Manulife Securities

ROYDS REPORT

Sept 2022

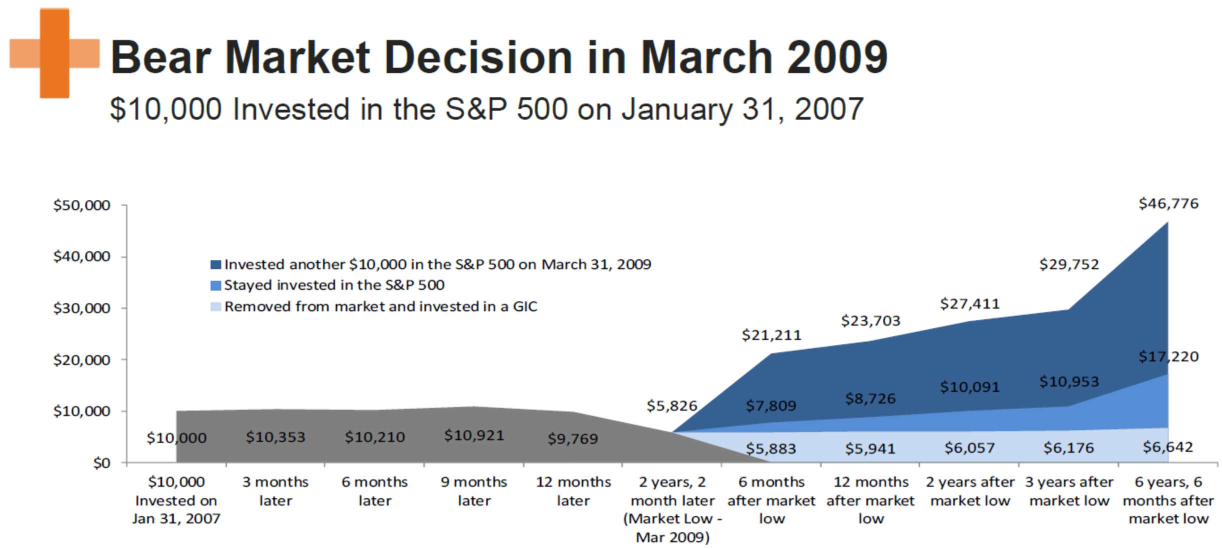
Markets Today

The rollercoaster ride continues. In July and Aug there was some stock market rebound. Inflation inched down a bit, as the edge came off the dizzying heights of housing and gas prices. Interest rates rose (a probable cause of the drop in housing prices) and unemployment remained very low. Supply chain issues remain, as a result of the war in Ukraine, the persistence of COVID, and the steep rise in demand for services as people tried to resume travel etc before businesses had ramped up their ability to provide the services. Anecdotes abound of people changing their buying habits or driving less which is what higher interest rates are meant to make happen. The US Federal Reserve Chairman announced that until inflation is tamed, interest rates will continue to rise. This announcement on August 26th upset North American stock markets and caused them to fall. There is no resolution in sight to the conflict in Ukraine. That's where we stand today.

Patrick Boyle, a professor at King's College London, in his June 17, 2022 podcast (Investing In An Inflationary Environment! - YouTube) said that once inflation gets above 5%, it has historically never been tamed until the US Fed's raised interest rates to a level higher than inflation. With interest rates falling and rates rising, it looks like we are headed in that direction, but we have quite a ways to go. Many are forecasting central bank interest rates to climb to about 3.5% by the end of 2023 (or even in Sept) and to 4% next year. And Canadian banks are putting aside hundreds of millions of dollars into reserves as a cushion to their bottom line should homeowners start missing mortgage payments when their interest rates rise at mortgage renewal time. Insurance companies and banks are forecasting 7-16% further drop in housing prices. Many analysts expect a drop in interest rates in late 2023 (although not to 2021 levels) and that usually encourages better stock market returns. (Source: Credit Suisse Global Investment Returns Yearbook 2022 Summary Edition) Many people think the interest rate rises and labour shortages will curtail enough economic activity to push the Canadian and/or US economies into a recession, but there are others who still think we'll have a soft landing and narrowing avoid a recession. Economists' estimates of probability seem to range from about 15 – 70%.

It could be that stock markets won't have a full rebound till inflation is falling back to target levels and interest rates can be lowered. Hopefully that will be by next year, but no one really knows. There are always unknown variables, which is why it's impossible to predict and time the markets. In the meantime, our fund managers are following two paths. Some keep refining their portfolios to make sure they are holding the highest quality, best value companies they can find (many of which they have always wanted, but which had previously been too expensive), so that when the market recovers, their portfolios will get the strongest rebounds possible. These managers tend to have deployed any cash they were holding, because they are seeing good buys. Others are continuing to hold the same quality companies for the long-term as had always been their plan. This is more of a Buffett-type approach.

What can we do? There are two courses of action that have historically been beneficial at times like this. The first is to buy into the down market, rather than waiting till prices recover to buy more investments. This takes some courage, but it prevents regret later when you realize you missed a buying opportunity. The second thing is to hold onto your investments so as not to lock in losses, and to be ready to benefit when the market does recover. (See chart below) Patience worked to get the recovery after the 55% market drop of 2007-2009, the market drops of 2011, 2015/16, 2018, and 2020. It's never totally comfortable, but it seems to get easier the more times you experience downturns and recoveries. And if history has taught us anything about the stock market, it's that this won't be the last downturn or recovery. The market doesn't climb in a comfortable straight line. Volatility is the price we pay to invest in companies through the stock market or equity funds. And if you want to know a lot more about history, equity and bonds returns, inflation etc, check out Credit Suisse's 2022 Returns Yearbook which is publicly available for free (with about 47 pages and lots of wonderful charts). credit-suisse-global-investment-returns-yearbook-2022-summary-edition (2).pdf



Sharing Personal Financial Information – 3 Aspects

1) If we haven't already asked you to name one or more Trusted Contact Person(s) for us to contact, in case we should ever be concerned that you are not acting characteristically, we will be asking you the next time we speak. Unfortunately, it's happening more and more often, that people are getting Alzheimer's or Dementia, or succumbing to money-sapping addictions or falling prey to scams. If we suspect something is going on, having us call a named friend or relative could end up in some sort of intervention that keeps you from blowing up your financial future. We cannot share your personal financial information with the Trusted Contact Person, only our concerns about your uncharacteristic behaviour.

2) The Canadian Anti-Fraud Center estimates that Romance Scams, despite being under-reported, are the second most prevalent type of scam in Canada. We recently learned of a retired widow who emptied a quarter million dollar account over the course of 5 months, giving her advisor the same reason for taking money out each time. When the widow then wanted to withdraw more, despite a huge tax consequence, the advisor pressed her much harder about what she was going to use the money for. The widow finally admitted that the money was all going to a man she met on-line, whom she was trying to help bring to Canada, and that she had already run up her credit cards and taken out a mortgage to get other money for this man. The advisor was able to help the woman see that she was a victim of a romance scam, and that very day the advisor got an email "from her" asking for her accounts to be liquidated. Her email account had been hacked. The money she had sent the "online Romeo" was gone forever, but at least the advisor was able to keep her from losing the rest of her money.

The securities industry policy, that requires us only to take verbal instructions from clients and prevents us from taking emailed instructions, is specifically intended to help stop fraud through hacked email accounts. And the policy that requires us to ask you why you are withdrawing money is also intended to help us protect you. We're not trying to be nosy. Yes, it could happen that we might comment on whether the withdrawal could negatively impact your retirement income stream, but isn't it our job to let you know the financial impact of your actions? A secondary purpose though is to find out whether someone is pressuring or scamming you or you are still competently aware of what you are doing. And indeed, there have been a couple of times over the years, when a couple of our clients have been on the verge of losing money to romance scams. We would like to think that our asking questions about the financial implications of the clients' planned actions and the logic of their romantic interest's financial proposals (no pun intended) helped these clients avoid losing money. Sometimes we've probed when there was a legitimate love connection happening, but it's all in the interest of making sure the client isn't being taken advantage of. So please forgive us when it seems we are asking you questions about how you are using your own money. You can use it how you want, but it's our role to make sure you know how your financial decisions impact your situation and future and to make sure that you are in control of your decisions.

The following links have brief point form information on spotting romance scams. A quick read might help protect you, or help you recognize if a friend is falling victim to a scam. Hold your Control button down and then click on a link below to open it.

Canadian Anti-Fraud Centre Bulletin: Romance Scams | New Brunswick Financial and Consumer Services Commission (FCNB)
Romance (antifraudcentre-centreantifraude.ca)
Romance scams | Protecting against fraud | GetSmarterAboutMoney.ca

For information on Crypto related fraud scams, here is another website to check out.

Canadian Anti-Fraud Centre Bulletin: Crypto Investments | New Brunswick Financial and Consumer Services Commission (FCNB)

3) Lots of people splurge on something once in a while, and if they can afford it, why not? If a person can't afford it, surely it's important to make sure they make an informed assessment as to the impact on their lives, before they proceed with the splurge. No one should shy away from such an assessment, because it might prevent you from taking an action whose consequences you can't live with, or it could prepare you to live with the impact of the decision to splurge. One thing to ask yourself if this. If you ae reluctant to tell your advisor the real reason why you are withdrawing money from your account, why are you reluctant? Are you embarrassed, because you know that you can't afford it, or you know your withdrawal isn't for a wise reason, or because you don't want us to know you've succumbed to pressure from someone else to make this withdrawal, or you already know there is no logical reason for what you are doing? If you're not comfortable and confident enough in your reason for withdrawing money to disclose that reason, that should be a warning to you that it may not be something you should be doing. Know that when we ask you why you are taking money out of your accounts, a) we are trying to understand your financial position and priorities, b) regulations require we know your financial situation,

c) the Proceeds of Crime (Money Laundering) and Terrorist Financing Act requires us to ask the purpose of the funds, d) regardless of whether we think it's a wise move for your long-term financial health or not, you can still do it, as long as there's no indication that you are not of sound mind or not in control of your actions, and e) maybe we can share additional information that would result in a lower tax impact or just be a better alternative. We're not trying to be intrude on your private decisions or stop you from living your life the way you want. We're trying to protect you financially.

As a reminder, we are doing in person appointments, and still continuing with Zoom appointments for those who would prefer them. Give us a call, if there is anything financial that you want to discuss.

Elaine

Elaine Royds, MBA, CFP®

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

Jordan

Jordan Royds, CFP®

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
Website www.roydsfinancial.com

Investment Advisor Assistant, Manulife Securities Incorporated: Sarah Breimer
Administrative Assistants: Pauline Marchong and Dharini Jani