The Francis Forum

Summer Edition 2020

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Preparation vs Panic – Part Two

A year or so ago, I wrote about the difficulty of finding value as an equity investor. After all, investors had enjoyed a pretty good run since recovering from the 2008-09 global financial crisis. The point of my article was that perhaps it was time to rebalance and prepare for the next market pullback. I certainly had no idea what the catalyst would be, but Covid-19 proved to be a good one. Those who reviewed their asset mix, took profits from over valued stocks, rebalanced with a tilt to more income-oriented investments and perhaps added some private investments, have likely fared quite well this spring. Others likely panicked during the Covid-19 pullback…selling their wonderful positions in proven companies like McDonalds, Visa, Berkshire Hathaway, Canadian banks or mutual funds holding similar names, only to miss the significant rally since the low on March 23rd.

Today's article holds preparatory words to a new problem looming in the not too distant horizon. It will catch many off guard and its effects are equally destructive to building wealth. Taxation! If you think for one second that we are not going to pay for all the much needed stimulus and the billions of dollars of government bailouts – you are very mistaken. Now is the time to consider the changes to capital gains inclusion rate, tax credits and income tax rates generally. Consider what would happen if OAS claw back thresholds were lowered, a wealth tax was implemented, or a tax on estates over a certain value was imposed? The latter is another layer of tax resulting in double taxation since all assets are already "deemed sold" and taxed at the time of death. Given the heavy burden on RRSP/RRIF values, capital gains etc., at that time, this may be especially punitive.

Could you take advantage of income splitting through a spousal investment loan…perhaps gift or loan money to adult children if both are in lower tax brackets? Do you need more RRSP's? If not, look at insurance products or non-registered assets. There are still very good fixed income investments that are currently tax preferred (Corporate Class and Total Return) and if the laws change on these, they are liquid and can easily be sold to engage in other strategies. Tax planning for retirement and estates will be very important in the coming years.

The message here is that even if you did not rebalance and your quality equity holdings felt the downdraft in March, history proves all broad-based declines are temporary and followed by a new high – *if* you stayed invested and did not panic and sell. However, the

lesson here is that while markets declines may be temporary, a higher tax obligation is not. It is *permanent loss* of capital!

Review your family holdings now and we can speak to find out where you are vulnerable and how you might protect your wealth when the taxman comes calling. They are not far away and.... they ring until they are satisfied.

Sincerely,

Duane

Around the Branch

- Everyone is back working at the branch and we are all available by phone, virtually or if necessary, for limited face-to-face meetings. We have implemented new measures to protect our clients and our staff such as a plexiglass barrier for the front desk, face masks and hand sanitizer. If you are interested in setting up a virtual or face-to-face meeting please call Natalie Nunn at (613) 728-0101 ext. 221 or email nnunn@mandevillepc.com as we are all here to help.
- We continue to regularly update the news section of our website at https://capitalwealthpartners.ca/category/news/ to keep you informed as new information and news items become available regarding COVID-19, so please bookmark the link and check-in regularly for updates from our team at Capital Wealth Partners.

Estate planning and insurance services during Covid-19: What you need to know.

It has been hard to avoid the alarming news and statistics that we have been faced with over the last few months, as we were forced to retreat indoors away from extended family and friends. The lockdown period has given a lot of people time to think and plan for when we start to return to the 'new normal'.

Sadly, people have also been confronted with their own mortality, and we have seen a rise in the number of enquiries regarding wills and estate planning. Both areas are not just about mitigating Inheritance Tax (IHT); they also ensure that your 'estate' (your property, money, and possessions) is passed to your beneficiaries in the way that you have chosen.

With much uncertainty around us due to the coronavirus, now is a great time to take stock of what is important and ensure that your estate and insurance planning is in good order.

To this end, we are pleased to introduce Shawn Ryan as the newest member of the Capital Wealth Partners team and specializes in working with individuals, professionals and business owners in the areas of estate, succession and insurance planning. Shawn's goal is to augment the planning we have put in place already and ensure that all areas of your planning are looked after, help you make sound decisions and ensure that you are made aware of your options in these areas.

Although some clients may not require a formal estate or succession plan, Shawn is able to tailor their financial service offerings to meet most needs; and it all starts with a conversation.

We all would like to ensure that our affairs are in order and that we can sleep at night with self-assurance. I am confident that his process will illustrate ways to:

1. Protect your personal and professional business interests in the event of an unforeseen death or disability while maintaining your family's lifestyle.
2. Improve your opportunities to achieve your retirement and estate planning goals and objectives.
3. Minimize taxation now, at retirement and upon death.

The following is a brief explanation of his three main focuses:

Estate Planning - A good estate plan reflects your wishes and gives careful attention to tax considerations after death. It gives purpose to what you have accomplished in your life, while conserving assets, offering adequate support for dependants, providing the appropriate liquidity at time of death, and ensuring fair and equitable distribution of your estate to loved ones. An estate plan tells others how your estate is divided according to your wishes, rather than the government's wishes.

An estate plan also offers benefits during your lifetime. It can help you accumulate savings for retirement and take advantage of tax savings opportunities. It can also help you maintain your lifestyle if you become ill or disabled for a lengthy period. An estate plan should be part of your ongoing financial planning.

Succession Planning - It is a plan for the transition of your business, in total or partially, whether over a period of time, or at a precise time and ensures recommendations are developed to fit your overall goals and objectives. It is planning for an outright sale to a third party, or a sale to key employees, or a transition to family members. It is about being continuously ready and positioned to make the best decision for the transition of your business no matter what life throws at you.

Insurance Planning – Essentially insurance is offered in the form of life, disability, critical illness or long-term care insurance. It is typically purchased because of a need for capital on the insured person's death or incapacity. Capital may be needed to fund a buy-sell agreement, replace income, supplement retirement, estate equalization, pay off debts, cover medical expenses. Pay final expenses including funeral, estate, probate and capital gains tax liabilities or make a gift to a charity.

We have long provided a comprehensive insurance review service that closely examines your existing insurance policies, summarizing the findings in a detailed report and provides you with valuable Insurance recommendations which can be utilized to make informed decisions.

Here are some of the main reasons you should consider reviewing your insurance coverage:

1. Your income and financial status has changed over time
2. Your health or your smoking status has changed (marijuana is now non-smoker)
3. You have lost weight
4. Your family status has changed
5. Your business ownership structure has changed
6. Your housing and or mortgage status has changed
7. Your marital status or dependant's status has changed
8. Your beneficiaries have changed
9. Insurance products are constantly changing, and we have access to most major carriers

Shawn has been successful in designing and implementing estate, succession and insurance plans for many Ottawa area individuals, professionals and business owners to enhance their financial outcomes by focusing on their distinctive needs and interests. Shawn can be reached at the branch by phone at 613-728-0101 or email at sryan@mandevillepc.com.

Create Wealth, Achieve Freedom

Summer Edition 2020

When Will Life Return to Normal?

By Iman Ghosh

From battles on the front lines to social distancing from friends and family, COVID-19 has caused a massive shake-up of our daily lives.

After second-guessing everything from hugging our loved ones to delaying travel, there is one big question that everyone is likely thinking about: will we ever get back to the status quo? The answer may not be very clear-cut.

Today's graphic uses data from New York Times' interviews of 511 epidemiologists and infectious disease specialists from the U.S. and Canada, and visualizes their opinions on when they might expect to resume a range of typical activities.

Life in the Near Future, According to Experts

Specifically, this group of epidemiologists were asked when they might personally begin engaging in 20 common daily activities again.

The responses, based on the latest publicly available and scientifically-backed data, varied based on assumptions around local pandemic response plans. The experts also noted that their answers would change depending on potential treatments and testing rates in their local areas.

Here are the activities that a majority of professionals see starting up as soon as this summer, or within a year's time:

	This summer	3-12 months	+1 year	Never again
Bring in mail without precautions	64%	16%	17%	3%
See a doctor for a non-urgent appointment	60%	29%	11%	<1%
Vacation overnight within driving distance	56%	26%	18%	<1%
Get a haircut at a salon or barber shop	41%	39%	19%	1%
Attend a small dinner party	32%	46%	21%	<1%
Hike or picnic outdoors with friends	31%	41%	27%	<1%
Send kids to school, camp, or day care	30%	55%	15%	<1%
Work in a shared office	27%	54%	18%	1%
Send children on play dates	23%	47%	29%	1%
Ride a subway or a bus	20%	40%	39%	1%
Visit elderly relative or friend in their home	20%	41%	39%	<1%
Travel by airplane	20%	44%	37%	<1%
Eat at a dine-in restaurant	16%	56%	28%	<1%
Exercise at a gym or fitness studio	14%	42%	40%	4%

The urge to be outdoors is pretty clear, with **56%** of those surveyed hoping to take a road trip before the summer is over. Meanwhile, **31%** felt that they would be able to go hiking or have a picnic with friends this summer, citing the need for "fresh air, sun, socialization and a healthy activity" to help keep on top of their physical and mental health during this time.

Public transport and travel of any form is one aspect that has been put on hold, whether it's by plane, train, or automobile. Many of the surveyed epidemiologists also lamented the strain the pandemic has had on relationships, as evidenced by the social situations they hope to restart sooner rather than later.

The worst casualty of the epidemic is the loss of human contact.

—Eduardo Franco, McGill University

On the other hand, there are certain activities that they considered too risky to engage in for the time-being. A large share are putting off attending celebrations such as weddings or concerts for at least a year or more, out of perceived social responsibility.

	This summer	3-12 months	+1 year	Never again
Attend a wedding or a funeral	17%	41%	42%	<1%
Hug or shake hands when greeting a friend	14%	39%	42%	6%
Go out with someone you don't know well	14%	42%	42%	2%
Attend a church or other religious service	13%	43%	43%	2%
Stop routinely wearing a face covering	7%	40%	52%	1%
Attend a sporting event, concert, or play	3%	32%	64%	1%

Perhaps the most surprising finding is that **6%** of epidemiologists do not expect to ever hug or shake hands as a post-pandemic greeting. On top of this, over half consider masks necessary for at least the next year.

The Virus Sets the Timeline

Of course, these estimates are not meant to represent every situation. The experts also practically considered whether certain activities were avoidable or not—such as one's occupation—which affects individual risk levels.

The answers [about resuming these activities] have nothing to do with calendar time.

—Kristi McClamroch, University at Albany

While many places are trickling out of lockdown and re-opening to support the economy, some officials are still warning against prematurely lifting restrictions before we fully have a handle on the virus and its spread.

https://www.visualcapitalist.com/life-return-to-normal-covid-19/

5 money lessons learned during the pandemic

By Pattie Lovett-Reid

COVID-19 has wreaked havoc on so many lives. Loved ones have been lost far too soon. The global economy has been slammed. Small businesses have had their life's work pulled out from under them. Larger industries such as retail, travel, tourism may take years to come back. Families are struggling to make ends meets. Yet, throughout the pandemic, we've remained hopeful we will get through this and the lifestyle we once knew will one day return.

But do we really want our pre-pandemic lifestyle back? I put out a call on social media to gauge how people were feeling and what they were thinking. Depending on age and lifestyle, it was mixed. Yes, in some ways we absolutely want the freedom we once enjoyed to return; however, now possibly with a twist.

Here are some of the aha moments COVID-19 has brought to our attention:

1. Enjoy life: Sadly, none of us has as long as we think we do. Striking a balance between saving and spending is key. Try not to spend as if there is no tomorrow and save enough for the future you hope to enjoy. Spend money on the things that give you the greatest joy yet don't be seduced into lifestyle creep. During our period of isolation, some of the things many have longed for the most don't necessarily cost a lot of money – time with your family, or a face-to-face conversation. A hug. The value of getting outside and enjoying moments will likely never be considered overrated again.

2. Adapting to working from home: For those who have this option, it appears to be embraced. There is a recognition with less workspace interruption there's an increase in productivity, efficiency and even creativity. But this comes at a price as the lack of socialization, orientation and structure to their day has been shifted. Track pants and yoga wear has resulted in cheaper workplace attire. The limited commute is saving many workers money on gas. However, expect to pay more for bandwidth to handle video chats and the costs to set up your office.
At the end of the day you will save money, but there will be offsets. Businesses are paying attention to this and accommodating where they can – and, in many cases, are in no rush to get people back into the office tower.

However, not everyone is adapting as well. When it comes to working from home, many women expressed frustration and concern that the pandemic has hit them harder than their male counterparts. Those with younger children are torn with daycare and schools being closed and bosses expecting productivity. Caring for family has proven to be a challenge for households trying to balance work, schooling and caring. This for many has proven to be a monumental task that has the potential to set women back.

3. Managing your portfolio: The volatility in the markets and fear of a second wave of COVID-19 has investors cautious and locking in recent gains in the market. The sobering reality laid out by U.S. Federal Reserve Chair Jerome Powell suggesting the recovery isn't likely going to be a V-shape with a quick rebound has many coming to terms that their investment portfolio is not as diversified as they thought – nor is their risk tolerance as high as they thought. Many are unwilling and unable to sustain big swings in their investments.

4. Borrowing to enrich your life: Borrowing can make all kinds of sense if you borrow to go back to school, start a business, or buy a home. But when it comes to borrowing for the sake of enhancing a lifestyle you can't afford, it's a recipe for disaster. Breaking the shopping habit and adopting a savings habit is likely not going to reverse itself post-pandemic.

5. Goal-setting: Set short-term financial goals that will excite you to save. Twenty-and-30-year-olds made it clear to me they aren't interested in saving for retirement and I get it. They have more pressing financial needs. Buying their first home or landing their first job. However, others do get excited about saving for retirement. The important thing here is to have financial goals. Our secret weapon is our ability to go out and earn a living. Having a job post-pandemic will be the key to financial success and the reality of this has hit many hard. Those who were a little complacent about their job pre-pandemic told me they covet that same position today more than ever. Having a job is no longer taken for granted.

Finally, something to keep in mind as we get closer to navigating a post-pandemic lifestyle: it isn't just about the money. We're all different, we have all faced challenges. And we all need to be more tolerant and recognize it hasn't been easy for most.

https://www.bnnbloomberg.ca/personal-finance

Canada's climbing debt-to-income ratio: what you need to know

By Alexandra Macqueen

We break down what the debt-to-income ratio means—for the nation's financial health, and for yours.

The latest headlines tell a now-familiar story: Canadian household's debt loads have increased once again, with the debt-to-income ratio hitting 176.9% in June 2020. But what is this ratio, why is it rising, and—most importantly—do you need to worry about it?

What is the debt-to-income ratio?

First things first. The debt-to-income ratio is a measure of how much debt a household is carrying, relative to its disposable income—that is, the money you have available to spend or save, after taxes and other non-discretionary expenses, such as EI and CPP or QPP contributions, are made.

A ratio of 176.9% means that, across all Canadian households, we collectively owe almost $1.77 for every dollar of disposable income we have. That's very close to the all-time high of 178% in late 2017.

How did we get here?

There are two overarching reasons why we've ended up with our current level of collective debt.

Debt is cheap

The basic laws of economics tell us that when prices fall, demand increases. Here's why that's important for the debt-to-income ratio: what really matters is not the total amount borrowed, but the cost to service that debt over time—that's the *debt-service ratio*. The lower the interest rate, the cheaper it is to borrow money and service that debt, and thus the more debt a household can afford to carry.

Over time, the debt-service ratio has remained pretty constant even as the household debt-to-income ratio has risen.

In 1980, for example, the ratio of household debt to personal disposable income was just 66%, or $0.66 owed for every dollar of disposable income.

Back then, however, the bank rate—the minimum rate of interest that the Bank of Canada charges on one-day loans to financial institutions, now superseded by the target interest rate—was 12.89%, compared to just 0.25% today.

In practical terms, $100 borrowed for a year at 1980 rates would cost nearly *20 times* as much as it would to borrow today.

This astonishing drop in interest rates accounts for why the debt-service ratio has remained relatively steady over time, fluctuating between about 12% and 15% from 1990 to the first quarter of 2020, and falling from 14.81% in the last quarter of 2019 to 14.67% in the first quarter of 2020.

Our relationship to debt has changed

Over time, we've become more and more accepting of borrowing as a normal part of household finances. When the ability to borrow became available as a tool to "bring forward" our household spending, lots of us decided to do so. And as the cost of borrowing progressively dropped, we ramped up our debt.

This behaviour is consistent with what financial economists call *consumption smoothing*, or the idea that we can maximize happiness by spreading our resources over our lifetimes to achieve the highest possible total standard of living. From this point of view, in the words of former Bank of Canada Governor Steven Poloz, "Simply put, debt is a tool that allows people to smooth out their spending throughout their life."

Does the debt-to-income ratio matter?

The general consensus is that excessive levels of debt make households financially vulnerable. If you're an economic policymaker, such as Poloz, you worry that too much debt makes the Canadian economy "less resilient to future shocks."

Economic shocks are sudden and unpredictable changes in the variables that affect the overall economy, such as an unforeseen rise or fall in the cost of commodities, an unexpected shift in consumer spending, or a housing or stock market crash.

At the individual level, however, you're likely more concerned that too much household debt might mean you can't make your mortgage, student loan or car payments if something unexpected happens—such as normal fluctuations in interest rates, or the

loss of your job. (These are *personal* financial shocks, compared to the economy-wide macroeconomic shocks of falling commodity or housing prices.)

Research into Canadians' debt shows that younger people, those with household income of at least $100,000, and those with mortgages have more debt than older Canadians, non-homeowners and those with lower incomes.

The use of debt is also correlated with optimism about our financial futures. People who expect their financial situation to improve over time are much more likely to have more debt: a Statistics Canada study shows that peoples' expectations about their financial situation are strongly correlated with both their levels of indebtedness and their debt-to-income ratio.

Even the most optimistic households, however, are still subject to borrowing rules set by lenders, such as the new mortgage insurance rules for the Canadian Mortgage and Housing Corporation, which will go into effect on July 1.

What do I need to know about the debt-to-income ratio to plan my financial life?

Here are two ways to think about whether the debt-to-income headlines affect you.

The average might not apply to you

The debt-to-income figure represents an average for all Canadian households, including those who have little or no debt—meaning it must also include some very highly indebted Canadians. In fact, research from the Bank of Canada shows that the number of highly indebted Canadians —those with a debt-to-income greater than 350%—doubled from 2005 to 2014, from about 4% to 8% of all households. So a rising *average* amount of debt may not capture individual household changes, including yours.

Your individual circumstances matter

The more debt you have, the more vulnerable you are to "shocks" that can impact your ability to repay it. At the same time, however, your age, income, appetite for debt and expectations about your financial future will all combine to impact your approach to borrowing.

If you want to maximize your financial peace of mind and protect yourself from the risk of being unable to meet your debt obligations over time, you could minimize borrowing while prioritizing paying back any existing debt. A personal debt management plan, which maps out how you're going to repay what you owe over time, will allow you to see past headlines to understand debt as one tool in your financial toolbox.

https://www.moneysense.ca/save/debt/canadas-climbing-debt-to-income-ratio-what-you-need-to-know/

The biggest threat to your portfolio right now is you

"*The wise man listens to meaning; the fool only gets the noise*" *— Nassim Nicholas Taleb*

Times are changing and I don't like the direction in which society is collectively headed. Not only are our thought patterns changing but so is the overall quality of our mental health and personal well-being. The past three months of lockdown is putting people to the test, with many of us watching the news non-stop or constantly scrolling through social media searching for clarity amid the madness.

Instead of finding a way out, we're being bombarded with negativity, including the daily antics of our politicians, riots and protests over racial injustice and police brutality, record levels of unemployment and debt and a pandemic that seems to be getting worse, not better. Given all of this, it is no surprise that people are asking why markets have been moving up instead of down.

In the face of all of this negativity, I'm often asked which factor poses the biggest threat to an investor's portfolio. My response to this question is always unequivocal — the biggest threat is you, the investor. I would argue this is more the case now than ever: If an investor is not cognizant of the effect this negativity is having on their thought patterns, it can lead to dangerous and costly decisions.

The good news is there is a solution. It begins by trying to become a clear thinker by separating out the noise from what's really important. The tough part though is it means unplugging from society's daily programming, which can be very difficult to do.

Naval Ravikant, chairman of AngelList, offered some great insight on this challenge when he was interviewed recently by Joe Rogan on his podcast.

"Now it's all diseases of abundance. We're over-exposed to everything. So the way to survive in modern society is to be an aesthetic, it is to retreat from society. There is too much society everywhere you go, society in your phone, society in your pocket, society in your ears … everyone is trying to program everybody. The only solution is to turn it off."

Nassim Nicholas Taleb, the statistician, ties this back to the investment world in his book "Fooled By Randomness," showing that increasing the frequency of how often one checks their portfolio changes the probability of seeing a negative result.

In his example, a portfolio that yielded a 15 per cent return and 10 per cent volatility, the odds of seeing a loss increases from seven per cent to 33 per cent just by shifting the time frame from yearly to monthly. It gets even worse to 50 per cent if looking at it on a daily basis. As a result, "over the short-term increment, one observes the variability of the portfolio, not the returns. In other words, one sees the variance, little else."

Now we're not advocating against portfolio performance tracking, but more so being aware of the emotional risks involved when looking at your portfolio on a more frequent basis, especially in light of all of the negative news.

This doesn't mean one shouldn't be active during such times — but investors should do everything they can to remove the emotional impact of near-term volatility from the process by focussing on rebalancing and long-term strategic positioning.

Finally, having a financial plan and a portfolio designed to achieve a target return specific to your situation can be extremely helpful in providing direction during these uncertain times.

Once these safeguards are in place, I challenge you to unplug from all the noise, take advantage of those favourite books you've been meaning to get to and enjoy the summer sunshine. Not only will your mood improve but so will your portfolio.

https://business.financialpost.com/investing/investing-pro/the-biggest-threat-to-your-portfolio-is-you-especially-now#comments-area

Client Seminars and Upcoming Activities

- Due to Covid-19 we have postponed our in-person seminars and client events until further notice as the safety of our clients and staff is always our first priority. However, as in May and June, starting back in the fall I will be continuing my monthly ZOOM seminar series online.

Duane

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Mandeville Private Client Inc. is a Member of the Investment Industry Regulatory Organization of Canada and Member of the Canadian Investor Protection Fund.

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