KPW LIFE PLAN—IMAGINE YOUR FUTURE

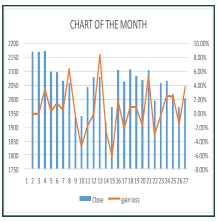
VOL. 9, ISSUE 8 AUG 2020

"The most important quality for an investor is temperament, not intellect."

Warren Buffett

Sergio Simone
EDITORIAL COMMENT

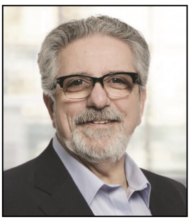
Kristina De Souza
DEALING WITH "MINOR" ISSUES



HOW HAS COVID-19 IMPACTED PEOPLE'S INVESTMENT OUTLOOK?

Ryan Simone, CLU, CHS
A FINANCIAL CHECKLIST FOR HAVING A BABY

Editorial Comment



Sergio Simone

With most of the year behind us, I thought it an opportune time to review the year and offer some insight into the balance of the year.

Back in January I recall being very optimistic about the year ahead. The economy was booming, the markets were surging, unemployment was falling, and inflation was under control.

Continue Reading

Dealing With "Minor" Issues

Kristina De Souza

When it comes to financial planning, there are various scenarios where someone may wish to leave assets to a minor. These range from naming a beneficiary in a will or on a registered investment or insurance product. What is vitally important and unbeknownst to many is that you must be sure to name a trustee and set out the trustee's powers to invest and administer such funds.

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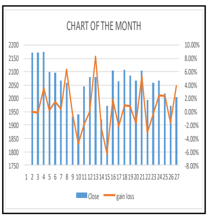
How Has Covid-19 Impacted People's Investment Outlook?



The Covid-19 pandemic has changed the way people live their lives. But to what extent are people concerned about the long-term economic implications, and impact on their investments? We surveyed over 23,000 people, from 32 locations around the world, about their behavior and financial expectations for the year ahead.

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A Financial Checklist For Having A Baby

Ryan Simone, CLU, CHS

With the arrival of a new baby, parents have important decisions to make. Decisions like, will the baby's room be space themed or animal themed? What kind of car seat is best? Does the baby really need designer shoes? … do babies even need shoes!?

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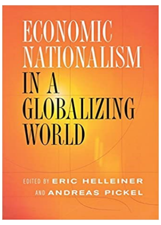


BOOK OF THE MONTH

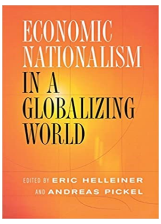
FUND OF THE MONTH DYNAMIC POWER SMALL CAP FUND

INVESTMENT TERMINOLOGY

TOM TIEDEMAN SIX MONTH STOCK MARKET FORECAST

BLOG OF THE MONTH

BOOK OF THE MONTH

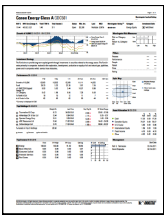


ECONOMIC NATIONALISM IN A GLOBALIZING WORLD

- by Eric Helleiner and Andreas Pickel

Is economic nationalism an outdated phenomenon in light of globalization. This book demonstrates the enduring, and even heightened, economic significance of national identities and nationalism in the current age. The authors explore diverse ways in which national identities and nationalism continue to shape contemporary economic policies and processes.

FUND OF THE MONTH



DYNAMIC POWER SMALL CAP FUND

The Dynamic Power Small Cap Fund seeks to achieve long term capital growth by investing primarily in equity securities of small-sized Canadian corporations.

HIGH-FREQUENCY TRADING

In the last decade, algorithmic trading (AT) and high-frequency trading (HFT) have come to dominate the trading world, particularly HFT, though that percentage has declined the last few years.

Here's a look into the world of algorithmic and high-frequency trading: how they're related, their benefits and challenges, their main users and their current and future state.

Continue Reading

TOM TIEDEMAN SIX MONTH STOCK MARKET FORECAST

BLOG OF THE MONTH

WHAT USUALLY HAPPENS NEXT?

I have no special knowledge that says whether the current stock market crash and economic recession is actually different from human and economic disasters of the past. The basic premise of the computer models I track here is that the market will do in the future roughly what it has done in the past -- concentrating on a handful of key business and economic variables tracked since 1984. But, at this point no one really knows what will happen next. Maybe the economy will commence a somewhat typical recovery, or maybe not.

What I think the forecasting models are saying is that six months is a very long time from now. A lot of surprises can and will happen. There is a tremendously powerful driving force for the economy to 'revert to the mean', to regain its long term path.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

RBC Wealth Management

THE SHIFTING LANDSCAPE OF GLOBAL WEALTH

The world of wealth is witnessing a historic transformation. By 2030 the share of global wealth held by Baby Boomers will be surpassed by Gen X and Millennials—cohorts brought up in a far more interconnected, technologically savvy and globalized age. In some instances the impact of this shift will be shaped by local factors, such as demographic changes. In other instances this shift will reflect shared characteristics, as demonstrated by the greater popularity of overseas investing among younger high-net-worth individuals (HNWIs) brought up in an era of globalization.

Worth

THE 7 BIGGEST THREATS FACING HIGH NET WORTH FAMILIES TODAY

Ironically, good fortune often exacerbates the challenges facing high net worth families, whose affluence makes them more vulnerable to investment fraud, kidnapping, cyberattacks and other menaces. Thankfully, advance planning and expert advice can reduce their risk.

“We don’t work from the position of advocating that clients operate in a state of fear, but rather that they just be thoughtful,” says Jordan Arnold, executive managing director and head of K2 Intelligence’s private client service and strategic risk and security practices. “There’s so much you can do to mitigate avoidable threats.” Following are the best ways to identify and reduce potential dangers.

Capgemini

WORLD WEALTH REPORT 2020

Paris, July 9, 2020 – High Net Worth Individual1 (HNWI) wealth and population grew by almost 9% globally in 2019 despite a global economic slowdown, international trade wars and geopolitical tensions, finds the World Wealth Report 2020 from Capgemini. North America and Europe took the lead with around 11% and 9% growth respectively, surpassing Asia-Pacific (with 8%) for the first time since 2012. Yet the boom of the previous year has been cloaked with uncertainty as global economies brace for a projected 4.9% decline in 2020 as per the International Monetary Fund.

BUSINESS INSIDER

HOW BILLIONAIRES GOT $637 BILLION RICHER DURING THE CORONAVIRUS PANDEMIC

40 million Americans filed for unemployment during the pandemic, but billionaires saw their net worth increase by half a trillion dollars.

This isn't the first time billionaires have seen gains while others dealt with loss, and it tends to tie back to two things. First, the government disproportionately gives more aid to larger companies.

Then, when the stock market bounces back, the unequal bailouts mean that the wealthy still have money on hand to invest and thus profit, while the middle and lower classes do not.

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FUND MANAGER COMMENTARY

NOAH BLACKSTEIN
DYNAMIC FUNDS

FRANCES DONALD
MANULIFE FINANCIAL

ERIC LASCELLES
RBC GLOBAL ASSET MANAGEMENT

TODD MATTINA
MACKENZIE INVESTMENTS

Noah Blackstein, V.P. and Senior Portfolio Manager

Dynamic Mutual Funds

Value or Growth? Yes!

In this video interview, Top Quartile Fund Manager, Noah Blackstein, discusses the benefits of owning both Value funds and Growth funds in an investment portfolio.

Continue Reading

Frances Donald, Global Chief Economist

Manulife Financial

The Three Stages Of The Global Economic Recovery

The global economic recovery isn't likely to form a single alphabet—rather, it'll be a fusion of several letters, unfolding over three stages, with the first phase of the recovery most likely to be characterized by a risk-on mentality.

Continue Reading

Eric Lascelles, Chief Economist

RBC Global Asset Management

COVID-19 Economic Update

COVID-19 continues to spread ever more freely, with 250,000 to 300,000 new infections per day now recorded on a global basis. Cumulatively, there have now been 16 million infections since the onset of the pandemic.

Continue Reading

Todd Mattina, Chief Economist, Portfolio Manager

Mackenzie Investments.

Yields, Liquidity and Asset Prices: Implications of Pro longed Central Bank Easing For Multi-Asset Portfolios

Global equities have gained about 45% since their low point on March 23. While the speed of the rally has raised investor con cerns, valuations have moved broadly in line with shifting funda mentals. With cash yields expected to remain at about zero for an extended period, equities provide an attractive long-term yield that support current valuations.

Government bond yields are expected to remain low for a prolonged period, however they continue to provide a modest yield premium over exceptionally low cash rates

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LINKS

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Tax Compliance For Clients With US Properties

The CRA has taken an interest in U.S. real estate transactions.

CFIB Small Business Barometer (July 2020)

Small business confidence showed further improvement in July.

The CRA Has Extended Filing Deadlines For Corporations And Trusts

At the Canada Revenue Agency, we understand the impact that

Coming Weeks Critical For Economic Recovery

Path of the pandemic key to economy in Canada, U.S.

Top Mistakes To Avoid When Naming A Beneficiary

Make sure the right people benefit from your investments and

Bank Of Canada Rolls Back Emergency Measures

As markets steady, the bank is planning a gradual return to pre

Monthly Market Insights: August 2020

Stock prices rallied in July as further development of a COVID-19 vaccine and better-than-expected corporate financial reports encouraged investors

U.S. Consumer Prices Push Higher; High Unemployment Likely to Keep Lid on Inflation

U.S. consumer prices rose more

Will Well Established Alternatives Managers Come Out On Top In The Wake Of Coronavirus?

In the wake of the coronavirus

GLOBAL IMBALANCES AND THE COVID-19 CRISIS

The world entered the COVID-19 pandemic with persistent, pre-existing external imbalances. The crisis has caused a sharp reduction in trade and significant movements in exchange rates

COVID CONSUMER SPENDING

Canadians spent 3% more this July than last, marking a significant milestone

A nascent recovery in Canadian consumer spending solidified through the end of July, as more sectors of the economy reopened and government benefits continued to support consumer spending.

The gain in spending in July was the first monthly year-over-year gain since the pandemic began.

VIDEO LINKS

Economy Grew 4.5% In May As Coronavirus Lockdowns Eased: Statistics Canada.

The average economist estimate was for a 3.5 per cent

Trudeau Says Feds Will Create EI-Like Benefit For Gig, Contract Workers

The federal government plans to move as many out-of-work

Asset Allocation: Being Tactical In Volatile Times

Kevin McCreadie, AGF's CEO and Chief Investment Officer, discusses the AGF Asset

CIBC Asset Management

HIGHER REWARDS, HIGHER RISKS

A large segment of risky assets have already recouped nearly all of the ground lost during the March correction. Are markets ahead of themselves or will the global recovery be faster than generally expected? This is not an easy call, but we think the odds of a faster recovery are better than generally believed.

Asset class highlights Equity:

A liquidity-driven bull market in risky assets, including equities, is possible but could rest on shaky ground. Higher rewards come with higher risks.

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EDITORIAL COMMENT-CONTINUED

This had the makings a stellar year. Even the U.S. – China trade tensions seemed to be reaching a resolution. Then COVID-19 came along and delivered an unprecedented economic shock, turning a solid year into one of the most volatile and challenging times in our lives.

As the last half of the year evolves and the severity of the pandemic's impact begins to settle down I can't help but muse about what we can anticipate for the remainder of the year and even beyond.

By the end of 2019 virtually all analysts and forecasters had taken a recession off the table. The risk was very low and most expected a positive though somewhat volatile year ahead. Our portfolios leaned towards growth and shied away from fixed income. Although we expected volatility to persist during the first half of the year, we also expected an accelerating economy during the last half of the year.

COVID-19 created an investment climate like we have never seen in our lifetime. It forced a global economic shutdown and pushed markets into bear market territory at the fastest pace ever recorded. The S&P 500 fell a whopping 34% in just 23 sessions. In just over a month, the U.S. unemployment went from record lows to a devastating 13.3% in May, with jobless claims reaching 20 million people.

The enormous number of unemployed people around the globe virtually put the brakes on the energy sector, exacerbated even more by a Russia-Saudi Arabia oil price war. The energy sector posted sharp declines and at one point oil futures briefly fell into negative territory as demand collapsed under the pressure of the pandemic. While financials also declined, information technology, health care and consumer discretionary ended the period in positive territory.

We initially expected that defensive equities would win the day but quickly realized that this was not going to be the case. The pandemic opened doors for new technologies and the increased use of current ones. High-growth businesses within the technology space were experiencing unexpectedly, but very welcome successes. We need look no further than the heavily laden NASDAQ to see this.

On January 2nd the index began at 9,092.19 and although it struggled during March and the beginning of April as did most indices, it's rebound was sharp and swift. The close on August 5th was 11,036.25 for a Year-to-Date increase of 17.62%.

Many people will continue to look at the Nasdaq or the S&P 500 and conclude that stocks have been doing well despite the challenging fundamental backdrop. Yet, the headline indexes are painting a very misleading picture. Small caps are down by almost 10% and value stocks are off by closer to 30% this year. As well as the indices seem to be doing, the median stock, as captured by the Value Line Geometric Index, has declined by 16.2% so far in 2020.

It has been a very selective market. You need look no further than the top 5 performing stocks by market capitalization and you will see they equal the market capitalization of the bottom 390 stocks on the S&P 500. The big have become incredibly larger.

Governments have injected unparalleled amounts of financial stimulus to prevent a recession or worse a depression. While initially gripped with fear, our anxiety eased up considerably on March 22nd when the U.S. Federal Reserve announced unlimited quantitative easing. This position soon became more the norm than the exception around the world as stimulus packages were reaching 10-20% of GDP.

The rapid monetary and fiscal responses, along with the easing of new COVID cases created an astounding recovery which was faster than most people expected. Unfortunately, the bond market did not participate in this recovery as interest rates remain at their lowest level with banks committing to maintaining rates at or near 0%.

Now that the worst seems to be behind us workers, investors and governments are waiting for a widespread re-opening of the economy. Leading indicators say that the world economy has started to expand. Aiding this process is the indication that more policy stimulus is coming.

I believe that a re-opening is inevitable and when it comes I expect that the sustainable and defensive business models will be playing the role of the turtle vs the hare as they catch up to the very narrow part of the market that has driven the vast majority of returns. This is especially true in the U.S. I doubt this will be a smooth ride. I expect enhanced volatility as the year progresses because markets will be vulnerable to the constant news reports about a vaccine. Good news will cause spikes and bad news will cause significant pullbacks. Add a U.S. presidential election into the mix with two candidates espousing virtually opposite views for the country and the ride could turn nasty.

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EDITORIAL COMMENT-CONTINUED

The shape of this recovery will depend, in large part, on the trajectory of COVID-19, which will largely be determined by the development of an effective vaccine. Since the timing of a vaccine is impossible to predict we have encouraged our clients to stay focused on a diversified portfolio with a long-term outlook. For now, this is paying off and we expect it will continue to pay off. The pieces are falling into place to create another bull market.

I expect the Fed will leave rates unchanged at or around 0%, for the foreseeable future. I also see disinflationary pressures, as a result of the pandemic and expect lower inflation to be the norm over the next year and possibly beyond. Risk appetite seems to be strong across markets and is consistent with a weaker U.S. dollar. We continue to favor overweighting the U.S. dollar via exposure to non-hedged U.S. dollar mutual funds. Our research indicates that the USD has been a great hedge to reduce volatility. The USD seems to pull back during rising markets but also strengthens during pullbacks.

The elephant in the room remains the U.S. presidential election. As election day approaches a whole new set of market moving risks may emerge. I will address these as E-day nears.

I encourage everyone to follow the rules set out to combat the virus and please stay safe.

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Dealing With “Minor” Issues —Continued

Failing to name a trustee can be costly and upsetting, because minor children are not entitled to receive funds fully as they are considered parties under a disability. Thus, funds which are designated for a minor must be received by a trustee on their behalf and can be used to purchase an annuity or invested on the child’s behalf until they reach the age of majority.

Another somewhat surprising fact is that parents are not necessarily the guardian of a child’s property by default. Should a child receive an inheritance as a beneficiary in a will or as a named beneficiary of a registered investment or insurance product, and a trustee isn’t named, the parent/guardian of the child needs to apply through the court to be appointed as the manager of the child’s property.

Each province has an agency mandated to protect minors, such as the Office of the Children’s Lawyer in Ontario, and all applications must be served to these agencies who will in turn respond on behalf of the child.

Approval is not guaranteed, for example, there may be cases where the parent/ guardian is considered to have a conflict of interest if they wish to access the funds to help mitigate their own obligations to support the child. Therefore, if a trustee is not named, and the court appoints no guardian for property, funds will be paid in to court to be managed by a provincial government agency (such as the Accountant of the Superior Court of Justice in Ontario). This is not ideal for many reasons, such as the inability to seek investment counsel on the funds, but more importantly it most often contradicts the deceased’s wishes.

When it comes to a will, a minor can be named as either a legatee or residual beneficiary. A legatee is a beneficiary entitled to a specific asset or sum of money. All applicable provincial rules must be reviewed in instances where a legacy is left to a minor. Certain provinces allow a maximum amount to be paid directly to the minor without requiring a court application. Take for example Ontario, who permit up to $10,000 to be transferred directly. However, for amounts greater than the provincial limit, it is recommended that a trust be created as part of an estate plan. In the formation of this plan, the name, appointed powers, and investment authority of the trustee should be designated, as well as the age at which the child will gain access to the funds.

And finally, we discuss the beneficiary designation for an investment or insurance product, which typically lacks the formality of a will. In many cases, beneficiaries are designated on such accounts as part of an employers’ benefits package, without first consulting with legal or investment counsel. Although most forms allow for a trustee to be named, the actual powers of the trustee can often only be seen in the fine print of these forms. When no trustee powers are set out in the form, a bare trust is the result meaning the trustee can hold the funds but is prohibited from paying any amount to or for the minor. Perhaps even more complicating is the fact that the funds are always required to be held and only released to the child at the age of majority.

However, investment account forms do not require that beneficiaries be designated. A will or standalone document can set out the terms of a trust and can incorporate the terms by reference to other trust terms set out in the will.

Keep in mind that there are two potential drawbacks to designations through a will. Designating a beneficiary in a will only provides coverage for those plans which exist at the time the will is created. In other words, plans that are opened thereafter would not be included in the terms of the will.

There is also the argument that funds pass through the will and form part of the estate. In order to avoid this, it is recommended that the terms be reiterated as an appendix rather than incorporated in the document. As I mentioned previously, a trustee can be directed to utilize registered funds to purchase an annuity on the minors’ behalf, but this power must be specifically set out.

The advantage to purchasing an annuity is that when a fixed-term annuity is purchased the proceeds from an RRSP or RRIF can be rolled over on a tax-deferred basis. From the time the annuity is purchased, payments must begin no later than a year after and are fully taxable as income to the minor as they are received. The annuity can provide payments for a term no longer than 18 years minus the child’s age.

Thus, although annuities certainly offer some tax benefits, these can be considered to come at the cost of holding the funds and investing them over a longer term. Furthermore, tax will be deferred to age 18 when there will be a deemed disposition when the funds are held in a trust.

Evidently, gifting funds to a minor can be complex. Thus, it is my recommendation that the foundation of this process be solidified with appropriate legal and investment advice.

A Financial Checklist For Having A Baby —Continued

While parents will endlessly debate the merits of shoes on a baby, I would wager that most parents spend little time deciding what type of insurance to get junior or when to open an RESP. The truth is that everyone needs financial planning, including babies. And since parents will be pre-occupied with a newborn, lets make things easy and offer up a simple list of financial must-haves for your little one:

First, get insurance for your baby. Not only are babies super-easy to insure, but as a parent you are protecting your child in case anything goes wrong in the future. Insure them now while they are young and healthy, and they won't ever have to worry about being un-insurable. Insurance can also act as an additional savings vehicle for your child. For example, a permanent policy can be paid off in 20 years and have a cash account accessible by the child at whatever age you decide.

Second, open a Registered Education Savings Plan. Parents will have a bit of time to do this, but they'll want to make sure it gets done before baby's second birthday. This is because grant money can be carried forward one year. However, given that it is better to be invested longer, I would recommend (purely for the time value of money aspect) that you make your $2,500 annual contribution as soon as possible. You can contribute a lifetime total of $50,000 into a RESP but you only get grant money on $2,500 each year. The grant is a sizable 20% for most families, so you'll have a $3,000 contribution each year ($2,500 + $500). To open a RESP, all you'll need is a SIN number for your little one.

Third, create YOUR will or update an existing one. More important than anything else, you need to make sure that if something happens to you or your spouse, that your little one will be taken care of. Having a will is the best way to make sure of this. It will ensure that the province does not determine what happens to your estate and who will take care of your child and how. Remember, you want to plan for the worst and hope for the best when it comes to this stuff.

Fourth, determine your own insurance needs. Picture what your spouse and baby's life looks like if something were to happen to you tomorrow. Could they afford to stay in the house? Does your spouse work and will they have to stay home with the baby? Would they be ok?

So that's it, those are the big four:

Insurance for your baby

RESP for your baby

Creating or updating your will

Determining your own insurance needs

My wife and I are expecting our first soon, and I know that I won't rest easy until I've knocked off those big four from my financial to-do list. Then I can spend my time on the important parts of being a parent, like visiting the car aisle at Toys-R-Us and learning new dad jokes.

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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.

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