some responsible investments and that over the next year or two, more of your funds will be using ESG factors to reduce their risks and even increase their returns.

COVID Benefit Payments

Did a someone in your household receive a payment under the following plans: Canada Emergency Response or Student or Emergency Caregiver or Recovery Sickness Benefit or Emergency Business Account? Now is a good time to prepare for a potential CRA audit of your benefits payment and to set aside taxes owing on payments received, if there were no taxes or insufficient tax withheld at source. You may need to provide proof of your eligibility to have received those benefits. You may need to keep layoff notices, show evidence (for students) that you tried to find a summer job but were unable to, show proof of school closings etc. Now is the time to gather that proof. It will only be harder to find next spring. Students, don't forget that RESP payments may be all or partially taxable income which could affect the tax rate payable on your CESB payments. Small business owners should be prepared to pay tax on the $10,000 forgivable portion on the $40,000 Emergency Benefit, since it will be taxed as 2020 income. If you got the Recovery Sickness Benefit, you may need the proof that you tested positive for COVID-19 to show that you should have received that benefit. Source: Globe & Mail Sept 30, 2020

Tax Simplifications for Home Office Deductions

Did your employer require you to work from home due to COVID? Normally to get a tax deduction (where you may be able write off some of your hydro, property taxes, gas bill, phone bill etc) for your home office, you need to have a T2200 form signed by your employer and you needed to have worked from home for at least 6 months. The CRA has drafted a simplified, shorter version of the T2200 and has hinted that an employee won't have had to work from home for 6 months to qualify for 2020. There should be announcements coming in the next few months from CRA on this. In the meantime, if you might be eligible, you should investigate now what expenses you might be able to write off and gather the bills and other documentation so you can calculate the expenses to be deducted. Here's a link to information on this on the federal government website https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-229-other-employment-expenses/commission-employees/work-space-home-expenses.html . You will find that there are more deductions available for employees who earn commission. Make sure you check into your eligibility before filing your 2020 taxes, because it could save you quite a bit.

Source: Tim Cestnick in the Globe and Mail on Oct 16, 2020

Canadian Institutions Think More Like Europeans than Americans

Institutional investors in Canada, like the Ontario Teachers Pension Plan, OMERS, CPP, etc, are increasingly using Environmental, Social and Governance (ESG) principles as part of their investment strategies. Two years ago, only 74% of Canadian institutional investors considered ESG factors. In the latest RBC Global Asset Management study, 89% of Canadian institutions are factoring ESG into their investment choices. Globally 75% of institutions are doing the same, but only 65% of American institutions. 26% US investors think a portfolio which considers ESG as one of its factors will underperform a portfolio which doesn't consider ESG, and 47% think it won't make a difference. Whereas 55% of Canadian and 68% of European institutions think ESG integrated portfolios will outperform. An important takeaway from this is that more than half of all institutional investors (usually the most sophisticated and well-resourced in the world) are taking ESG into account, which is not only good news for the environment and for society, but also suggests that we should think about it too.

Source: Globe & Mail Oct 15, 2020

Over the last couple of decades, mutual funds which put ESG first, did not outperform the funds we used. Now, many of our funds (those from RBC, National Bank, Manulife and others) have ESG as one of their factors considered, but they don't label themselves as ESG funds. The argument goes that if the companies they invest in are leaders in ESG , they won't be subject to environmental or discrimination lawsuits, employees will be happier and more engaged and they won't get bad press that hurts sales, as happened to Nike 10 yrs ago, because of using child labour to make Nike garments. Investors might have avoided investing in BP before their big Gulf of Mexico oil spill. Their stock, 10 yrs later is still down about ¾. So, it no longer appears that you have to sacrifice returns to have a clear conscience about what you invest in, and you may make more money investing in ESG compliant or leading companies. We continue to monitor funds that label themselves as ESG to make sure we are not missing any outperformance, but mostly prefer to use funds for which that is only one screening tool used.

Changing Work Locations Can Affect Your Income and Expenses

680 News reported that Toronto rents, and the price of Toronto condos under 500 sq ft, were falling as people move, either out of the city altogether or to larger spaces, like homes. Mortgagebrokernews.ca reported on Oct 20 that the volume of house sales in Canada in Sept 2020 was up almost 50% over last year and was the highest volume of any month ever in Canada. Undoubtedly some of that was pent up demand from the early COVID months, when people couldn't go visit homes for sale and homeowners didn't to list their homes for sale and have strangers in to see their homes.

There are 2 things you might want to look into before you move to another location. One thing is property taxes. Toronto property taxes are the lowest in 35 municipalities in Ontario at $6.15 per $1,000 of assessment (Vancouver is only $2.56 per $1,000). Property tax rates in the Hamilton area are much higher than that. In Halifax and Winnipeg, which still have affordable housing markets, the rates are around $12 per $1,000 of assessment. There is lots of variability. A $1 Million house in Canada could have property taxes between $2,468 and $11,085 depending on where you live! (Car insurance premiums also vary a lot by location too. So check that out too to be prepared. And if you change provinces, check on sales tax and provincial income tax rates too. You might be surprised at how that changes your cost of living.) A second big thing to consider is what your wages might be if you move outside of a big city, now that you can work from home. Some companies are saying that there is no reason to pay employees who work in cheaper locations the same salaries they used to pay to attract them to move to expensive cities. You could find your salary cut substantially if you move.

Source: Globe & Mail Oct 15, 2020

This issue of wages being dependent on your city or province of residence, now that companies have seen that more employees can work from home, may be just the tip of changes stemming from COVID. Now companies have proven that more of their work can be done from home than they ever suspected, how much more work is going to be sent off-shore? It may be more important than ever for your children/grandchildren to get as much education as possible in specialized areas (for example technologically or scientifically advanced ones) or else have a job that can only be done in person or on-sight. You can't repair an elevator in Hamilton, if you live in Indonesia. Today's minimum wage jobs may be moving to higher pay, but how many will be mechanized away? You can now order a pizza from the place attached to our building and then go pick it up without ever coming in contact with a person. Someone did physically make the pizza, but he/she never interfaced with a customer. The counter job is going the way of the dodo. Education and training will be key.

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