Manulife Securities

ELAINE'S NEWS & VIEWS

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MY TAKE ON MARKET PERFORMANCE IN A NUTSHELL

I encounter 3 kinds of investors today – strangers or acquaintances who say "I have lost so much money in the last year, that I am going to have to pare back my lifestyle, or even go back to work", those who say "I want to be safe at any cost even though the GIC's or treasury bills I invest in won't let my savings keep up with inflation and I will have to use up my principal to provide cash flow to live on", and **my clients** who are saying "how come my account isn't doing much this year? I have gotten used to making pretty good money most years and now nothing for the last 12 months." I am glad my clients aren't in the same boat as the other two kinds of investors. Investing for long-term growth is not a straight line. Some years and certainly quarters, our accounts will drop in value. Other quarters (like IQ **2015**) will be unbelievably (and unsustainably) good. We have been going through a bumpy time in the last year. Resources like oil and gas, gold, nickel, copper etc, to which we had minimal exposure, recovered quite a bit this year, but resource companies are mostly still down from last year, some extremely down.

The Canadian dollar dropped a lot last year when resources did and we profited from that last year, since we were overweight in foreign holdings. As resources recovered, so did the Canadian dollar (from $0.69 to $0.78 or so now, which is a 14% gain) and that was a headwind that worked against us for our foreign holdings this year. We gave back some of last year's gains. I don't expect the dollar to stay so strong, so we may get a gain from currency again in the next year. If the US raises interest rates before Canada (a rise was expected for Sept, but may be deferred due to Brexit), that is one factor that may weaken the Canadian dollar. Even if we don't get a currency gain on our foreign investments, I still expect foreign markets to do better than Canadian markets. I don't see resources doing anything spectacular for years. And while Canadian banks may stay profitable, they have set aside reserves to compensate for loans they think some resource companies won't be able to repay. And there have been a lot of predictions about house prices falling up to 25% in some regions, which will undoubtedly result in foreclosures and losses for the banks, some far more than others. Banks and resources are around 75% of the Canadian market, so there isn't a lot of the Canadian market left to give us strong growth and profits.

Most off the analysts I respect are only calling for about 5% market returns per year, which is about half the historical rate of growth. It's because the economy worldwide is having a tough time getting traction after the Great Recession of 2008/9. Still the analysts do expect about 5 yrs of moderate growth, although there could certainly be a negative year thrown in there. We would love to find more growth, but other than possibly getting it from volatile emerging markets, there doesn't seem to be anywhere to go for strong returns for the next few years. Since there won't be much of a "rising tide to lift all investment boats", it is more important than ever to use proven active managers and active investment strategies. Most of the managers I use continue to outperform the markets or at least match them on an after-fee basis. One of the ways my managers usually do this is by going down less than the markets in bad times. This lower negative volatility is easier to tolerate emotionally too. My fund managers don't usually outperform in strongly rising markets, but by not falling as much, they already had a head-start which usually keeps them ahead over the long term. And in slow markets, their exceptional Growth At A Reasonable (GARP) stock picking abilities often provide stronger returns. So **in summary**, I see no reason to stray from our current strategy or funds. Let's just stick with the plan. Brexit is just a bump in the road. We've had lots of those and there will be lots more to come. (Long-time investors will remember Black Monday, Oct 19, 1987, when the main U.S. stock market fell over 20% in a single day and the rest of the world's markets plummeted too. By January the index was fully recovered. In my experience, any investor who bailed out in Oct would not have timed it right (or had the courage) to jump back in before January and would therefore have missed some of the gains of the next year.) Before the Brexit vote, we tended to be underweight Europe and some of our managers had huge piles of cash ready to deploy when the market panicked and dropped after the Brexit vote. So our funds may have picked up some good bargains after the Brexit vote. Now we just need to be patient for that to pay off. We expect more of the same type of volatility when the U.S. election happens – no matter who wins. So if you want to add cash to your account a week in advance of the election to be able to buy in the potential market dip right after the election, that could work to your favour. Buying on the dips makes 100% more sense than panicking and selling every time the world seems scary.

CHANGES IN MY OFFICE

Due to new industry regulations, there is more mandatory discussion and paperwork than ever associated with investing. The regulations are intended to make sure that investors receive full disclosure about costs, risks etc. That's a good thing. The side effect though is that everything takes longer to do, both in the meeting and the admin work in my office afterwards. To minimize the inconvenience to you, I try to always have Jordan, my older son and right hand man, with me in the meetings. He takes the notes, gets the paperwork ready to sign while we talk, pulls up the fund facts that we have to review on the computer, and helps with pre-meeting research and post-meeting execution. Even with his help, I'm finding that meetings take a little longer.

Another side effect of how much longer everything takes is that I am going to have to be more selective about taking referrals (which I am grateful to get, so thank you for generously recommending me to your friends). In the recent past I have been asked to help some friends of my clients who truly need planning advice, but will never need investing help because they don't have investments and have little expectation of ever having any. One recent referral for example had big debts and zero savings, and she needed to know if she could afford to retire with just her pension to live on. As you know, I only get paid for all my planning advice through the trailer fees or commissions earned on my clients' investments. So while I love helping people, it is hard to justify spending hours working with someone, when that time spent doesn't contribute a dime towards rent, licensing fees and salaries, and it takes away from time spent on existing clients. And it is hard even to work with my small clients who cost way more to service than the revenue their accounts generate, but of course I will keep working with any existing small clients I have now, and over time, these people should grow into bigger clients. Going forward though, while I will continue to take on my client's children, other new clients will need to have actual assets to invest or will have to pay an hourly fee for the development of a financial plan. Between fact finding time, plan preparation and explanation time, this would cost well over $1,000.

CANADA PENSION PLAN CHANGES

Between 2019 and 2025 employees and employers will have to start paying higher premiums into CPP each year. Those who are in the workforce for 40 more years will be able to collect up to $19,900/yr from CPP compared to the current maximum benefit of $13,100. There won't be much if any impact on those really close to retirement now. But for those earning $82,700 or more, your annual premiums will rise from almost $2,500 to just over $4,900 gradually between 2019 and 2025. Basically the government has decided to force workers to save more (and employers to pay more) rather than teaching people to save and invest more on their own.

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