Manulife Securities

ELAINE'S NEWS & VIEWS

Jan 2020

TOPICS IN THIS NEWSLETTER

UPCOMING SEMINARS

Last fall we ran 4 sessions of the Estate Planning Seminars, but there were still some people who wanted to attend who couldn't make it. So we will run one more session – in our new bigger boardroom. We will also hold seminars on Converting your Savings to an Income Stream, and Investing Basics. Family members are very welcome at Investing Basics (suggested age is 20 and up). Please call Sarah at 905-393-0787 or e-mail her at Sarah.Breimer@manulifesecurities.ca to register. The dates are as follows:

Estate Planning – Tues, Jan 28, 7-9 p.m.

Converting your Savings to an Income Stream – Sat, Jan 25, 10 a.m. - noon

Investing Basics – Sat Jan 25, 1-3 p.m.

If you can't make those days or times, let Sarah know you are interested anyway. We may add extra sessions.

LOOKING BACKWARD AND FORWARD

I'm sure it was more pleasant opening your statement this January than last, after we had a rebound at the beginning of 2019 and a fairly strong last quarter of the year, with markets reaching new record highs. However, we need down markets like the fall of 2018 for our fund managers to have the opportunity to buy good stocks at sale prices, so they can make extra money for us. Times like Dec 2018 or Jan 2019 also gave **us** the opportunity to buy into the market at better prices, after the almost 20% downturn in the markets in the last 3 months of 2018. Luckily, that won't be the last opportunity for us to buy low and later enjoy a rebound. There will be lots more market downturns. Little ones happen at least every few years, sometimes annually, but are short-lived and big ones happen multiple times in a person's investing lifetime. We need to be emotionally ready to capitalize on the big downturns for sure. It helps to remember what Warren Buffett says, "Be greedy when others are fearful and be fearful when others are greedy". Of course, that means that we will stay the course with our long-term plans of holding quality companies that are growing their profits, and not chase after companies whose prices just rose strongly, and we should invest even more in the market, when attractive prices are available.

Over the year, the analysts' expectations have changed from expecting a recession (or at least a major market downturn) in the next 1-4 yrs, to expecting a big market tumble within the next 1-8 yrs. That's not a very helpful prediction. Nothing drastic *seems* imminent though, with earnings being fairly strong, and the predictive PMI (Purchasing Managers Index) actually strengthening in the U.S. and Germany. Nonetheless, I am glad that most of our managers have moved a portion of their holdings into some industries that are pretty recession proof, like nursing homes, funeral homes, waste management, pipelines, dollar stores, cheque cashing stores and cell towers. Some of our managers are even moving a portion into deep value holdings. It is strategies like these that help our funds go down less in downturns, so they don't have to go up so much in strong markets to still keep up with or better the market.

For 2020 we could see increased volatility, but also net growth for the year. So, we just continue on with Growth At A Reasonable Price, Dividend Focused, Low Volatility or Deep Value Strategies, holding enough in balanced funds or near cash to meet our cash flow needs for the next 5 or so years. I think this provides the best balance of making money and supplying an income stream, while protecting from permanent losses.

INTEREST RATES NEXT YEAR

"The risks of compounding Canada's already substantial debt problem by making borrowing even cheaper, it [the Bank of Canada] concluded, outweighed the benefits of giving the economy a shot of adrenaline with a [interest rate] cut." *Source: The Globe and Mail Dec 26, 2019* So borrowers may enjoy low rates for longer, so as not to lead consumers and indebted companies into bankruptcy. This means that GIC investors will continue to lose buying power on their capital, since low interest GICs or high interest savings accounts won't earn enough to keep up with inflation.

ENERGY STOCKS

Only in a small fraction of the last 60 yrs have resource (oil, gas, copper, gold, nickel etc) stocks had really good returns. Early this century resource prices were high because of China and resource companies did terrifically. Prices peaked around 2008 and collapsed thereafter. Prices for energy companies are currently pretty low, more so in the U.S. even than Canada. We may see some of our value fund managers picking up a few energy stocks at these prices. They will be opportunistic buys, not long-term investments. This is something only someone really well versed in energy companies should try. It's not an easy task to value an energy company.

OWNING VERSUS RENTING

Canadians have such guilt about renting, as though they are throwing their money away. The chief executive of Canada Mortgage and Housing Corp said, "Renting is a perfect and valid housing option, and may in fact be the best long-term option for many households." He was also quoted in the Dec 7, 2019 Globe and Mail as saying that Toronto needs more rental units and condos to achieve a densification such that 10 single family homes would be replaced with 100-200 homes. He says densification is already starting in Toronto and Vancouver, but in Toronto it's just under 10% of what it is in Tokyo and about 28% of what it is in New York and London. Meanwhile we have seen housing prices soften and sale slow in many regions of Ontario. So, renters may not have to worry that they are missing out on property value rises anymore. We may be headed back to the long-term average of 1% plus inflation gains in property prices.

CAN YOU SAVE HUNDREDS OF DOLLARS IN 20 MINUTES?

You have probably seen the commercials that say you could save thousands of dollars a year by comparing the cost of home and car insurance with your current provider to the rates offered by a competitor. What about your phone/cable/internet rates? Years ago, a girlfriend told me how she told her service provider that she was switching her business and she was transferred to the client retention centre, where she was offered a substantially reduced rate. I followed her example and after about 20 minutes I got a terrific 6 month rate that would then go to a good long-term rate. I save about $500 in the first year. More recently I called to change a feature on my services and when the cost was brought up, I was offered an improved 6 month and long-term rate again. In Nov, Jordan called our business service provider about moving from the 2nd to the 3rd floor. He got our monthly rate dropped by about $2,000 for the year. So, there are 3 morals to these stories. First, you won't save, if you don't ask for better rates. Two, you need to ask again every couple of years to keep getting low/competitive rates. Three, if you have a small business, asking for reduced/competitive rates every few years can work wonders for you too.

And of course, there are two great options for what you should do with the saved money. It would be really good to pay off high interest debt or you could save a little more, either for the long-term or as an emergency reserve. Good Luck!

OLD SCAMS AND NEW

Every time you turn around, it seems there is a new way someone, usually from overseas, is trying to steal your money. We all know not to click on any links in emails from people or companies we don't know and to check where a link in an email is taking us to by looking at the address when we hover over a link, looking for suspicious websites (for example, Royal Bank is not going to send you to a website named #jing6%42xj and a**n**ericanexpress.com would not be American Express' website, because the name is spelled wrong). Always google for a proper website for any company we are trying to log into to, rather than getting there from an email link. We also know that CRA will never call us demanding money (they mail notices to you) or if a credit card company tells you they urgently need to speak to you, you should call them back rather allowing the person on the phone to redirect your call. However, don't call them right back. Call your sister or someone like that first, because the latest is that the scammer keeps your phone line connected to themselves and when you try to call CRA or the credit card company, they redirect your call to one of their crooked colleagues. Then when you give your SIN or credit card number, the crooks have it. Another new trick is that someone may steal your mobile phone number (like have your number switched from your cell carrier to another cellular company). Then the thieves report they forgot your password to your bank account and the bank texts a link to update the password to the cell number they just stole from you and voila! The thieves can log into your bank, Paypal account etc and change your password and then steal from you. So, if you get a text from your mobile company asking if you just put in an order to switch to a different company, call your mobile carrier right away and say that you did not authorize switching. This happened to a friend and 28 minutes after he got the text, when he had just gotten off being on hold with his cell company, his phone was switched – mid-sentence as he was alerting his cell company of the error/fraud. The thieves almost got access to an account of his, but he was able to change his password in time. So if this happens to you, you'll know to act quickly.

ADMITTING COMMON LAW RELATIONSHIPS ON TAX RETURNS

We see a surprising number of people who have been living together more than 12 months, sometimes more than 5 years, who are still saying they are single on their tax returns. There can be tax advantages and disadvantages to claiming a relationship. But if CRA catches you not admitting to a relationship and you have enjoyed tax or social assistance advantages because of it, you could end up having to pay the piper later. So, here are just a few of the benefits and downsides to claiming a relationship, according to Tim Cestnick, a long-time top tax accountant who writes for the Globe and Mail weekly. You can Google him to see more information on each advantage and disadvantage or click on this link for one of his articles on the subject: https://www.theglobeandmail.com/investing/personal-finance/taxes/article-your-spousal-status-affects-your-taxes-for-better-or-worse/ . The article in that link also tells you what criteria CRA considers to determine if you should be claiming spousal status.

Potential Advantages
CPP survivor benefits, caregiver tax credits, pension splitting ability, some tax credits may be transferrable to a spouse to same more tax, rollover on death to defer capital gains or taxation on RRSP/RRIF assets, future income splitting through spousal RRSP contributions.

Potential Disadvantages
Child Care Expenses claiming restrictions, child tax benefits, Guaranteed Income Supplements or other social assistance payments are based on combined income so the benefits could be reduced, only one spouse gets a principal residence exemption, one spouse could disqualify the other from using the Home Buyer's Plan, tax rules could change for Private Company taxation.

WISDOM OF BUFFETT

If you are interested in some of Buffett's most famous quotes, which sound cute but actually have deep wisdom behind them that's not apparent at first, you can click on this link where each saying is associated with cute graphics.

https://www.visualcapitalist.com/the-25-best-warren-buffett-quotes-in-one-infographic/

TAX AND TFSA TIPS

Remember to check your online "My Account" to find out how much TFSA contribution room you have before contributing to your TFSA. You don't want to get fined for over-contributing. Adults got $6,000 new contribution room this year. The website usually takes a few weeks in Jan to get updated, so you might check it around Jan 22. It is the only place to find out your TFSA contribution room without risking being on hold a long-time by calling CRA.

If you haven't registered with CRA for "My Account", you can do so through this link https://www.canada.ca/en/revenue-agency/services/e-services/cra-login-services.html . You will need to have your last year's tax return with you to prove your identity. We really recommend you register, not only so you can see your TFSA contribution room, but so you can see what tax slips CRA has received for you. This will you avoid not reporting a slip, which could lead to an audit. However, remember that

CRA may not get all the slips till the first week of April and if you file before all the slips are in, you may have to file an amendment or pay interest on tax owing based on the late slip.

You can also download tax slip info directly from the “My Account” website which speeds up doing your tax returns, if you use software or hire a tax preparer.

<u>RECESSIONS AREN'T WHAT THEY USED TO BE</u>

According to David Arpin of Mackenzie Financial’s Bluewater Team, back in the late 1800s, the economy was in a recession about half the time. By 1960 that had changed to be about 17% of the time. This century it’s been less than 9% of the time. And over the last 6 recessions, Government has spent more (possibly on EI etc), and service industries have still grown. Business has invested less in new equipment and the building of new housing has really decreased. As our economy has less and less manufacturing and more intellectual property and services, it’s estimated that less than 70% of the U.S. economy is cyclical. In the Great Depression in the 1930s the U.S. economy shrank 45%, but in the Great Recession of 2008-2009, the economy only shrank 2.2%. So, it appears that economies are getting more stable. We can thank the central banks (like the Bank of Canada and the US Federal Reserve). Maybe some year, but I don’t expect it in my lifetime, recessions will be a thing of the past.

<u>CANADA IS FALLING BEHIND ITS PEERS</u>

Back in 2007, Canada’s and Australia’s productivity per person was about 83% of the U.S.’s while Germany’s was lower at 77%. By 2018 though, Canada’s productivity fell to 77% while both Germany and Australia raised theirs to 86-87%. This helps explain why neither wages nor our standard of living have kept up with the other G7 countries, the U.S., France, Germany, Britain, Italy, and Japan. Australia and New Zealand are important for comparison because they are also resource based economies.

On the positive side, Canada has the most even distribution of income across its citizens of all the above-mentioned countries. So we know how to share our incomes, but not to generate more by increasing our productivity. And Canada has the highest population growth rate of all those countries.

Why isn’t Canada keeping up? Davide Williams and Jock Finlayson, executives at the Business Council of B.C., who wrote about the GDP statistics above in the Glove and Mail on Dec 5, 2019, suggest that Canada might need more modernization, improved infrastructure, and tax and regulatory reform to catch up on productivity. Those things are probably all true. I wonder if there aren’t some other significant factors as well, based on other articles I’ve read, comments I’ve heard from several immigrants about how the level of math and science skills in our schools are several grade levels behind those in schools in their homelands, and what I observed recently when I advertised and interviewed to increase our office support staff (a third of the applicants’ resumes showed they change jobs at least every 2 yrs. I discarded all of them right off the bat. Of those whose resumes showed any potential, many or most of the candidates could not even take the first step in tackling a math problem which would have been grade 10 level in my day). Are these also contributing factors:

- an element of worker entitlement versus dedication, resulting in lots of rapid career changes before competencies and skills are developed and less effort made so less productivity,
- a drag on productivity because of addiction to social media cutting into the workday (apparently an average of about 45 minutes of each workday is wasted googling and checking Facebook, Instagram etc),

- and a lower level of employee/ student competence in STEM (science, technology, engineering and math) than in other countries?

Companies in countries with increasing productivity will probably increase their earnings the most and their stock prices should logically increase the most, so no wonder we are generally underweight in investments in the Canadian stock market.

THE CONTINUING STRUGGLE BETWEEN GROWTH AND VALUE

Over the long-term value stocks have delivered more returns than growth stocks. Value stocks are often regarded as stocks that are selling at cheap prices compared to their earnings, cash flows or book values. However, there are periods when growth outperforms stocks, and we have been in the longest such period for the last decade or so. In the last 3 months we have seen value stocks start to shine. This may signal the end to this period of growth outperformance. The valuation differences between growth and value is near the same extreme level we experienced 20 years ago, when value began a strong period of outperformance. *(Source: Globe and Mail Dec 5, 2019)* We've been lucky that our favoured strategy of Growth At A Reasonable Price (GARP) tends to do quite well even in periods where growth is favoured and has indeed done well over the last decade. GARP tends to do even better when value is in favour, so a rotation in the market to now favour value would be welcome.

Have a terrific and healthy 2020.

Elaine

L. Elaine Royds, MBA, CFP®

Senior Financial Advisor, **Manulife Securities Incorporated**

Financial Planner, **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

www.roydsfinancial.com

Back Up Financial Advisor: Jordan Royds jordan.royds@manulifesecurities.ca

Assistant Investment Representative: Sarah Breimer sarah.breimer@manulifesecurities.ca