Market Update

February 2021

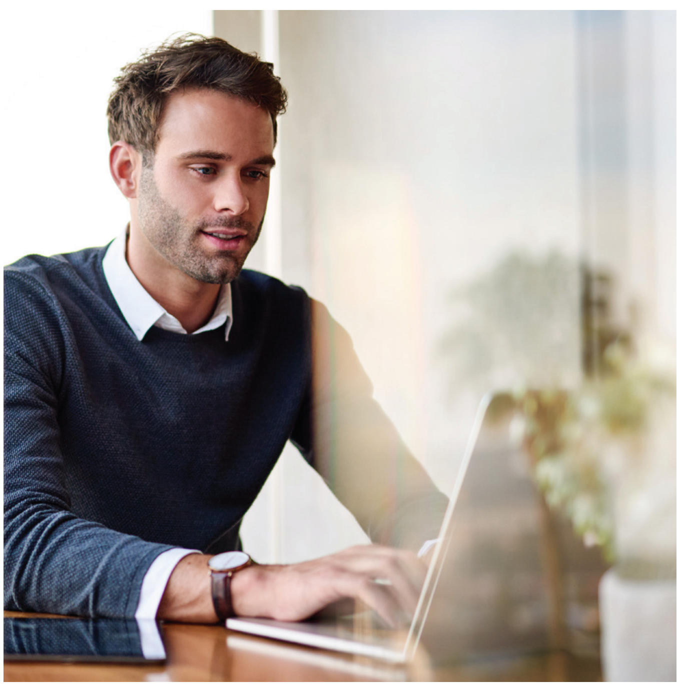
A Important Note: Deducting Home Office Expenses

For employees working from home during COVID-19, the Canada Revenue Agency (CRA) has expanded eligibility and simplified the requirements to claim home office expenses.

Home office expenses include "work-space-in-the-home expenses" such as utilities and home maintenance as well as certain office supplies and phone expenses. Both salaried and commission-based employees working from home due to COVID-19 may be eligible to claim these expenses as deductions on their 2020 T1 income tax and benefit returns. Employees must have worked from home in 2020 due to COVID-19 for more than 50% of the time for at least four consecutive weeks to be considered eligible.

The CRA has provided a choice.

There is a new temporary flat-rate method which allows a deduction of $2 per day to a maximum of $400 for eligible employees. The employee may not claim any other type of employment expenses, such as parking and gas, but they can be partially reimbursed for some home office expenses and still claim the $2-per-day deduction. Employees choosing to deduct home office expenses using the CRA's new flat-rate method aren't required to maintain receipts or other supporting documents, or to determine the size of their workspaces.



The alternative is the traditional detailed method which is available for those who wish to claim the actual amount of home office expenses they paid and/or want to claim other types of employment expenses (there is a long list).

If you wish to claim either form of deduction, we strongly recommend you consult with your accountant to determine which method and which deductions you are eligible for.

Here is a link providing more detail on these potential deductions :

https://www.advisor.ca/tax/tax-news/how-to-deduct-home-office-expenses/

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Overall, the major equity market indices rose nicely in February while the bond markets fell.

Economic news varied from fair to stellar. Earnings season (quarterly period where companies announce their earnings for the last quarter) went very well with a vast majority of companies exceeding expectations both with their sales and their earnings figures. For those who have been reading these newsletters you will recall that markets are always forecasting the future – the current price captures the collective view of how the company is going to do over the coming year. When reality exceeds expectations prices will usually rise to reflect the new, better, future. And for the most part that is what happened.

Now before someone raises an exception, allow me to provide certain criteria. First, while a company may announce stellar quarterly numbers, they will also provide 'guidance' for the future. If this guidance does not show the recent success being repeated, then the company is admitting that was more of a one-time event, and however welcomed, does not represent a new future that would result in higher prices. Expectations remain constant.

Second, there are many investors and software programs what will invest in a company on the expectation of specific news. They buy companies that are rumoured to be doing better than expected and as soon as the rumour proves true they sell. This "buy on rumour and sell on news" is probably one of the most confusing concepts to the average investor who expects stocks to move up when rumoured success is confirmed. But the perception is that the price increase has already happened over the past several months and the announcement may end any hope of further surprise. In this case, expectations would remain constant and the company would need another surprise to cause its price to go even higher.

All of this goes to show how complicated investing can be and how many different variables can come into play – especially in the short term. There are general rules of thumb that flat out contradict others.

The best approach is to take a long-term view. Buy excellent companies and/or very well priced companies, competitively positioned, financially secure to survive surprises and time, well managed, creative and nimble.

Looking forward, we believe the economy is in decent shape, earnings continue to impress, political uncertainty has waned, volatility remains high, inflation remains benign and interest rates remain very low. While some stocks are obviously overvalued (and they may remain so, or become even more so, for a while yet), there are prudent opportunities being found by for those willing to do the research.

We remain neutral to positive in the short term, and positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the Month, the bond market was down 2.7%, the Canadian market up 3.9%, the US market was up 2.6%, International markets were up 2.3%, the Emerging markets were up 0.4%, the Real Estate market was up 4.3% and the preferred market was up 3.9%. (Reuters 2/26/21)[1]

Year-to-date, the bond market was down 3.9%, the Canadian market up 3.9%, the US market was up 2.0%, International markets were up 1.6%, the Emerging markets were up 4.8%, the Real Estate market was up 3.7% and the preferred market was up 6.6%. (Reuters 2/26/21)[1]

Have a great month and let us know if there is anything we can do for you,

- Meir

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[1] Indexes shown:

Bonds FTSE Canada Universe Bond Index

Canadian Equity - S&P/TSX 60 Index

US Equity – S&P 500

International – MSCI EAFE Index.

Emerging Markets - MSCI Emerging Markets Index

Real Estate - Dow Jones® Global Real Estate Index

S&P/TSX Preferred Share Index

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