The Francis Forum

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Duane Francis CFP, CIM, CPCA FCSI, CIWM
Portfolio Manager/Senior Financial Advisor
Life Insurance Advisor

Mandeville Private Client Inc.
1565 Carling Avenue, Suite 610
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101
Fax: (613) 728-4075
Email: dfrancis@mandevillepc.com

Natalie Nunn
Executive Assistant
Telephone: (613) 728-0101 ext 221
Email: nnunn@mandevillepc.com

INSIDE THIS ISSUE

You can't control stock or bond markets but you *can* control your actions. This is an important lesson for many investors who feel they must do something when market volatility increases and panic sets in. However, its what you did *before* that counts – not during a temporary setback… like this past August??

Trying to time markets or selling securities into a decline based on bad news and "hoping" to buy back at lower prices is not likely to build wealth. When owning a stock (think equity in a business), earnings trump "promises" and quality trumps "hope".

If your comfort zone can withstand a 20% temporary decline then you can approximate a "peak to trough" decline by adjusting your asset allocation accordingly….in this case, tilted more towards quality bonds/fixed income than stocks. Looking at the 2008-09 global financial crisis we know that the TSX and the S&P 500 indices fell about 50%. It does not get much worse than that when looking back over the decades and perhaps a little worse than the nasty 1982 recession.

Thus, if you had 30% of your investments in stocks you would have seen about a 15% decline in your account as the other 70% - if invested in quality fixed income - remained static. Earlier I referenced "temporary decline". History proves that when you own quality businesses with proven track records of growing earnings, that are best in class within long-term growth industry's and run by competent honest management - the decline is in fact temporary. They are likely your drivers of wealth creation over time.

Look back on any relevant chart to witness the peak, trough *and* recovery. It may take anywhere from one year to several, but you do have recovery. This brings into play the value of diversification as I am writing about quality securities – as opposed to just one or a few securities. To reduce non-systematic risk (individual company risk), you should own approximately 12 or more companies, ideally spread across different sectors (i.e. financials, manufacturing, healthcare). Add to this your fixed income component, perhaps Exchange Traded Funds, foreign equities and privates/alternatives and I think you have a pretty bullet proof portfolio that will endure over time. The more equity exposure you have, the more variability you will need to endure to be rewarded over time with higher potential returns. This means avoiding the pointless effort of comparing month to month – even quarter to quarter returns. If this month's valuation is lower than last months – you have not "lost money" any more than you "gained money" in a positive month earlier. What is relevant and what does matter is to match the comparatives to the investment held. For equities this means comparing today's value to where the value was perhaps five years ago, as equities will always fluctuate in price and the time horizon is generally considered long term. If you want to see a guaranteed increase every month, you need to invest in a GIC, with low guaranteed returns and the higher guaranteed taxes they provide.

Revisit charts of the TSX or S&P500 (links below) and you will see that returns are not linear but trend upwards over time - not all months, not all quarters or even all years. Revisit peak to trough declines of the past and see the subsequent recoveries. Look at a Berkshire Hathaway or a Royal Bank chart and see how well you are paid to tolerate this predictable situation proven time and time again. It is important to remind oneself that broad market declines are temporary. This is the lifeboat drill every investor should revisit from time to time.

As you move through the months and years you need to account for "market drift" which particularly over the last 10 years has been a factor for global equities. To re-weight exposure during this time, or for personal objectives or risk tolerance, its prudent to rebalance your portfolio on a periodic basis to ensure your exposure to equities (and all significant asset classes) is kept within intended strategic limits. Equities compounding at 7% per year double approximately every ten years. Without rebalancing, elevated equity exposure could expose your portfolio to greater temporary declines during market corrections than you are comfortable with when the inevitable happens. Want higher potential longer-term returns? Increase your exposure to stocks and private income-oriented investments. Throw in tax concerns and cash flow management and it's a process that takes time and research. Investment managers measure success in years not weeks.

Hope is not a strategy nor is succumbing to headlines or market timing. Being prudently pro-active versus reactive is the lesson here. Here at the branch we as portfolio managers have been adjusting accounts for market drift or excess valuations and adding income investments for those nearing and already enjoying retirement. This is especially true in registered accounts where transactions do not trigger a tax liability.

For your convenience here are a few relevant links that help you see that broad market declines are indeed temporary:

https://www.marketwatch.com/investing/index/spx
https://www.marketwatch.com/investing/index/gsptse?countrycode=ca

Sincerely,

Duane

7 tips to foster your financial peace of mind

Start by defining what "wealth" means to you, and then understand the resources and strategies you can leverage to get there.

Most people worry about a singular aspect of their financial future: "Will I have enough?" It seems to take a lot of money to "feel" like you do. We all want to achieve financial peace of mind, and a good way to start is by looking at our own individual definitions of "true wealth." Here are seven ways to help you think about this.

1. Have a strategy and a process for building wealth

It's well known that when people focus on the "right stuff," they can achieve the extraordinary. That's as true of building wealth as it is of reaching athletic or academic goals. Having a "wealth plan" that is comprehensive is important. You will want to think about the concerns even multi-millionaires have about their future—things like long-term healthcare, or how to best support your offspring as they launch into adulthood. Understanding those personal details, as well as the financial steps to plan for them, will help you be more purposeful about your financial future. In other words, take the time to do some life planning in conjunction with your financial planning.

2. Have financial principles to drive the "purpose" of wealth

People who have a wealth "purpose" go a step farther in their approach to financial planning. They often develop financial principles; for example, they think about how they make their money (thereby better managing their time), and how they manage the money they make. In fact, many go so far as to empower their personal work efforts by assigning specific purposes to their active income, their savings and their spending. They give each dollar a specific job, and a specific "home," with the goal of making their money to work harder than they do, eventually. Along the way, they establish an acceptable cost of living, but not at the expense of their two precious resources: time and money.

3. Benchmark your Personal Net Worth (PNW)

Your PNW is the difference between the value of your assets and your liabilities. This document is your personal measure of success. Over your lifetime, measuring your PNW periodically becomes an accountable scorecard. It can be sobering exercise for some, but usually it's an exhilarating one, as most people don't know how wealthy they really are. Remember, net worth increases when you acquire new assets or reduce your debt; to that end, monitoring your net work is a check on your financial behaviours. Consider the short- and long-term implications: What would you like your PNW to be three years from now? Five years from now? Thirty years from now? As important, what is your "family net worth?" That makes a difference when making decisions about the right time to transfer assets, and into whose hands.

4. Understand tax efficiency

Wealth grows when you choose to spend less than you make and invest in assets that will appreciate in value relative to inflation, the cost of investing and one other key eroder of wealth: taxes. It is critical to understand the tax efficiency of your financial activities in order to interpret the net value of your true wealth at a particular point in time. Tax efficiency is the process of taking advantage of tax rules to pay the least amount of taxes on income, in order to accumulate, grow and preserve the most after-tax wealth for the family over time. What's important is what you keep, after taxes, inflation and the cost of investing. Looking for tax efficiency in your investing activities will make every dollar work harder and faster for you and result in impressive gains that most people leave on the table. Finding the right "tax home" for your savings will help you to prioritize how, when and where you save. In other words, when you get the tax right – both at the time of investing and the time of withdrawal – you supercharge your financial journey. In fact, most people will arrive at "financial freedom day" twice as quickly as those who ignore their tax options.

5. Work with a multi-disciplinary financial team

To get the right results, many heads are usually better than one. Even if you are the best and most consistent DIY investor in the world, it's tough to get the entire financial journey right. There will be times when a variety of financial specialists can really help you accumulate, grow, transition or preserve wealth. This will likely include tax specialists (personal, corporate, trust or cross-border), investment and life or health risk management specialists and legal or business valuation experts, to name a few.

6. Be an investigator to build your confidence

There is no such thing as a stupid question about tax or finances. If you are going to be in charge of your personal wealth purpose, your key job is to probe and understand your financial affairs. For adults, key financial education mentors are required as different life events occur—births, deaths, marriages, divorces, job starts and stops, etc. These important people must be prepared to explain terminology, concepts and strategies to you in a way that puts you at ease and allows you to understand how you will best execute on the financial choices you have to make. They will help you set your goals, keep you focused on them and provide real advice: technical expertise, experience, financial networks and viable options for you to consider that are specific to your financial objectives. They will also provide fee transparency and build cost efficiencies into your plans.

7. Invest in your financial relationships

Get involved, financially speaking. You're going to have to know some hard facts about taxes and investing as you make decisions about your financial future. As you work with your financial advisory team, you will accumulate your own technical expertise, experience, financial networks and wisdom about which financial options are best for you, including how much risk you are willing to take to get the financial returns you want. Investing in your financial networks will help you understand the pros and cons of decision-making about an often unpredictable future.

https://www.moneysense.ca/save/7-tax-tips-for-financial-peace-of-mind/

Five overlooked items in an estate plan

Financial advisors are good at reminding clients when it's time to top up their tax-free-saving accounts or contribute to a child's registered education savings plan, but how about flagging missing information in an estate plan?

Advisors tend to leave the more detailed estate-planning conversations to the lawyers that draw up wills and power of attorney documents. However, those advisors who are looking to add value should also ensure their client's estate plans are up to date.

Advisors are particularly well-positioned to pick up on changes that should be made to an estate plan – or the potential gaps within one – given their financial oversight role. For example, if clients say they're going through a divorce or having a baby, advisors could remind them that changes may be required in their wills. Some clients may not even have a will, which an advisor could suss out in the conversation.

"Every advisor has a responsibility to be an educator and pick up on some of those [red] flags in conversations with clients," says Karen Tzupa, a financial planning specialist in Saskatoon. "Too often, people fail to update their documents when there are those significant changes in their financial situations. It's really about listening and picking up on those cues."

Here are five often overlooked items in an estate plan of which advisors should be aware:

1. Personal loans

It's not unusual for parents to lend their adult children money without expecting it to be paid back. The loan could become an issue, though, when the last surviving parent passes away and the executor uncovers the liability in the estate. The question is whether the loan is to be forgiven or comes out of that child's share of the estate, Ms. Tzupa says.

The answer depends on the family, but needs to be clarified in the will, which doesn't happen often, creating unnecessary friction when it comes time to distribute the assets. "It's a matter of open dialogue and being clear in discussion with family or even in a will," Ms. Tzupa says.

2. Taxes on registered investments

When someone dies, his or her estate is responsible for paying the taxes on registered plans such as a registered retirement savings plan (RRSP) or a registered retirement income fund.

Too often, people don't consider the tax implications of registered investments when aiming to distribute their assets among beneficiaries evenly, says Elizabeth Dorsch, chief executive of BMO Trust Co. and head of estate and trust services at BMO Private Banking in Toronto. That's because the beneficiary who is given the registered plans may receive more than those who receive a distribution from the estate as taxes for a registered plan are paid by the estate and are not deducted from the RRSP.

"All of a sudden, you have an unequal distribution, which wasn't the original intent," Ms. Dorsch says. "People think they're doing the right thing, but it's actually hurting [someone]."

To avoid this scenario, she recommends that any registered plans should be distributed equally in the will, separate from other assets.

3. Shipping costs for inherited physical assets

When leaving physical items such as furniture or art to beneficiaries, who pays for the cost to ship it to the new owners? If the will doesn't make reference to it, the beneficiary is responsible for the fees, says Ms. Dorsch. Those costs can really add up if the beneficiary lives in another province or country. The issue can be solved by putting instructions in the will to say the shipping costs will be covered by the estate.

“It comes up all the time,” says Ms. Dorsch. “When we do our will plans, we put in a statement that says, ‘To be delivered’ which removes the ambiguity.”

Wills can also be specific about covering other costs, such as travel fees for children to attend the funeral, especially if they live in another county.

“If it's silent, then it's up to the person to cover [the costs],” Ms. Dorsch says. “Sometimes, those costs can be quite substantial.”

4. Outdated or uninformed executor

Most people name an executor, such as a spouse or family member, in their wills to handle the estate when they die. In some cases, people forget to update their executor when their circumstances change. For example, someone who names his or her spouse as an executor may forget to change that after a divorce.

It's important to update an estate plan to ensure the executor is still the best person for the job, says David Lee, a financial advisor with BlueShore Financial in North Vancouver.

People should also check to see if the person they designate wants to be the executor. Mr. Lee says he's come across many people who find out after someone has died that they've been named the executor of the deceased's estate.

“Being an executor comes with a lot of responsibility,” Mr. Lee says. “Leaving that to someone could require them to spend a lot of time settling the estate. Is the individual the right person to take care of that task?”

He recommends clients review their estate plans every three to five years to ensure the information is still accurate and as desired, including the named executor.

5. Digital assets

More of our lives have moved online, which means a growing list of digital assets to keep track of. When we pass away, executors will need to access many of these online assets, which includes everything from cryptocurrencies to accounts on eBay, PayPal, loyalty reward programs and social media websites.

Although most people don't see these online items as assets, overlooking digital assets in estate planning can be a hassle for executors, power of attorneys and beneficiaries.

“Your executor needs to be able to access those accounts,” Ms. Tzupa says. And if they can’t, “it can slow things down when it comes to the administration of the estate.”

Advisors should nudge clients to make a list of online assets that can be accessed in their wills, Ms. Tzupa says. “If everything is there, the executor can get things done in a more efficient manner

Brenda Bouw
Special to The Globe and Mail
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https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-five-overlooked-items-in-an-estate-plan/

Four-per-cent rule still a great starter for retirement planning

Financial advisors spend a lot of time thinking about how much money their clients will need when they’re no longer working – particularly those getting closer to retirement. That figure depends on various factors such as when clients will retire, how much they plan to spend in their non-working years and how much they’ve invested.

Some advisors project clients’ retirement spending based on the well-known “four-per-cent rule,” which suggests withdrawing four-per-cent of a portfolio every year during retirement, adjusting withdrawals for inflation in order to avoid running out of money.

William Bengen, a retired advisor from the United States, developed the rule in 1994 based on a retirement of 30 years and using historical returns for stocks and bonds from 1926 to 1976. The rule was also made popular by a study that three professors of finance at Trinity University in San Antonio published in 1998 of what might be a safe withdrawal rate from portfolios during retirement.

To make the four-per-cent rule work, investors have to stick to it, use a balanced portfolio of stocks and bonds and avoid high-risk investments or splurging on big-ticket items that might throw the numbers off.

The rule isn’t for everyone, but advisors believe it can be a good place to start the conversation about how much money investors need to retire – and what investment strategies should be used to reach their needs and goals.

“The four-per-cent rule continues to be used often and has gained a lot of popularity over the years ... due to the fact that it’s simple and easy to understand,” says Tuula Jalasjaa, a wealth-management executive who recently launched Smart Money for Her, a digital online portfolio manager geared to women.

However, the rule should be used as a “rough guide versus a hard and fast rule,” Ms. Jalasjaa says. “For example, some [advisors] use four per cent with inflation adjustment; some deviate depending on the retirees’ needs or on the volatility of the markets and can go down to three per cent or up to five per cent.” The advantage of the rule is that it can help both advisors and investors determine the right mix of stocks and bonds required to try to establish a predictable income in retirement. The disadvantage is the rule may not leave enough room for emergency spending in retirement, such as the costs of health care in the event of a serious illness.

“[The] rule is best for those clients who have certainty over the fixed amount of money they need, but are also able to be flexible,” Ms. Jalasjaa says. “[The] rule also works well when the investor also has other retirement income sources – their withdrawal strategies should factor in all available income sources.”

Dan Bortolotti, portfolio manager at PWL Capital Inc. in Toronto, agrees there’s some merit to the four-per-cent rule – similar to another rule of thumb that individuals should hold a percentage of stocks equal to 100 minus their age. “It’s a reasonable starting point for an average investor.”

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However, he says investors need to be aware of the many factors that can impact the effectiveness of the four-per-cent rule, such as higher taxes paid on registered assets withdrawn from a portfolio and the impact of investment fees on returns.

Also, Mr. Bortolotti notes the research is based on historical data, which include interest rates that are higher compared with the current historically low interest rates. Furthermore, the research backing up the strategy is also based on past data for U.S. stock markets – and Mr. Bortolotti notes that they have been one of the best-performing markets of the past century.

“Had you done the study in another country, you would have come up with significantly different results,” he says. “Naturally, we have to be a bit more conservative.”

Mr. Bortolotti urges advisors to go much deeper to assess each client’s individual retirement needs and goals.

For example, his firm uses specialized software to run a so-called “Monte Carlo simulation,” for clients to help them determine outcomes based on various investment scenarios, such as withdrawals and market returns. Mr. Bortolotti describes it as a portfolio stress test and recommends it be revisited every year alongside regular portfolio maintenance

Kathryn Del Greco, vice president and investment advisor with Del Greco Wealth Management at TD Wealth Private Investment Advice in Toronto, says the four-per-cent rule can provides investors with rough guidance around their retirement income needs. She says advisors could use it as an opportunity to provide a much more customized service to clients by showing how the rule may or may not work in their situations.

“Like anything, there are guidelines and discussion points for [retirement] planning purposes, but planning is always customized and very personal – and should be viewed that way,” she says. “Most advisors build their relationship [with clients] on value-added advice and take it to a much deeper discussion and a much more customized solution. It can be a conversation piece, but it comes down to what the client needs.”

https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-four-per-cent-rule-still-a-great-starter-for-retirement-planning/

Fall Activities

Ottawa Wine and Food Festival
November 1st to 3rd
http://ottawawineandfoodfestival.com/

Ottawa Pet Expo
November 9th to 10th
https://www.ottawapetexpo.ca/

Remembrance Day Ceremony
November 11th
https://www.ottawatourism.ca/events/remembrance-day-ceremony-national-war-memorial/

Christmas Lights Across Canada
December 6th to January 7th
https://www.tourismeoutaouais.com/en/attractions/christmas-lights-across-canada/

New Years Eve Celebrations
December 31st
https://rove.me/to/ottawa/new-year-celebrations

Client Seminars

Tax Planning Through Limited Partnerships
October 16th
Please RSVP though Natalie Nunn at nnunn@mandevillepc.com or by calling (613) 728 – 0101 ext 226

James Cole Investment Presentation
November 13th
Please RSVP though Natalie Nunn at nnunn@mandevillepc.com or by calling (613) 728 – 0101 ext 22

18th Annual Children's Christmas Party
Afternoon of December 7th 2019
Please RSVP though Natalie Nunn at nnunn@mandevillepc.com or by calling (613) 728 – 0101 ext 226