Manulife Securities

ROYDS REPORT

Sept 2020

Topics in this Newsletter:

Is Your Retirement Derailed?

We have not been getting panic calls from people worried that their current or planned retirement is in jeopardy due to the performance of their investments at Manulife. That's as it should be, because we have yet to see anyone's portfolio which is not going to support the retirement plans that it was meant to support. For those nearing retirement or in retirement, we use an income matching strategy, using 3 buckets of investments. There are the short term, medium term and long term buckets. We withdraw from the short term bucket that either can't fall or can't fall significantly. We have the medium term bucket to replenish the short term bucket from, only when the market is down for a sustained period (so not this time). And we have the long term bucket to provide growth to allow the portfolio to last decades through retirement and stay ahead of inflation. We replenish the short-term bucket from the long-term bucket as necessary, as long as the market is up. That long term bucket was volatile this year but is pretty much recovered. The medium term bucket didn't need to be touched and is still intact to protect against the next market drop, should it be a lengthy one.

There is another component to retirement though that may have been affected, and that is pensions. If you weren't employed through part of this year, then you weren't contributing to your employer pension plan (if you have one) and weren't contributing to CPP. This may defer your qualifying for your work pension or affect the amount it will pay out at retirement.

CPP is a little more complicated. DR Pensions Consulting, as quoted in the Globe and Mail on Jul 27, 2020, estimates that if you lost 6 months of employment and usually contributed the maximum amount to CPP each year (which would apply to anyone earning $58,700/yr or more), then you may have lost $15.07/mo of CPP payments for life. CPP contributions count from ages 18-65. To calculate your pension, CPP will throw out up to 8 years of low income years in that period, because they only take your 40 best contribution years. (They also throw out any years you weren't working but had a child under age 7.) If this is a surplus year over the 40, then a period of unemployment due to COVID may not affect you. Or, if you still make $58,700 in the part of a year that you do work, you will still get a full year of credit for this year. Otherwise this period of unemployment could have some long-term impact on your CPP pension.

We would be pleased to go over your specific retirement plans and income projections with you. We are scheduling in person and phone reviews now (only 1-2 in person meetings per day, in our boardroom that has an acrylic (plexiglass in a trade name) divider/sneeze guard down the centre of the table to keep us separate. Please call or email Sarah or Amber (contact info is at the bottom of this email) to set up an appointment.

Markets

Now that the S&P 500 and Nasdaq indices are hitting new highs, people are worried that they've missed their chance to get into the market and that the market is too high and due to fall, because many companies don't warrant being at all time high prices after COVID has hurt their earnings this year. Well rest easy. Only 1.4% or 44 companies out of the 3068 companies on the New York Stock Exchange and 137 companies or 4% of the 3450 companies on the Nasdaq are at new highs (as of Aug 22 20, per Beat Traps Report, courtesy of Exemplar). There are lots of companies that aren't near their highs that could still present good buying opportunities.

Stocks in some industries (which are not industries our funds are in) have been clearly reflecting the lost profits in their industries. Department stores are down 62%, airlines 55%, resorts and casinos 45%, per Bloomberg Business's Aug 5 daily email.

Have you ever heard someone compare the market to gambling? There's a pretty big difference. Invesco published research from Bloomberg that lists the chances of winning at Blackjack, Roulette, Craps, Poker, Let It Ride, Baccarat and Slots at 40-48.8%, so less than 50%. The chance of "winning" in the stock market range from 74.6% over a 1 yr time period, to 99.3% over a 15 yr period (based on the DJIA from 1901-2018). They also quoted how often US stocks out perform Government Bonds. Over 1 yr time periods it was 70%. Over 15 yr periods, it was over 86% of the time, based on data from 1978 (so it includes when bonds were paying 16% or so) to 2018. Bloomberg demonstrated this in dollar terms, thusly:

Growth of $100,000 from 1978-2018 (US Data)	
Inflation	$374,000
Real Estate	$539,000
Gold	$577,000
Short-term Govt Bonds	$1,000,000
Government Bonds	$1,600,000
Large Cap Stocks	$7,900,000
Small Cap Stocks	$12,500,000

For Illustrative Purposes Only

In that same research package that Invesco published, it showed FactSet and Dow Jones data which showed that since 1901, there have been 87 positive years on the stock market (74%), and 31 negative years (26%), for average annual returns of 11.6%. Then they had a chart that reminded me of Goldilocks or A&W burgers. It showed how bad the down markets were and how frequent and lengthy. Papa Bear is pretty nasty, but doesn't come around frequently, and you should come out pretty unscathed if you can afford to hold for 5 or so years. We've been through a Teen Bear and a Mama Bear market in the last 24 months and both lasted less time than the historical average. The key is not to panic and to hold on (or to only put into the market money you don't need very soon) and the rewards, compared to gold, real estate and bonds certainly make it worth the pain of living through stock market gyrations.

	Market Drop	How Many Times	Average Time to Recover
Baby Bear	-5 to -10%	40	3 months
Teen Bear	-10 to -20%	14	7 months
Mama Bear	-20 to -30%	5	25 months
Papa Bear	-30 to -60%	5	49 months

For Illustrative Purposes Only

The US Federal Election Impact on Stocks

Here are some quotes from National Bank Investments' Sept 2020 monthly newsletter about presidents, parties and the stock market. "A recession within two years before the election usually reduces the odds of a sitting president being re-elected….Still if voters perceive the COVID-19 induced economic downturn is as an external disruptor and the U.S. president's "America first" agenda outweighs his administration's perceived handling of the pandemic, there is a glimmer of hope for the Republicans …On average, the U.S. stock market stalled in the 3 months preceding the last 10 presidential elections, but gains were generally observed over the following 12 months…what explains the divergence in market behaviour around presidential elections is not the political affiliation of the new president, senate, or house of representatives, but rather, the health of the economy. … If Democrats win the election (they are currently ahead in the polls) they will more than likely increase the corporate tax rate. However, this would be offset by increased spending, which would probably not be too unsettling for markets…. Whether the U.S. election will disrupt markets or not in the short-term shouldn't change the long-term outlook south of the border."

Thank You

We are always grateful for the confidence our clients place in us and for their business. It was hammered home to us again during the market freefall from Mar 19-Apr23 this year, when we were not fielding a lot of panic calls, but instead had time to call out to clients who held funds, that weren't handling the downturn as well as they should, to shift to ones with better potential. This use of our time was so important to ensure that everyone's portfolio rode out the pandemic as well as possible.

We just read a new study about advisors use of their time. It turns out that advisors spend on average 9% of their time trying to attract new clients (Natixis Survey reported by Advisors Edge), often to replace those who move out of country or pass on. We thank you for referring your friends ($50,000 minimum of investable assets) and relatives to us. We haven't had to spend time looking for new clients for over 20 yrs. Instead, we can use our time to work with you on your plans and portfolios and to study markets, investments and strategies. We get to do what we love and do the best job we can for you. So thank you for passing on our names.

Commodity Inflation

People must be eating more chocolate, drinking more coffee and eating more sugar, whether as candy or in baking or otherwise, when they work from home or are saddened by COVID restrictions. The price of cocoa was up almost 10% in the July. The price of coffee beans was up almost 18%, and sugar rose 10% in a single week. Not to be outdone, silver is up almost 30% (probably to keep its price relationship to gold). And all those people staying home instead of vacationing must be building new decks (or having contractors build them) and doing renos, because lumber prices have risen almost 36% in one month, having a greater price increase this year than gold! So, some areas of the world economy are doing really well. And some, like retail, are not necessarily doing as poorly as expected. I read that the retailers who signed up with Shopify have attained sales that are 94% of their pre-COVID levels. (We know that's off topic for this paragraph, but we like to throw in good news, when we hear it. Who doesn't like to hear good news?)

Be Careful What You Forecast

Horace Rockham has gone down in history as the person who, in 1903, said, "The horse is here to stay, but the automobile is only a novelty – a fad". Scientific American Magazine didn't fare much better in 1909 when it said, "That the automobile has practically reached the limit of its development is suggested by the fact that during the past year no improvements of a radical nature have been introduced." Hope this gave you a chuckle. It shows we should never underestimate human ingenuity and progress. (Source: Mackenzie Investments)

ESG Investing

Apparently North Americans are divided on whether the economy or the environment is the most important issue of the day. And we know from all the protests etc that equal rights issues have moved to the fore too. The "new" ESG investing covers it all. ESG stands for Environmental, Social and Governance factors, and of course the stocks purchased have to have strong fundamentals and a good price to become good investments. For 20 years, we have offered socially responsible/environmentally conscious funds, but returns, while good, were not always the best, because ESG was not always balanced with strong fundamentals. Now, there are companies, like Manulife Investments (a sister company of Manulife Securities Incorporated) and Mackenzie Financial, which have realized that companies, with good governance and social policies (including equal rights) and which are advanced on environmental issues, are often better investments compared to companies which aren't as socially or environmentally responsible. Screening for environmental and social responsibility issues is built into their process. Whether you know it or not, ESG has been becoming a bigger part of your investment portfolio.

Working in an Office May Not Quite Be Dead

After having announced that up to half of its employees would work from home within the next 10 years, Facebook recently signed a lease for 730,000 square feet in Manhattan's West Side—in addition to another lease it signed late last year for 1.5 million square feet just a few blocks away. Are people going to work from home in the future or not? A US survey by Gartner Inc found that 78% of companies think that 10% or less of the employees will permanently work from home. And a US survey by Gensier found only 12% of employees want to work from home permanently. 70% want to work from the office the majority of the time. So commercial real estate may rebound. However, there is some thought that more companies may decide that their office space doesn't have to be in expensive downtown areas. (Source: Brookfield letter courtesy of Canoe Aug 28 20) Far from commercial real estate being dead, a Blackrock 2020 study of Institutions with over $10 Trillion of capital found that 97% of the institutions expect to invest the same or more in real estate going forwards. (Courtesy of data from Russell Investments)

Is the US Dollar Low or is the Euro just High?

Bloomberg Business's July 29, 2020 daily newsletter argues that all the talk about the US dollar being in trouble is reactionary and short-sighted. They point out that if you look at a 5 yr chart of the dollar versus a standard basket of other currencies, only Mar and Apr 2020 show USD values outside of its normal trading range. Only against the Euro is the dollar even at its weakest level of the last year, and that is because, for only the 9th time in the last 28 yrs, European growth is expected to outpace US growth for a while, probably because of Europe's superior virus suppression and because it's doing better than before at addressing its fiscal issues. This doesn't sound like real trouble for the US dollar. And let's not forget what the now-90-year-old Warren Buffett says. If you had bet against the US in the last 250 years, you'd be wrong. No country has outperformed the US stock market over a decade in that period. Most big companies end up being pretty global at any rate. Is Nestles a Swiss company or a global company? Are Microsoft and Johnson & Johnsons just American companies or worldwide ones? When the USD is down, these companies collect all their foreign income in foreign dollars and that makes their income more valuable in terms of USD. In a few months when the US figures out how to contain COVID better, the tide may turn back in the US' favour for growth and the USD.

Unless the market gets super volatile again, we expect to go back to the normal quarterly newsletter frequency. It's a balancing act between filling up your email inbox and keeping you informed. If you have an opinion on it, please let us know.

Elaine *Jordan*

L. Elaine Royds, MBA, CFP®

Senior Financial Advisor, Manulife Securities Incorporated
Financial Planner, Manulife Securities Insurance Inc.

Jordan Royds

Financial Advisor, Manulife Securities Incorporated
Life Insurance Agent, Manulife Securities Insurance Inc.

Suite 303 - 1685 Main St W, Hamilton, ON L8S 1G5
Office 905-393-0787 Toll Free 1-855-640-1857 Fax 905-393-0788
Website www.roydsfinancial.com
Assistant Investment Representative: Sarah Breimer sarah.breimer@manulifesecurities.ca
Administrative Assistant: Amber MacDonald amber.macdonald@manulifesecurities.ca