Manulife Securities

ROYDS REPORT

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New Online Access and Tax Slips Online

We're excited to inform you that your contribution receipts and tax slips for the 2020 tax year will be available online this year with Manulife online access. Tax slips from fund companies, especially if you have a Client Name Account beginning with B, will still come in the mail.

With Manulife online access, you'll be able to:

- Access your current account information on your mobile device, tablet, or desktop computer.
- View your individual and joint accounts, plus corporate, estate, and trust accounts.
- Easily access and manage how you get your statements, trade confirmations, and now, tax slips.

Why wait to receive your tax documents by mail when you can sign up for Manulife online access and get instant access (after the slips are generated at the end of Feb).

Begin now

Please reach out to us if you have any questions.

How Did Markets in 2020 End Up & What is the Forecast?

S&P, the company which calculates market index returns, sent out their Dashboard Summaries on New Year's Eve. Here are some of the highlights from their summaries of 2020 issued Dec 31 and Jan 4:

- In Canada, the S&P/TSX index ended the year up 6%. High Tech (think Shopify) did the best, while Energy did the worst.
- The US DJIA ended the year up 7.25% and the S&P 500 gained 16% in 2020 in USD, however 11.8% in Canadian dollar terms, and it was mostly from a few high tech stocks.

- The US dollar was worth over 12% more in terms of Canadian dollars on Mar 20, 2020 compared to where is ended on Dec 31, 2020. People had fled to the USD at the height of the COVID market crash of Mar 2020 for safety and then as the US botched it's handling of the pandemic, investors retreated from the USD. So as the US market recovered, the value of our US holdings in terms of Canadian dollars faced a huge headwind of the falling currency.
- Small and mid caps initially really underperformed large cap company stocks from Feb to Oct. Then the situation reversed, and small and mid cap funds started to outperform.
- Emerging Markets ended the year up strongly after dull performance through the early part of the year.
- Growth and Momentum stocks performed the best for most of the year, but value stocks came on strong in fourth quarter. Our growthier Growth At A Reasonable Price (GARP) funds did best for most of the year, but then our more value skewed GARP funds shone. Those funds held back our returns through much of 2020, but may lead us to outperformance in 2021, if high tech stocks continue to take a breather from their meteoric rise in 2021. That's why we never put all our eggs in one basket. It's also why we won't beat markets every year. Personally, we'd rather underperform in years when the market is soaring on momentum, in order to make sure we outperform (protect) in the years when the market falls badly.
- 28 of the 50 countries in the Global Index had positive returns for 2020. Korea and Denmark were leaders, up 46.4 and 43%.

What were the best and worst performing stocks in Canada in 2020? Trillium Therapeutics was the clear winner, rising almost 1200%. Cargojet, Ballard Power, Boralex, CNR, and 3 little materials companies (gold and silver) rose 100-360%. Air Canada, Aurora Cannabis, Cominar Real Estate Investment Trust, and 7 energy companies did the worst, being down 38-72% over the course of the year. (Source: Globe & Mail Jan 2, 2020)

As experienced investors we all know that short-term forecasts are little better than guesses. No one last year predicted the huge volatility we experienced through COVID. And while we know that long-term the economy and markets will grow, as they have for 400 years, we know that it's not straight-line growth. Anything can happen in the short-term. Nonetheless, forecasts are interesting. Here are some snippets from the Globe & Mail on Jan 2, 2020:

- J.P. Morgan Securities expects US stocks to surge 20% in 2021. Absolute Strategy conduct an annual survey of 207 of the largest institutional investors in Dec and found the forecasts for 2021 are the most bullish in 6 years. This worries Bank of America who thinks too many are piling into riskier assets like commodities and some stocks. This makes us wonder if good, but not supercharged, growth would disappoint and cause a market correction?

- Could we have a surge in demand next year, when the economy reopens more, that causes inflation to jump? Credit Suisse thinks US inflation, now at 1.6%, could surge by the end of 2022 to 3%, level we haven't seen in Canada in more than almost 3 decades.

The Chief Economist at Manulife Investment Management, Philip Petursson, has been one of the more accurate forecasters of the future economy. He shared his views on the future in a Jan 7, 2021 webinar. His data suggests 2021 will see "accelerating economic growth and accelerating inflation", which typically means the following asset classes have their best performance: Canadian Stocks, Emerging

Market Stocks, Commodities, US Large and Small Cap Stocks, gold and high yield bonds. On the other hand, long duration bonds, like US 10 yr Treasuries and the US Dollar often underperform. The forecasted rates of return for commodities, high yield bonds and gold is still less than the returns for stocks. US large caps (large company stocks on the S&P 500) are forecast to do the worst of the aforementioned stock categories, but are still expected to return about 12.1%. Canada is expected to do a bit better at 12.8%, then small cap companies at 13.9% and the top performers are forecast to be Emerging Markets at 21%. Lastly, while commodities are expected to have one of their better years, which isn't hard to believe since they are still down a lot in value from early 2020, they are only forecast to return 7.2%. So while commodities are in a position of relative opportunity, that opportunity doesn't really match that of non-commodity related equity investments (stocks).

In a Jan 14, 2020 webinar, ClearBridge Investments made a lot of points about why they think 2020 will be a strong year for the US economy and US stock markets.

- They pointed out that since March, US consumers have accumulated $1.4 Trillion extra cash and US Corporations have accumulated an extra $.5 Trillion that will probably be spent on pent-up demand which should help fuel the economic recovery.
- The US government is likely to keep low interest rates lower for even longer than in the past, because of 2 things. First, they want economic demand to get overheated, which would cause inflation, because the government is aiming for inflation higher than its old 2% target to bring average inflation up to 2%. In the past the government aimed for maximum inflation of 2% and would raise interest rates earlier to try to cool of the economy. With their new inflation objective, they'll let the economy get overheated for a while. Secondly the Federal Reserve, like the Bank of Canada and other central banks around the world, have learned that raising interest rates too early, too much or too fast leads to recessions, and central banks will not risk that this time.
- Because of low interest rates, the expectation is that earnings will go back to pre-Covid levels, when the vaccine makes things safer, and because the greater proportion of the US index is in high growth industries, current Price to Earnings ratios (22.5 P/E) do not actually look overpriced. There is no overvaluation reason for a market pullback.
- Markets had a 10% rally in November and December (after a bit of a pullback in October) and every time since 1954, when there has been a 10% rally in Nov and Dec, the next year has had strong positive returns.
- We are only 11 years into a secular bull market and secular bull markets usually last 20 years. So while we could have another few short recessions in the next 9 years, no major lengthy downturn is expected. And during secular bull markets, the recoveries following short recessions have usually been quite strong, and this recovery hasn't been that strong yet.
- The US Recession Indicator System that Clearbridge has been refining since 1969, generally throws up warning signs of recessions about 3 months before they happen and always goes "red" while in the midst of a recession. That Recession Indicator System is not red at all now; it's all green, meaning there is no sign of a double dip recession.
- Lastly, the December jobs report in the US showed a loss of 140,000 jobs. However, in that month, there were 390,000 jobs lost in the Covid sensitive industries, like entertainment, travel and leisure. So, there were actually 250,000 jobs gained in other industries which is indicative of economic growth in other industries. And the entertainment, travel and leisure industries will largely come back (or come back in a large way due to pent-up demand) once Covid is subdued.

The Cost to Taxpayers of COVID

The cost of COVID to the world has undoubtedly been heaviest in term of human lives lost, suffering, grief, financial stress to families and small businesses, loneliness, education disruption, and mental health. Another measurable cost to Canadians is the dollars the federal government has had to pay out to keep households, businesses and charities afloat and to fund or buy vaccines, PPE, respirators etc.

In Dec 2019, the federal budget deficit was estimated to be $28 Billion. Politicians and taxpayers railed against the size of that deficit. In Dec 2020, the federal budget was estimated to be $400 Billion. That's a 1300% increase of the 154 year cumulative deficit in a single year. Virtually no one is saying the stimulus and spending that led to this increased deficit weren't necessary and shouldn't have been made, and many expect if a crisis happens in the future, future governments will use stimulus packages more freely than in the past, because of the success of stimulus packages this time. And governments around the world also used stimulus packages so freely this time, because of the success of the limited stimulus package plans that were first tried in 2008. (Source: CTV News, Jan 1, 2021)

What does this mean for taxpayers? Should we expect that governments will try to pay down the deficit between crises to have dry powder available for the next crisis? Will taxes go up to help fund work to fix the weaknesses in our society that COVID has exposed, like the shortage of caregivers in long-term care homes, the inequality of digital access for students and employees in lower income homes or more rural areas, the lack of basic water and health care infrastructure in indigenous communities etc.? Time will tell, but we shouldn't be surprised. And maybe we shouldn't complain either. There aren't many places in the world where most of us would rather have been to weather the pandemic. Of course, that doesn't mean that we shouldn't do what we can to keep our own taxes down. That could mean intentionally triggering capital gains on anything that might not be a long-term hold in unregistered accounts in January before another federal budget, when the doubling of tax on capital gains could be announced. One has to weigh the risk of paying tax earlier than necessary by triggering capital gains against the likelihood of a tax change in that area. If you choose to trigger capital gains to try to avoid higher taxes on it later, give us a call.

Volatility is Normal

2020 had lots of market volatility. Even by Oct 16, there had been 54 days that rose 1% or more and 40 days that fell 1% or more. And there were a ton of highly volatility days in the last 10 weeks of the year to add to those numbers. The second most volatile year in the last 8 years was 2015, when there were 41 positive and 31 negative days with changes of 1% or more. The least volatile year was 2017, an exceptionally low volatile year, with only 4 volatile days in each direction. On average in the 8 previous years, there were 27 1% or more positive days and 22.5% negative days of 1% or more So one has to accept these ups and down and not get emotional about them, to be a successful investor, especially since a 1% down day hurts emotionally twice as much as a 1% gain makes one happy. What counts is that over the long-term, the market has always gone up and patient investors can reap the rewards.
Source: Advisorperspectives.com

A JP Morgan analyst did new research that confirms what others have been saying for over 20 years about how the way investors react to volatility is far more important than the effect of volatility on returns. If you put $10,000 USD in the S&P 500 20 years ago, the money would have grown to $30,000 with an average return of 5.6%, IF you had remained invested through the whole period. But, if you missed the 10 best days of the last 7,000 of those 20 years, the amount your $10,000 would have grown to would have been more than cut in half and the average returns would have been only 2%. And, it is so easy to miss some of the highest days in the market, if you try to time the market. "six of the best 10 days in that 20-year period occurred within two weeks of the 10 worst days." 2020 was a perfect example. Mar 12 was the worst sell-off day, with the S&P/TSX falling 12% in one day. Less than 2 wks later, there was a day with a 12% gain. Within 3 days, the market was up 20%. If you had gotten out of the market in fear and not gotten back in till the scary days were over, you would have missed this huge part of the recovery! When it's scary, that's the time to hold on, or even add more money. The modern speed of the market has heightened the volatility. Leveraged trading strategies amplify market moves both up and down. Since many of these strategies are automated, they all reduce their exposure at the same time in volatile markets. That kind of herd mentality that exaggerates drops and rebounds. "If you wait for just the right moment to pounce, you'll probably be too late." Think long-term and hold on through scary times. (Globe & Mail Jan 2, 2020)

Fear of markets can lead people to do illogical things that will hurt their net worth. An example happened in Spain in Dec. The government sold 10 yr bonds for a price higher than the amount "investors" would receive back when the bonds matured 10 years later. Italy and Greece (the European Union nations which were in such great trouble a few years ago) are among the last EU countries paying interest rates above 0%. Even Australian bonds are yielding less than 0%. We think it's worth tolerating some or even quite a bit of bumpiness with stock investments to get positive returns rather than getting predictable but negative bonds by holding bonds to maturity!

Are the Canadian Market's Prospects Improving?

"With mass vaccinations expected to be completed before the end of 2021, major economies are expected to rebound strongly in the second half of next year. Downside economic risks will continue in the near term due to restrictions to contain the virus, a modestly sized US fiscal stimulus and an overleveraged corporate sector." What country may have one of the earliest recoveries? How about the country that has the largest number of vaccines per capital ordered? And that country is Canada. We had the most Pfizer and Moderna vaccines ordered per capital and also the most of other potential vaccines like Astra Zeneca's and others that are in Phase 3 trials. We have almost double the total number ordered by Australia, the US and the EU and triple what the US and many other countries ordered. (Mackenzie Investments Dec 2020 Market Insights) Now we just have to get those vaccines into people's arms!

Mackenzie's Multi-Asset Strategies Team published their expectations for 10 year geometric average returns going forward, as follows:

Government Bonds	less than 2%
US High Yield & Emerging Market Debt	around 4%
US, Cdn, Japanese, European and Asian Equity	around 6%
US & Cdn Small Cap Equities	around 6%
Asian & UK Small Cap Equities	around 7%
Emerging Market & Chinese Equities	over 8%

(Mackenzie Investments Dec 2020 Market Insights)

We don't often see Canadian market returns projected to equal US market returns. Manulife Asset Management, TD Asset Manager and other economists and firms are projecting Canadian equities (the stock market) to outperform the US market. This is because our banks are pretty cheap right now and resource companies (oil and gas, mining, lumber etc) are mostly super cheap. This could be a year with an extra rebound for them, and since they make up so much of the Canadian stock market, this could mean our market outperforms the US market on average. We have been telling people for years to underweight Canada, this could be a year to have a little more Canadian exposure, but that's probably not a long-term situation.

Is Shopify's outperformance in 2020 just a sign of the digitization of our world, or is it a sign of overvaluation. Shopify's market value rose $122 Billion dollars in 2020 alone. That's just over 2/3 the value of all of RBC. To put it in perspective, all the other companies in the S&P/TSX index only rose $43 Billion in 2020, or about 1/3 as much. (Source: Globe and Mail Jan 2, 2020)

Growth has outperformed value stocks for over 10 years to the point that value stocks may be very, very cheap now. The last time they were this cheap was 2008, right before the Great Recession. That was a great time to get into them, because they fell less in the 2008 drop and they rebounded faster. Canadian bank stocks were value stocks then and one would have prospered by investing in them, at a time that it was a scary play, because of bank problems in the rest of the world. Canadian banks have underperformed for the last 2 years. They have never underperformed for 3 years in a row. They may be a good place to invest now. (We didn't invest in them in 2020, because US banks were even better values.) However, the longer term view may not be as strong in the future as they had been for decades. Consumer trust in banks has lessened in recent years. Personal relationships with clients are lessening as branches close and people do more on-line banking. There is more digital banking competition. So, Canadian banks may resume being outperformers in the next few years but may not be perennial long-term holds again. (If our managers think they are the best opportunity out there, they will buy them and divest when they are no longer compellingly cheap.) Resources like oil companies are near historic low prices. While renewable energy companies soared in 2020, traditional Canadian oil companies suffered terribly with low oil prices. US shale oil companies collapsed due to lack of funding and low oil prices last year. Under President Elect Biden, shale oil is not expected to return. So, OPEC plus Russia are able to resume controlling oil supply to stabilize prices at levels that cover costs. With so many oil wells having been taken off-line last year due to low oil prices, supply and demand came back into balanced and oil prices stabilized around $50 per barrel for West Texas Intermediate/ $35 for Western Canadian Select. Supply can't ramp up quickly because it can take years to re-open wells, because existing wells have decreasing production each year, and because there's been a decade of no infrastructure expenditure in non-shale production. So extra production is not ready to come on-line. However post-pandemic, Western world travel and commuting will increase above today's level, and more importantly, oil usage in emerging markets will grow as their economies take off. This may throw supply and demand out of balance again and lead to higher prices and profits for oil companies. Emerging markets in particular do not have the capability or resources to roll out renewable energy quickly enough to meet their growing energy demand. So, they should bring about a world oil demand increase. (Source: BNN Bloomberg TV Guest Ryan Bushell Jan 6, 2020)

So, there could be an opportunity with oil company stocks. However, the volatility in the resource sector is incredible and the selective addition of resource companies on a short-term basis into portfolios is probably best left to fund managers. Otherwise, if you can stand the rollercoaster ride, and are prepared to sell when (if) you've made profits, resource stocks could be an opportunity. Since we don't think we can time the selling of resource stocks or funds, you would have to be prepared to closely monitor this for yourselves.

How are Average Canadians Doing Financially?

Statistics Canada's 2018 data showed that

- households with the major income earner under age 35 saved $4,782 that year
- households over 65 withdrew $17,129 from savings on average to supplement their income
- the top 20% of income earners had a net worth (assets minus debt) of $1.8 Million
- households with the lowest 20% of income had net worth of about $200,000
- the wealthiest age group are those with the major income earner between the ages of 55 and 64. They have average net worth of $1.2M
- households who rely on wages and salaries for their income average $94,000
- households receiving pension benefits have an average income $48,000
- the 4% of households who rely mostly on investment income earned $158,000 on average.

Source: WealthProfessional.com Dec 24, 2020

Canada has amongst the most educated workforce in the world. 75% of workers have post secondary education vs the U.S.'s level of 66%. This may have helped us weather the pandemic recession better than most countries. And we have had fewer bankruptcies in this recession than in any other recession in history. Citizens are on average wealthier than before the pandemic and the savings rate has climbed to 12% during the pandemic. So while many are indeed suffering [especially low income earners], the majority are faring better than normal during a recession.

Source: Stefane Marion, Chief Economist and Strategist of National Bank at the Economics Club of Canada Jan 7, 2021

Those making less than $800/wk were most negatively impacted. Those making $800-1200/wk had less job loss and those making more than that had hardly any job loss. Net wealth of Canadians and debt to income ratios has really improved on average, just more for high income households and not evenly across all sectors of the population.

Source: Craig Wright, Chief Economist, RBC at the Economics Club of Canada Jan 7, 2021

Are Low Interest Rates Really Helping Homebuyers?

The following is a comment on the US, but it's perhaps even more applicable to the GTA. "Record-low mortgage rates were supposed to make it easier for homebuyers. Instead, they've helped push affordability to a 12-year low. Buyers in the fourth quarter needed to spend almost 30% of the average wage to afford a typical house, the biggest share for any three-month period since 2008." This makes me wonder what will happen in Denmark. There are now 20 year mortgages there at 0% interest rates!
Bloomberg Daily E-mails of Dec 31, 2020 and Jan 5, 2021

"You're Not Still Investing With Mom and Dad's Guy, Are You?" (Questrade TV Ad)

If you weren't sick of hearing Questrade's ad over the holidays, you probably will be by the end of football season. But let's fact check their claim that you can retire 30% richer because of their lower fees.

Fidelity compared some of Fidelity balanced and equity funds that had the same asset splits between equity and bond and geographical allocations to the Questrade funds, that the ad refers to when it says that Questrade will also manage your money for you. Fidelity used their F Class funds that have lower fees, because they can only be held in fee based accounts where advice has to be paid for separately. The absence of advice costs in Fidelity's fees puts Fidelity on an equal footing with Questrade, where there is no financial adviser planning and giving advice. Fidelity used numbers from www.questrade.com/questwealth-portfolios/etf-portfolios to the end of Nov 2020 and then deducted

Questrade's fees including HST. For all 5 funds compared, over the timeframes of 1 yr, 3 yrs, and 5 yrs, the Fidelity funds, net of fees, outperformed the Questrade funds. Fidelity's Conservative Income fund with it's .83% F class fee had 5 yr compound 4.6% returns versus Questwealth Conservative (both with 20% equity and 80% bonds) with it's lower .47% fees and 5 yr compound returns of 2.8%. People who only focus on cost might delight in Questrade's .36% cheaper fees and neglect to notice the 1.8% outperformance by the higher fee fund. Questrade's Aggressive Growth, a 100% Canadian Equity Fund, with a low fee of only .5% had a 5 yr number of 6.9, while Fidelity's comparable aggressive fund beats it at 18.1% return, despite a 1.11% no advice fee. We compared 2 more conservative Canadian GARP funds that are the Canadian funds we have used most, one for the last 23 years. They also had higher fees of .75% and .83% on the versions where advice is charged separately. They also had higher 5 yr returns of 13.02% and 9.69% than the Questrade Canadian fund. All this is to say that it isn't only Fidelity funds that have trounced Questrade funds. How are the "lower fees" going to allow someone to "retire 30% richer" with Questrade funds' lower returns?

It is not surprising that people get lured into using low fees to determine which funds they want to invest in. In an online article from Wealth Professional on Jan 11, 2021, it said, ""Study after study concludes that on average, the lower an active fund's fees, the higher is net performance," said Jordan N. Boslego CFA … in a blog post published by the CFA [Chartered Financial Analyst] Institute. "As a result, it's now common for both individual and institutional investors to heavily weight expense ratios when selecting investments." Boslego cited the latest Morningstar Fund Fee Study, which found that 93% of net new money flowing into active strategies in 2019 went into the cheapest 10% of funds. He argued that while this might be sensible for passive, index-tracking funds, it's not a sensible situation for actively managed funds, whose purpose is to seek a differentiated return stream from their competitors. … Most active long-only funds, he explained, are offered by managers whose relative performance is just a function of fluctuating luck. That means over time, their performance is expected to be no better than that of their respective benchmarks on a gross basis; on a net basis, it's worse because of their higher fees. "Depending on the sample and methodology used, research consistently shows that from 60% to more than 90% of managers don't exhibit any persistent advantage over a passive benchmark," he said. … **Given that situation, an investor choosing an active fund at random would be overwhelmingly better off choosing one that's low-fee, since the odds are that they'll pick one of the many underperformers. But investors who rationally allocate to an active fund, he argued, would be using a due diligence process they believe can accurately measure quality; if they indeed have a method to discern top-notch funds, then expense ratios shouldn't matter much, and net outperformance should be the target**. "Because skilled managers deliver value for their investors, it's natural that they also generally capture more value than their unskilled peers in the form of fees," Boslego said, arguing that **the best managers are most likely not clustered in the lowest-cost segment of the fund universe**. "As a result, screening based on fees is a particularly bad idea, and could end up eliminating the strongest funds from the outset."" We believe our track record has shown that we do have a rational process to discern top-performing funds with higher risk-adjusted performance than their peers and that it is indeed net returns that matter.

Stay safe and call if you have any planning issues or want a planning session or account review by phone or on Zoom.

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