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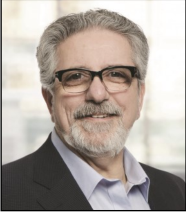
KPW LIFE PLAN—IMAGINE YOUR FUTURE

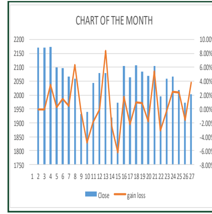
VOL. 9, ISSUE 7 JUL 2020

"The pandemic represents a rare but narrow window of opportunity to reflect, reimagine, and reset our world." Klaus Schwab



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza
ACHIEVING YOUR HOME OWNERSHIP DREAMS



LONGEST US ECONOMIC EXPANSION IN HISTORY IS OVER

Ryan Simone, CLU, CHS
LIQUID ALTERNATIVES

Editorial Comment

Sergio Simone

Doing nothing when faced with a seemingly new set of information is often one of the most important decisions an investor can make. It is also one of the hardest things to do. When an investor reacts to an uncertain environment they are filled with a sense of control over their portfolios. But, we would argue that straying from a strategically diversified portfolio plan can, and often does do, more harm than good. Asset returns are multiplicative as they have the power to multiply to both the positive and negative side.

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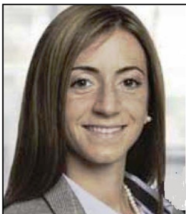
Achieving Your Home Ownership Dreams



Kristina De Souza

The path to purchasing a home can be challenging at best, so I enjoy offering insight on ways to ease the process. I've touched on the RRSP Home Buyers Plan (HBP) in the past, the option to 'borrow' up to $35,000 tax-free from your own RRSP and replenish it over a 15 year period.

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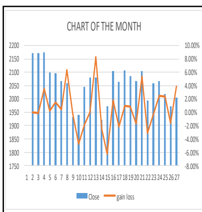
Longest US Expansion In History Is Over



The National Bureau of Economic Research has declared the US recession started in March. The average expansion lasts 64 months while the average recession lasts only 11 months.

However, as this recession was a result of a government

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Liquid Alternatives

Ryan Simone, CLU, CHS

As each year passes, investing in markets across the world has become increasingly more difficult. As the world becomes smaller there is a greater impact on us by macroeconomic conditions and geopolitical issues. The impact on our portfolios is noticeable, especially where it relates to volatility.

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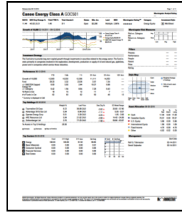
BOOK OF THE MONTH



FUND OF THE MONTH
FIDELITY GLOBAL INNOVATORS CLASS

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH
ANDREW WILLIS

BOOK OF THE MONTH

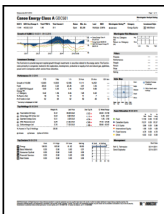
THE NEXT AMERICAN ECONOMY

- by William J. Holstein

Holstein argues that the best way to recover is to do what Americans do best—innovate and create new industries. Contrary to the perception that the American economy has run out of inspiration and new ideas, he uses case studies to celebrate the innovation and business success experienced in many industries, from technology and energy to retraining and exporting, across the country.

FUND OF THE MONTH

FIDELITY GLOBAL INNOVATORS CLASS



A flexible investment strategy focused on the innovative and disruptive companies in today's rapidly changing world. The fund leverages the strength of Fidelity's deep global research platform by seeking to invest in the most compelling opportunities across developed and emerging markets. The fund may invest in small, medium and large-cap companies including in private offerings.

STRUCTURED PRODUCTS

Like mutual funds, structured products are pre-packaged investments built to meet investors' specific risk-return objectives. The difference is that they are usually linked to assets related to personal or corporate debt, thereby providing interest payments to investors. Structured products include mortgage-backed securities (MBS), asset-backed securities (ABS) and collateralized loan obligations (CLOs).

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BLOG OF THE MONTH

Andrew Willis, Content Editor for Morningstar.ca

HOW I PLAYED OPTIONS AND "LOST"

My story began with an edit. In December, I edited an article on the wild world of leveraged and inverse ETFs – thanks Yan! – which lead me down the rabbit hole of new strategies and a wider set of potential outcomes. In those pre-coronavirus days, I proceeded to lose a small amount of money a couple of times before giving up. And then along came COVID-19.

To my mind, the pandemic made for a unique environment to give the complex tools another chance. I knew I would be a millionaire if only I could perfectly time my options strategies. Social media agreed with me; my gains would be exponential. The gains were a trap, of course, a mere glimpse before disappearing and risking a chunk of my portfolio.
Here's my story – and what I learnt.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

LUXURY INSTITUTE LLC
the expertise of emotionally intelligent luxury

THE THREE SKILLS OF LUXURY CUSTOMER EXPERIENCE IN THE DIGITAL AGE

(NEW YORK) July 14, 2020–Most brands in the luxury goods and services industry were late to the last decade's digital transformation party. Others are resting easy because hey have a website, have adopted e-commerce, have finally caught up to conducting virtual curated client engagements, and are now using tech to communicate with, and deliver to, their clients from all channels. Those are all solid enhancements, but they are all now considered table stakes in the multi-trillion-dollar luxury goods and services industry.

Financial Planning

THE RICH ARE LOOKING TO BUY ACCESS TO CORONAVIRUS-SAFE HAVENS

The next time the world's rich are forced into lockdown, they would like to have an escape ready to a remote and sunny beach. Or perhaps to New Zealand, one of the few countries that has eliminated Covid-19. They are willing to pay for the privilege, of course.

They can turn to programs that guarantee citizenship or residency in exchange for investment in the host country, using specialty firms such as Henley & Partners, the world's biggest citizenship and residency advisory firm. With the persistent threat of viral infections and sudden lockdowns, the company is helping those with deep pockets buy access to a safe haven.

WHY HIGH-NET-WORTH INDIVIDUALS NEED GOOD FINANCIAL ADVICE

It's a small group with big assets: Canada's high-net-worth (HNW) and ultra-high-net-worth population numbers about 320,000 people, or roughly one per cent of the country, according to a 2014 World Wealth Report from Capgemini. This exclusive group boasts an aggregate wealth estimated at US$979-billion. At this top level of wealth, getting help from a professional financial planner isn't just a highly recommended move – it's an absolute necessity, says Alexandre Viau, vice-president of Private Banking 1859 at National Bank.

TAX, RETIREMENT AND ESTATE PLANNING

Help Plan For A Spendthrift Beneficiary

Ling, a middle-aged widow has a big concern. Her daughter Kai has consistently demonstrated bad money management. As Ling puts it, "Kai can't keep a nickel in her pocket. She spends her money faster then she makes it". For years Ling believed that Kai would learn to manage her money as she matured, but now with Kai in her mid-thirties she is worried that Kai's spendthrift ways are going to haunt her for the rest of her life.

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FUND MANAGER COMMENTARY

TOM NAKAMURA
AGF INVESTMENTS INC

JASON ISAAC
NCM INVESTMENTS

ERIC LASCELLES
RBC GLOBAL ASSET MANAGEMENT

JURRIEN TIMMER
FIDELITY INVESTMENTS

Tom Nakamura, V.P. and Portfolio Manager

AGF Investments Inc.

Has The U.S. Dollar Lost Its Edge?

Is the U.S. dollar's advantage over? It is time for investors to at least ask the question. Only three months ago, the green-back reasserted its traditional position as the world's safe haven currency as the reality of the COVID-19 pandemic swept through financial markets.

Continue Reading

Jason Isaac, Portfolio Manager

NCM Investments

"Those who cannot learn from history are doomed to repeat it" - George Santayana

A flash note from Seeking Alpha yesterday caught my eye. It rings true to the words of Mr. Santayana above. Tenino, a town of fewer than 2,000 people in Washington state, has begun printing its own wooden currency to help residents and businesses through the coronavirus crisis.

Continue Reading

Eric Lascelles, Chief Economist

RBC Global Asset Management

COVID-19 Economic Update

COVID-19 continues to broaden its reach around the world, with several recent days recording more than 200,000 new infections. While the virus' transmission rate has declined admirably since March, it is enormously frustrating that it

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Jurrien Timmer, Director of Global Macro

Fidelity Investments.

Following are highlights from a webcast with Jurrien Timmer, Director of Global Macro.

Market Outlooks:

- ⇒ The markets hit their bottom March 23rd and since then we have rallied around 45%
- ⇒ The peak of this rally was on June 8th which was the momentum peak
- ⇒ In the past three weeks, the markets have done essentially nothing
- ⇒ There has been a healthy consolidation
- ⇒ Markets have just run out of gas and need a break

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Not Your Keys, Not Your Coins: Lessons From QuadrigaCX Fraud

Individuals should keep their crypto assets in digital wallets

Fed Buys More Corporate Bonds But May Soon End Purchases

The Federal Reserve says it purchased $1.3 billion in

Canadian Economy Adds 953,000 Jobs In June, Unemployment Rate Falls

Nearly one million more Canadians had jobs in June, Statistics

Are People Not Returning To Work Because Of CERB

Evidence suggests a mismatch between the jobless rate and

Bank Of Canada Holds Interest Rate Steady At 0.25%

The Bank of Canada is pleased with he early results of their l

How To Build An Investment Portfolio That Supports Racial Justice

Measuring the social impact of your stocks and bonds is not

Will Women Have To Work Harder After The Pandemic?

A high flying executive and risk manager for global insurance group THB in Sao Paulo,

EURO RISES TO 18-MONTH HIGH AFTER EU CLINCHES RESCUE DEAL

The euro advanced to the highest

Countdown To Retirement: 10 Years Away

It's time to envision retirement. Now that you're only a decade away from retirement, it's time to

TOWARDS A MORE RESILIENT EUROPE

Europe, like the rest of the world, faces an extended crisis. An element of social distancing—mandatory or voluntary—will be with us for as long as this pandemic persists.

FINANCIAL STRESS SURVEY

One-Third Work With A Financial Professional; 12% Work With A Financial Planner

One-third (34%) of Canadians say they work with a financial professional, with 12% working with a financial planner such as a CFP® professional or QAFP™ professional. Those aged 35+ (vs. under age 35), and those in Québec (vs. the rest of Canada) are significantly more likely to be working with a financial planner (and, in fact, any financial professional).

VIDEO LINKS

Mortgage Rates Fall Below 3% For First Time Ever

Barely a week ago it looked like mortgage rates were finally breaking higher, but in a sudden

Monetary Policy Report—July 2020

The Bank expects a sharp rebound in economic activity in the reopening phase of the recovery

Wealthy Flock To Sustainable Investments

One good outcome of 2020 so far: Sustainable investments have rocketed according to new

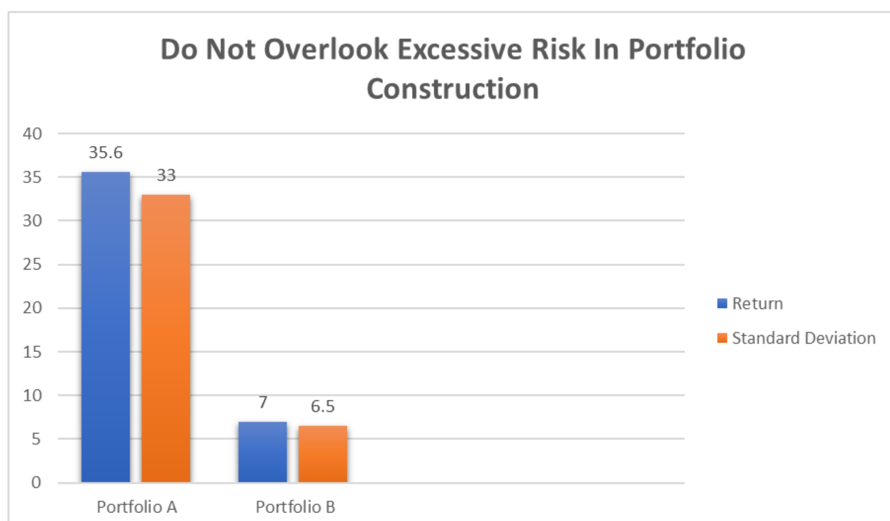
RETIREMENT 20/20
Bring Your Future Into focus With The Right Advice

The first half of 2020 has brought momentous changes. The year began with bushfires halfway around the world in Australia. The United Kingdom officially left the European Union after years of political turmoil. Around the world, life as we have known it has changed. The COVID-19 pandemic forced us to adjust to new routines under quarantine, and protests against systemic racism and discrimination have spread across the globe. But many things in life will remain the same: people will graduate from school, start careers, get married, buy things like cars and houses, take vacations, have children, change careers – and think about retirement.

EDITORIAL COMMENT-CONTINUED

So, while good times can cause a welcoming bump in your portfolio, it also means that ill-timed decisions can have the effect of compounding against your portfolio.

Getting the asset mix right for you is not an east task. The ideal is to find that sweet spot between your risk and return objectives and a realistic assessment of asset class dynamics. Standard theory specifies that two portfolios with the same reward-to -risk ratios are equally preferable. Unfortunately our experience tells us this is far from accurate. The following chart shows two portfolios with the same Risk/Return ratios but as you can see, the reality is that they have very different performance profiles.



In the real world financial markets often operate far more differently than theories tell us. Price dynamics that seem to make sense one week are turned upside down the following week. This can make investors very uncomfortable, sometimes to the point of reacting emotionally to the latest news or price action. These investors rationalize that the new information justifies a portfolio change. Yet, as I stated above, asset returns are multiplicative so this type of misstep will compound against the portfolio. Just to be fair, getting a series of timing calls right can make you look and feel like an investment guru. Unfortunately the former is more often the case.

Most academic studies conclude that attempts at investment timing usually add to a portfolio's performance variability but, without an equal increase in returns. It seems even worse than this in real life. As the following chart says, **"Time in the Market Beats Market Timing".**

Clearly, it is better to buy at the low point in any given year, but for those investing for the long-term, getting started and letting time work its magic is far more important than hoping a crystal ball is prescient.

Russell 3000 Annualized Returns

Year	Since Low	Since High	Since Start of Q1	Since Start of Q2	Since Start of Q3	Since Start of Q4	Year	Since Low	Since High	Since Start of Q1	Since Start of Q2	Since Start of Q3	Since Start of Q4
1979	11.9%	11.5%	11.9%	11.7%	11.7%	11.5%	1998	7.8%	6.4%	7.2%	6.7%	6.7%	7.4%
1980	12.0%	10.9%	11.6%	11.8%	11.5%	11.2%	1999	6.6%	5.7%	6.4%	6.3%	6.0%	6.5%
1981	11.8%	11.2%	11.1%	11.1%	11.2%	11.7%	2000	6.8%	5.5%	5.7%	5.5%	5.8%	5.8%
1982	12.2%	11.2%	11.5%	11.9%	12.0%	11.7%	2001	8.8%	6.3%	6.5%	7.4%	7.1%	8.4%
1983	11.3%	10.7%	11.3%	11.0%	10.7%	10.8%	2002	10.9%	7.7%	7.7%	7.8%	8.9%	10.4%
1984	11.5%	11.1%	10.9%	11.2%	11.3%	11.1%	2003	10.9%	8.7%	10.1%	10.5%	9.5%	9.4%
1985	11.1%	10.6%	11.2%	10.9%	10.8%	11.0%	2004	9.4%	8.4%	8.7%	8.7%	8.7%	9.1%
1986	10.7%	10.0%	10.6%	10.2%	10.1%	10.4%	2005	9.2%	8.4%	8.4%	8.8%	8.8%	8.6%
1987	11.0%	9.5%	10.4%	9.8%	9.8%	9.6%	2006	9.1%	7.9%	8.6%	8.3%	8.7%	8.5%
1988	10.7%	10.3%	10.7%	10.5%	10.4%	10.4%	2007	8.4%	7.4%	8.0%	8.1%	7.7%	7.7%
1989	10.5%	9.7%	10.4%	10.3%	10.0%	9.8%	2008	17.5%	8.3%	8.3%	9.7%	10.1%	11.5%
1990	10.8%	9.8%	9.8%	10.0%	9.9%	10.7%	2009	19.4%	13.4%	15.2%	17.2%	15.6%	14.0%
1991	10.7%	9.6%	10.4%	9.9%	10.0%	9.9%	2010	15.7%	13.1%	13.6%	13.2%	15.6%	14.4%
1992	9.9%	9.6%	9.6%	9.8%	9.8%	9.8%	2011	17.5%	12.3%	13.1%	12.6%	13.1%	16.8%
1993	9.7%	9.5%	9.6%	9.5%	9.6%	9.5%	2012	15.3%	13.8%	15.3%	13.6%	14.9%	14.4%
1994	9.9%	9.4%	9.6%	9.8%	10.0%	9.8%	2013	15.1%	10.8%	15.1%	13.4%	13.5%	12.7%
1995	10.0%	8.9%	10.0%	9.7%	9.4%	9.0%	2014	12.7%	9.6%	10.8%	11.0%	10.2%	11.1%
1996	9.1%	8.2%	8.9%	8.7%	8.6%	8.6%	2015	17.5%	10.1%	10.2%	10.4%	11.5%	17.0%
1997	8.5%	7.1%	8.3%	8.4%	7.7%	7.3%	2016	24.9%	16.6%	15.7%	17.6%	18.8%	18.8%
Averages 1979-2007	10.7%	9.9%	10.4%	10.3%	10.2%	10.2%	Overall Averages	11.8%	9.7%	10.3%	10.3%	10.4%	10.7%

Source: Al Frank using data from Bloomberg

This year's equity market dynamics highlight the potential danger of ill-timed decisions. The S&P 500 fell dramatically by almost 35% between Mid-February and late March. This led to many investors liquidating their portfolios. However, by March 23rd the index bottomed out then took off like a rocket. By the time the liquidators realized what had happened the index had recovered most of the losses.

If you had missed the best 5 up days this year, your portfolio would still be down 23%. Missing the 10 biggest daily price increases has left your investment down by 37% on a year-to-date basis.

EDITORIAL COMMENT-CONTINUED

I am not saying that timing should never be used in a portfolio, but given how challenging it is to get the timing right, an investor might be better off allocating a small part of their overall portfolio to tactical strategies like market timing.

We advocate applying a practical investment management approach which leans towards strategic diversification to do the majority of the heavy lifting. Having a blend of distinct asset classes can allow a portfolio to benefit from imperfect performance correlations between these asset classes over a long investment horizon.

Getting an investor's asset mix right is a very difficult task. It largely depends on finding that sweet sport where an investor's goals and risk tolerance intersects with a realistic assessment of asset class risks and returns. This is not an easy task only made more difficult by trying to factor an investor's emotions into the equation. The success of this objective requires us to get comfortable with the idea that equity markets can rise or fall by more than 30% over a short period of time; or that bonds are unlikely to be the low-volatility asset class they once were; or, that expecting equity-like returns with GIC-like volatility is a fairy tale. If we can accept these statements then the work will become easier.

Your portfolio is likely built around a series of mutual funds that have a history that we can use as a barometer of their future performance and volatility. Although a fund's history is NOT guaranteed, it does give us a sense of how the Portfolio Manager has performed through various good and bad periods.

It is rare to find a Portfolio Manager who has performed well in all market environments. Yet, in a truly diversified portfolio, some assets are likely to be struggling while others are performing well. This is not a bad thing. Some managers perform better during difficult times when others are struggling and lag during the times other managers are booming. If the long-term objective of your portfolio is acceptable to you and the history of your portfolio allocation has met those objectives then the only chance it has of repeating those historical numbers is to give your portfolio a chance by not messing with it. It is emotionally difficult during trying times but the best thing you can do, as an investor, is to trust the process and let it play out.

Forgive me for using a golf analogy to conclude this editorial but a well-diversified strategic mix of assets within a portfolio is unlikely to place an investor atop the leaderboard in any given year, yet, this well diversified mix of assets is much more likely to keep your ball on the fairway through time. It can remove a lot of uncertainty from the investment decision-making process.

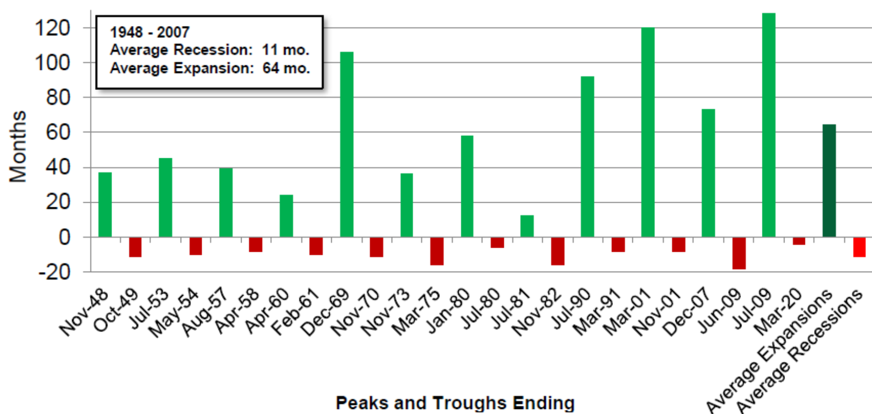
EDITORIAL COMMENT-CONTINUED

mandated economic shutdown we believe its duration will be shorter than the histori-cal average.

We would suggest that we have experienced a sharp downturn and the recovery will be gradual similar to a "Nike Swoosh" logo.

Longest US economic expansion in history is over

US economic expansion and contractions (1948 – June 2020)



Source: Manulife Investment Management, Bloomberg. Average does not include current cycle. As of June 30, 2020

Jurrien Timmer-CONTINUED

⇒ This chart shows the best and worse styles in terms of performance

⇒ Gold and the FAAMG stocks have been a consistent first

⇒ Cyclicals are near the bottom but they starting to catch up as things reopen

⇒ Starting to see a widening between the FAAMGs, gold and small caps

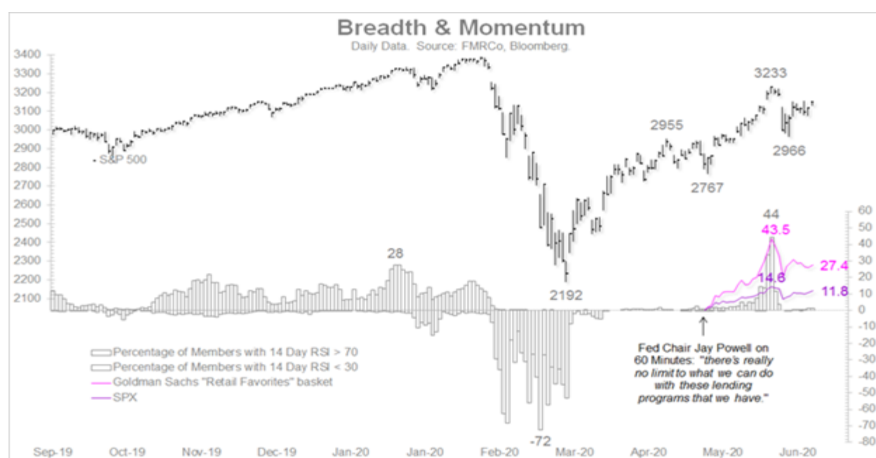
Where has the 5 Trillion in Money Markets gone?

⇒ The savings are still there

⇒ Balances have come down along with flows, but they are still positive

⇒ Assets are slightly below 5 trillion

⇒ Still have a mountain of cash on the sidelines



⇒ The pink line represents the price gains since the Fed Chair Jay Powell was on 60 minutes

⇒ Sentiment has gone away, which makes sense because the broad millennial group has spent most of their money betting on the markets

⇒ Most of the cash is still with the older crowd which speaks to why the amount of money still in Money Markets

⇒ The older generations are still concerned about the markets

Earnings Season

⇒ The markets have gone from pricing in a worse outcome to now pricing in a better outcome

⇒ The markets essentially have a neutral sentiment and are waiting to see what happens with earnings

⇒ If estimates are too low, then the market will have more room to grow

⇒ If they are too high, the market will have a problem and will retrace more of the rally

⇒ Earnings have been flat because, with low guidance, no one is too certain of where they will be

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Jurrien Timmer-CONTINUED

⇒ Banks are no longer allowed to buy back shares

⇒ Considering we are in an election year, if there is a shift in government, buy-backs could be frowned upon for some time

U.S. Election

⇒ The president's numbers are way down

⇒ After looking at a prediction online site, Trump is down on 38% to win and Biden is in the double digits ahead of him

⇒ There is a lot of social unrest and negative sentiment around how Trump has handled the pandemic

⇒ If we were closer to October, we may be able to make some concrete predictions

⇒ Jurrien is looking mostly at the betting markets and the senate outcome

⇒ The odds of the Republicans holding a majority in February was 70%

⇒ During March the odds fell off the cliff with the markets and are now in the low 40% of probability

⇒ If the president loses, we could see more taxes and wealth distribution

⇒ This points to a lower PE for the stock markets

⇒ Even if this change does happen. The Democrats with a majority can only do so much until mid-term elections in two years

The U.S. Consumer Health

⇒ The U.S. consumer is fairly healthy

⇒ During the Financial Crisis consumers were over their skis because a lot of people borrowed from their home equity

⇒ This did not materialize from their income which led to a housing bubble

⇒ Household debt to GDP this time around has not been an issue

⇒ Corporate debt has been more of the theme

⇒ With unemployment and stimulus cheques, for some consumers, they are better off not working

⇒ There is more to the story when looking outside of jobless claims stats

Additional Stimulus

⇒ The democrats have a plan for 3-4 trillion dollars more of stimulus

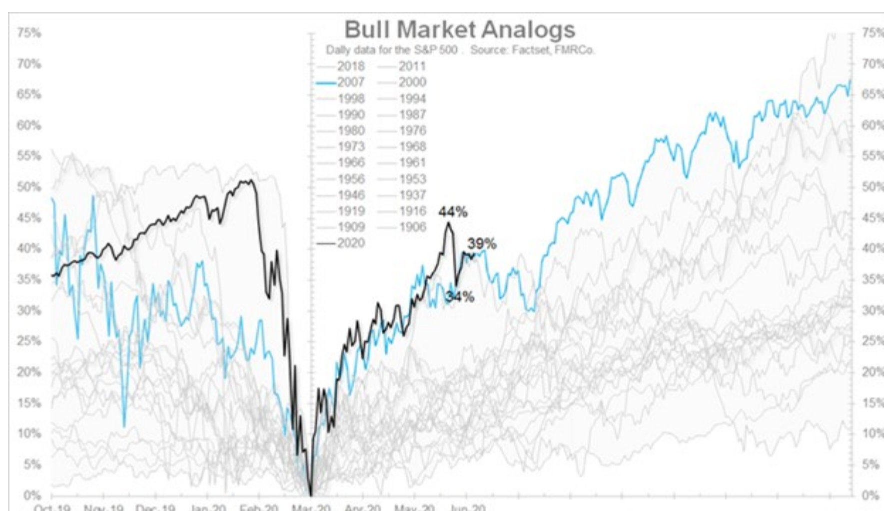
⇒ There is enough on both sides to work with

⇒ The additional stimulus will most likely be a trillion plus

⇒ The timeline is unclear, there will be nothing coming this week but clearly is something in the pipeline

⇒ The Fed continues to make it clear that they are the removers of left tail scenarios

Market Recovery



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Jurrien Timmer-CONTINUED

- ⇒ The base case for the recovery is how the S&P 500 is tracking close to the 2008 Financial Crisis recovery
- ⇒ Based on this, we are about halfway through the correction
- ⇒ tracking close to the 2008 Financial Crisis recovery
- ⇒ Based on this, we are about halfway through the correction
- ⇒ There will be more clarity once earnings are released
- ⇒ The chart suggests there could be another 5% drawdown from here in the next 3 -4 weeks
- ⇒ After a 45% recovery, it is hard to complain

Sustainable Prices & Earnings Estimates

- ⇒ It is possible for prices to stay above earnings estimates, it just means we will be trading at a higher PE
- ⇒ There are only three ways you can reconcile this situation
- ⇒ You are too high, and you need to come down based on earnings estimates
- ⇒ Companies with restricting guidance have taken out a lot of clarity of earnings in the markets
- ⇒ Finally, prices can stay above earnings and we trade at a higher PE
- ⇒ In a world where the Fed is buying almost everything, risk premiums will come down, which makes it plausible to trade at a higher multiple
- ⇒ With the Fed being very proactive, we are basically front running future gains

Gold & Currency

- ⇒ Jurrien has heard the argument that with the Fed monetizing debt all of the debt, it will lead to the end of reserve status for the U.S. dollar
- ⇒ People said the same thing ten years ago during the GFC
- ⇒ Jurrien does understand the argument
- ⇒ U.S. is 60-65% of currency reserves, could see this drop to somewhere closer to 50%
- ⇒ The question is who will replace it and gold is a very unlikely candidate since it would be very deflationary
- ⇒ The argument for being bullish on gold is more that the real interest rates are dropping
- ⇒ If real interest rates continue to fall, then gold will rise
- ⇒ Will be gradual

The Global Supply Chain

- ⇒ Supply chains in part are still broken
- ⇒ Chinese data shows that they are back to pre-COVID levels of production
- ⇒ Currently, Jurrien is not worried about companies supply chain
- ⇒ The real question is are companies going to move their supply chains
- ⇒ It will be very interesting to see if there is a movement away from production in Asia back to North America
- ⇒ Could see more robotics used in order to replace the low production costs over-seas
- ⇒ Overall PMI numbers and electricity numbers have completely rebounded

Global Outlook & COVID

- ⇒ Right now, it is very embarrassing to be an American
- ⇒ The reopening is being very politicized
- ⇒ This reopening is showing how undisciplined Americans are
- ⇒ Compliance in places like Hong Kong for wearing masks is 98% and they have barely any deaths
- ⇒ The global outlook depends on smart reopenings, the dollar and the rotation back into value

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JASON ISAAC—CONTINUED

There's some history here: In 1931, civic leaders printed local wooden banknotes to restore consumer confidence after the town's bank failed during the Great Depression. Current Tenino residents, who have documented loss of income due to the pandemic, are eligible for up to $300 a month, and nearly all businesses in the town are accepting the local $25 bills which can be redeemed directly at city hall. "A federal program dumps money from the top and these blue-chip companies steal it all," said Mayor Wayne Fournier. "If we do it from the ground up, there's no stealing. It's a direct ballast to Main Street." Mayor Fournier is clearly not a believer of trickle-down-economics.

The Old vs the New

The distinction between the old and new economies is being witnessed in real time in the retail shopping world. Covid-19 brought about 5 years of change in about 3 months and we can now add Brooks Brothers to the list of consumer retail store closures. The list is long: Neiman Marcus, J.Crew, Bose, Reitmans, Pier 1 Imports, Lowes closing Rona stores, Carlton Cards, JC Penny, and Victoria's Secret, just to name a few. Brooks Brothers was founded in 1818, and 202 years later is now looking for a buyer as it goes through the reorganization process. In the interim it will be closing stores, a decision it attributed to the coronavirus pandemic. One reason for the company's struggle was its rent, but the company was also feeling the effects of a change in traditional business dress and the shift towards casual wear. That trend will only become more pronounced as the economy wrestles with the changing nature of the work environment as the home office becomes mainstream irrespective of whether there is a pandemic going on. Compare and contrast that to the year-to-date performance of the online consumer platforms such as Shopify (+162.6%), Amazon (+72.2%), Ebay (+65.3%) and its clear things are changing in favor of the "stay-at-home" trade. Score another for technology and on the flipside, things do not look good for big mall real estate. Although, there seems to be at least some efforts to repurpose these venues. Cadillac-Fairview in Toronto is kicking the tires (pun intended) of turning the parking lots into giant drive-in movie theaters.

The tech-heavy Nasdaq on Thursday closed at a new all-time high led by gains from Microsoft (MSFT) and the aforementioned Amazon (AMZN), while the Dow and S&P 500 closed lower on disappointing earnings from Walgreens (WBA). "The cyclical story is on hold for now," Allianz Global Investors' Mona Mahajan declared, as money flows back into stay-at-home plays. "It's not dead forever," she added. "There are a few things that could reignite it," like evidence virus cases have peaked, a vaccine or a resolution to the November presidential election. While everybody talks about how well the NASDAQ has done, we must not forget we are still in a global world and Chinese Technology has broken out as well (CQQQ: Invesco China Technology ETF) up some 65% since the March. lows.

"Would you rather …."

One of our independent research providers (Renaissance Macro Research) conducted a twitter survey with the question "Over the next 5-years with no ability to exit until July 2025 what would you rather be in? Here are the results;

55.6% S&P500

33.1% Gold

8.8% Cash

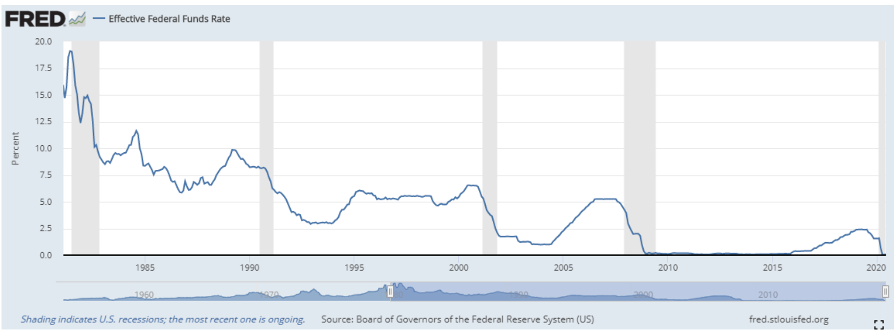
2.5% TLT (20+ year Treasuries)

Again, the flavor of the day is equities even in these dreadfully uncertain times. To quote RenMac "with real rates negative, deficits ballooning, and monetary policy unhinged from the disciplinarians of the past, we prefer the GLD allocation to the TLT allocation going forward."

JASON ISAAC—CONTINUED

Negative Rates

Speaking of yields, there has been lots of talk lately about negative rates in the US and the ever present "will They / won't They" debate around what the Fed will do. Sure, Powell has come out and directly said negative rates are not on the table, but the fact is the US is one more pandemic, systemic or exogenous shock away from being forced to do exactly that, regardless of what Powell says. As you can see from the graph below there has been a steady and pronounced downward trend in the Fed Funds Rate since before Calgary hosted the Olympics and you not be foolish to believe that it is only a question of "when", not "if" we are forced to contend with negative rates in North America. In fact, a glance at pretty much any bank chart in North America indicates that they are not fairing too well with the spectre of a negative rate environment hanging over their heads.



So, what does it actually mean and more importantly what are the high level investment implications? At the fundamental level, a negative interest rate strategy is designed to address the demand side of the economy by combatting slowing consumer spending and the threat of deflation by incentivizing banks to lend the money out while encouraging businesses and consumers to spend it, rather than pay fees in order to keep their cash in an account.

Investors & savers will expect to earn next to nothing on deposits and instead might start to anticipate to eventually pay higher fees and charges as the banks try to pass on their increased costs and mitigate the decline in their profitability. With the safest investments providing little in the way of dependable income, the search for yield will become increasingly frantic and more difficult. Surprisingly, households may also feel compelled to actually save more and spend less if they are to achieve their retirement objectives in a low-return world. This runs counter to the attempt to stimulate growth by cutting interest rates to encourage less saving and more spending. Those that stick with this approach will have to accept lower income returns and/or increase what they save to offset the shortfall. The majority will likely opt to step further up the risk curve, attempting to achieve better returns but at the expense of greater risk.

Investment Implication #1 Overall neutral portfolio allocations will become more aggressive, ultimately supporting fund flows into equities

Finance 101 says that lowering the discount rate boosts asset valuations, lending support to stock and bond valuations but how do you value an asset's cash flow with a negative discount rate? As economists and central bankers weigh the pros and cons of sub-zero rates and their impact on the world, traders have been contending with a rather more mundane, but fundamental issue: How to price risk on trillions of dollars of financial instruments (like interest-rate swaps) when complex mathematical models (ie Black-Scholes Option pricing formulas) simply don't work with negative numbers. With sub-zero interest rates becoming a long-term economic reality and the massive amount of negative-yielding bonds (~$17 USD trillion or more), it's an issue more and more traders are trying to wrap their heads around. An article on Bloomberg put it best "For those who aren't math nerds, it can essentially be boiled down to this: the formula breaks because it requires users to calculate a logarithm, and a logarithm of a negative number is undefined, or meaningless". Ultimately, this leads to a much greater the degree of opinions on valuations and amplifies the volatility of the "fair" price of that asset. Further, smaller divergences of marginal returns from expectations cause larger swings in price action as market participants immediately price new information based on a wider range of asset pricing models.

Investment Implication #2 Asset valuations will shift higher with increased price volatility around that valuation becoming the new normal, making real assets a critical component of any asset allocation

As the quest for yield endures, investors will naturally seek those assets that do provide an income stream. It is no secret that dividends will become even more of a key factor for retirees. Those who have already retired and who have relied on fixed income investing to provide a steady flow of cash will quickly learn the meaning of "interest rate risk" when bonds mature during a time of negative interest rates. Interest rate risk is the inability to reinvest your principal at the same rate you did previously.

JASON ISAAC—CONTINUED

So, the first step for risk-adverse investors who have been forced up the risk spectrum will be to gravitate towards those the companies that provide goods and services they are most familiar with (MegaCap Global Corporations). These companies will see appreciation in their stock price due to aggregate fund flows. Further, those that pay dividends will, as a result, represent a more attractive alternative and garner the lion's share of this great rotation towards risk. While the yield on 10 year US Treasuries has fallen well below 1%, the yield on the S&P 500 is over 2.5x as much (~ 1.75%) and more importantly has seen its payout increase at an average of 6.1% per year since 1990. (https://www.multpl.com/s-p-500-dividend-growth). While dividends are not "guaranteed" the way interest payments are, it should be noted that the dividend payout ratio for the S&P 500 as a percent of profits is still less than 40%, providing investors with a fairly large aggregate margin of safety against possible dividend cuts.

Investment Implication #3 Dividends, or more specifically a growing dividend stream will become a prevailing trend in most asset allocation strategies

Achieving Your Home Ownership Dreams —Continued

However, it's the new(er) tool in the shed that may in fact be more effective in achieving homebuyers' dreams.

Since 2009, the Tax Free Savings Account (TFSA) has proven its increasing popularity. Every year, the allowable contribution of $6,000 becomes available, for you to contribute as well as any unused contributions from previous years.

The amount has varied in the past, but those who were 18 or older in 2009 have a lifetime limit of $69,500 as of 2020. These contributed funds have already been taxed—contributions to a TFSA come from net income—so there's no tax break at the time of contribution. However, all earnings in a TFSA are not subject to any tax, meaning withdrawals can be made tax free.

Nowadays, an increasing amount of homebuyers, particularly young investors, are utilizing TFSAs to save for their down payment. The reason is fairly straightforward- the simple, yet flexible nature of TFSAs, highlighted by their tax free withdrawals, make them an extremely appealing tool for this purpose. The ability to remove funds without penalty makes TFSAs a great rainy day fund, especially given the opportunity to replenish withdrawals at your own convenience, with no restrictions. Another reason they make a great (superior) home buyers down payment savings plan is the greater contribution room they provide, currently $69,500 for those who qualify, nearly double the $35,000 the RRSP homebuyers plan allows for.

Saving for a down payment for a home in a TFSA, we have seen, is great not only in theory but in practice. As always, we are mindful that based on unique circumstances no one solution suits everyone equally. Typically, you can invest in the same mutual funds or various other investments in an RRSP and a TFSA. Determining which approach to saving is right will depend mainly on what stage in their life the homebuyer is in, particularly, with respect to time horizon, income, and savings.

Your income determines your tax bracket (the amount of your income tax) and these factors will strongly influence which investments work best for you. Generally speaking, those making more than $50,000 annually may benefit more from investing in an RRSP, because the contributions are tax deductible and your deductions go towards reducing what you owe. However, for those who make less than $50,000 annually, the deduction is less valuable, because after claiming basic tax credits, income taxes are typically insignificant. In such a case, the benefits of an RRSP are outweighed by the simplicity and flexibility of a TFSA for home buying purposes. However, if someone already has a well-established RRSP in place, it would make sense to utilize the HBP (it truly is a beneficial plan for some), and direct any additional savings to a TFSA. Moreover, many group RRSPs offered through employers may have restrictions on Home Buyers Plan withdrawals, making the TFSA a great alternative additional savings plan.

There is also the option, of course, to utilize a combination of both plans to save for a down payment. Although it's recommended that housing funds remain invested and used for their sole intent, should circumstances change for any reason, TFSA funds are still readily available for emergency withdrawals, with no penalty, and can be recontributed. Again, with an RRSP, you must pay tax on any withdrawals (other than for HBP purposes), and you permanently lose the contribution room.

Overall, when it comes to saving for a down payment on a home, Tax Free Savings Accounts can be an optimal choice. They offer flexibility, the potential to save more, and accommodate those with a short to medium term investment time horizon.

Recently, I took part in a live professional panel, with the goal of offering key information to home buyers. I invite you to take a look, and feel free to reach out if you would like any further information.

https://www.facebook.com/dominionlendingcentresangiedinoto/videos/733658917459248/

Liquid Alternatives —Continued

Markets seem to be more volatile than they have ever been and it is becoming increasingly more difficult to effectively manage the relationships between risk and reward. For this reason I encourage investors to pay more attention to alternative investments, but not just any kind of alternatives, specifically "LIQUID ALTERNATIVES".

Traditional investments encompass the world of stocks, bonds, and cash. Alternatives include commodities, real-estate, private debt, derivatives, infrastructure and certain strategies typically employed by hedge funds. Historically, the biggest drawback to alternatives, especially for older investors, has been their lack of liquidity, which means there isn't always a market for investors to readily buy or sell such products. This can be extremely risky if you find yourself in a situation where you need to sell your investment now but have no buyer available at an acceptable price. The perfect example of this is real-estate.

Mutual funds may not have the diversity of investment strategies that alternatives have, but their biggest advantage is that they are liquid and can be redeemed on any business day. The best of both worlds is now upon us. It used to be that complex and sophisticated alternative investment strategies were only available to the wealthy or institutions. Today, regulatory changes provide more access to liquid alternative investments to help diversify portfolios and increase the potential to earn higher risk adjusted returns. Today, there is a new breed of investment making its way through the industry. With the launch of "LIQUID ALTERNATIVE MUTUAL FUNDS", retail investors gain access to the potential benefits of alternative investments while maintaining the ease of mind that they can redeem their investments on any business day.

The following chart shows the regulatory changes that are making Alternatives more accessible to traditional mutual funds.

	Alternative Funds	Conventional Mutual Funds & ETFs
Borrowing	50% of Net asset value/ share (NAV)	5% of NAV with restrictions
Short Selling	50% of NAV (cash over not required)	20% of NAV – 150% of cash over
Access to Physical Commodities	Generally limited to 10%	No limit
Concentration in One User	20%	10%
Leverage (gross aggregate exposure)	3 times	None
Illiquid Assets	10% of NAV	10% of NAV

Liquid Alternative mutual funds, under the recent regulatory changes, are still subject to rigorous ongoing disclosure requirements as traditional mutual funds. These regulations continue to enforce high standards of transparency and independent oversight in terms of the investment strategy, holdings and reporting for alternative mutual funds. These are extremely beneficial for retail investors. Some of the advantages of Liquid Alternatives to Traditional Alternatives, include:

- A lower initial investment. Many traditional alternatives require a minimum $150,000 investment.
- Lower management fees
- Transparency and reporting as demanded by the regulators
- Regulatory limits on the amount of total leverage employed and caps on the allocation to illiquid assets
- The relative ease of moving into or out of an investment

As liquid alternatives make headway into traditional retail markets, it is important to recognize that they may not be suitable for all investors. Alternatives tend to be more sophisticated and extraordinarily complex investment vehicles. For this reason, you should make two important considerations before investing in liquid alternatives:

1. Speak with your financial advisor to see if liquid alternative mutual funds are suitable for your investment time horizon, risk tolerance, financial objectives, and other important criteria.
2. Invest in funds managed by professionals with proven expertise.

We are pleased to have liquid alternatives available to our clients as they can be beneficial in achieving better diversification in your investment portfolio. Please contact our office if you would like additional information on Liquid Alternatives.

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated.

Labour Sponsored Investment Funds ("LSIF") have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.

An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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