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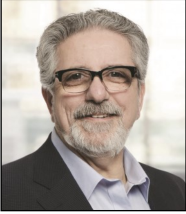
KPW LIFE PLAN—IMAGINE YOUR FUTURE

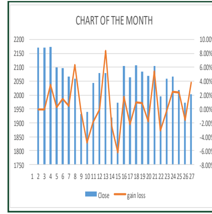
VOL. 9, ISSUE 12 DEC 2020

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets" - Peter Lynch



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza
GIFTING WISELY



SCHWAB ASSET CLASS QUILT CHART

Ryan Simone, CLU, CHS
2021 GEOPOLITICAL RISKS OUTLOOK

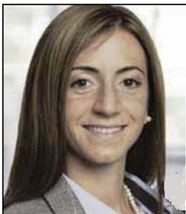
Editorial Comment

Sergio Simone

I have always been fascinated with the stock markets as they flirt with new highs, especially after a bit of a repose. On November 24th the Dow Jones Industrial Average broke through the 30,000-point barrier for the first time in its history, topping out at an intra-day high of 30,067 points. Unfortunately, the index could not hold on to the gains and closed at 29,998.

Continue Reading

Gifting Wisely



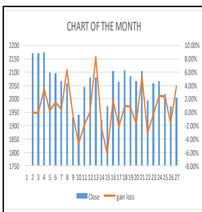
Kristina De Souza

Tis the season of giving!

For some fortunate individuals, they have reached a level of financial success that has allowed them to accumulate more wealth than they need in their own lifetime.

Continue Reading

Schwab Asset Class Quilt Chart



Schwab's Quilt Chart highlights the rapidly changing monthly performance readings by sector throughout 2020. Energy is a case in point—having spent much of 2020 bringing up the rear in terms of performance; at key inflection points it bounced straight to the top; while technology recently suffered the opposite fate.

Continue Reading

2021 Geopolitical Risks Outlook

Ryan Simone, CLU, CHS

There is going to a geopolitical event in 2021 that will cause short-term market volatility. A vague prediction but true, nonetheless. Geopolitical events like Brexit or the previous years Trade Wars make great headlines. They also create instability in stock markets because they create uncertainty and new economic risks.

Continue Reading

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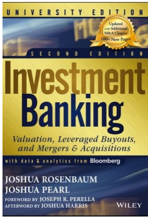
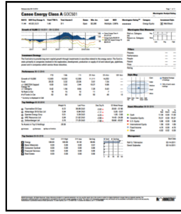
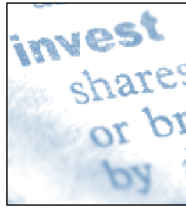


BOOK OF THE MONTH



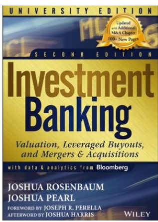
FUND OF THE MONTH MANULIFE GLOBAL SMALL CAP



INVESTMENT TERMINOLOGY

BLOG OF THE MONTH CI GLOBAL ASSET MANAGEMENT

BOOK OF THE MONTH

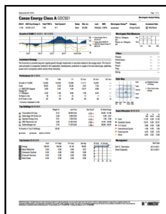


INVESTMENT BANKING

- by Joshua Rosenbaum and Joshua Pearl

This book fills a gap in contemporary finance literature, which tends to focus on theory rather than practical application. It focuses on the primary valuation methodologies currently used on Wall Street—comparable companies, precedent transactions, DCF, and LBO analysis—as well as M&A analysis. The book provides a comprehensive overview of the fundamentals of LBOs and an organized M&A sale process.

FUND OF THE MONTH



MANULIFE EMERGING MARKETS

The portfolio managers are active, fundamental, bottom-up investors. They focus on best-in-class, high return businesses across the whole spectrum of emerging market equities. They look for industry leading, quality companies, and believe the market can sometimes fail to efficiently value their long term earnings generation capabilities. They endeavor to take advantage of volatility in the emerging markets

VELOCITY OF MONEY

The velocity of money is the rate at which people spend cash. Think of it as how hard each dollar works to increase economic output. When the velocity of money is high, it means each dollar is moving fast to purchase goods and services. It reflects high demand, which generates more production.

When the velocity is low, each dollar is not being used very often to buy things. Instead, it's used for investments and savings. This low demand doesn't generate as much production.

BLOG OF THE MONTH

TAX HIGHLIGHTS FROM THE 2020 ONTARIO BUDGET

Minister of Finance Rod Phillips tabled the 2020 Ontario provincial budget on November 5, 2020. The budget projects a deficit of $38.5 billion in 2020–21, in large part due to a response to the COVID-19 pandemic. Over the medium-term, the government projects steadily declining deficits of $33.1 billion in 2021– 22, and $28.2 billion in 2022–23. Real gross domestic product (GDP) is projected to decline by 6.5% in 2020 and rise 4.9% in 2021, then gradually slow to growth of 3.5% in 2022 and 2.0% in 2023

On the income tax side, there were no proposed increases or decreases to personal or corporate income tax rates for 2020. A new temporary Seniors' Home Safety Tax Credit was announced, as well as a proposal to make the increased Employer Health Tax exemption permanent.

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VIDEO INTERVIEW WITH PAUL TAYLOR

Recently I had the pleasure to discuss the current state of the economy as well as the outlook for 2021 with Paul Taylor. Click on the link to watch the interview.—Sergio Simone

Watch Interview

Paul Taylor, Vice-President, Portfolio Manager

Mackenzie Multi-Asset Strategies Team

Paul Taylor, Vice President, Investment Management, joined the Mackenzie Multi-Asset Strategies Team in October 2019 and is a Portfolio Manager and a member of Mackenzie's Global Investment Committee.

Paul has significant investment experience in the areas of multi-asset allocation, Canadian equity management, and manager evaluation, selection and oversight. Prior to joining Mackenzie, he worked for 14 years at a major Canadian bank as Chief Investment Officer, where his responsibilities included making tactical asset allocation decisions across institutional, high net worth and retail lines of businesses and leading large teams of investment professionals, which included equity, bond and asset allocation managers.

Paul earned an MBA at the Smith School of Business at Queen's University and holds a BA (Economics) from the University of Western Ontario. He is also a CFA charter-holder.

As a member of the Mackenzie Multi-Asset Strategies Team, Paul believes in the importance of delivering attractive returns without taking undue risk. Their expertise, technology and approach are similar to those found in leading, world class pension plans. This means that risk management is present at every step of a highly disciplined investment process that fights for every basis point. To help attain repeatable results, the Team utilizes a systematic decision-making process, based on years of accumulated research and driven by sound investment insights and strong economic foundations. This assists with the identification of attractive investment opportunities and better diversification of exposures in terms of factors, assets, geographies and strategies.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

Kiplinger

25 STOCKS THAT BILLIONAIRES SOLD IN Q3 2020

The third quarter of 2020 saw America's billionaires modify a host of their stock holdings, where it was adding or reducing positions, adding new stakes and hitting the exits.

Not every billionaire shuffled around, of course. Tesla (TSLA) CEO Elon Musk says he owns just one public stock – his own – and that's working out well for him. He recently surpassed Bill Gates to become the world's second-richest person with an estimated net worth of $127.9 billion due mainly to 2020's surge in Tesla

NEW TRENDS IN ATTRACTING AND RETAINING AFFLUENT CLIENTS

Today's volatile market makes it challenging to acquire and retain clients. Getting to know and understand the investment psyche of the affluent and what's meaningful to them has never been more important.

Among the affluent, many are at a point in their lives where money is transitioning as part of an unprecedented generational transfer of wealth. This brings with it a whole new set of concerns. Across the board, regardless of wealth segment, your ability to councel clients during a crisis is consistently in demand. Those are the types of situations that the affluent rated as their top concerns

PREPARING YOUR FAMILY FOR THE GREAT WEALTH TRANSFER

The greatest intergenerational transfer of wealth in Canada's history is set to take place over the next few decades, but are high-net-worth families prepared for the shift? Canada's high-net-worth population is getting older, with more than 40% of millionaires over 65 years old, according to research. Made up of nearly a quarter of a million households, the over-65s have been the fastest-growing segment of the high-net-worth market, increasing by more than 20% in the past five years. This wealthy demographic is expected to nearly double in size over the coming decade, as baby boomers—those born between 1946 and 1965—continue to reach retirement age.

FINANCIAL POST

HOW TO TURN YOUR LIFE INSURANCE POLICY INTO A TFSA ON STEROIDS

Life insurance. After just those two words I can sense your attention starting to waver. But if you are a high-net-worth Canadian who cares about your investment returns and paying less in taxes, you should pay attention to life insurance. Ted Rechtshaffen: In 2015, what is rich anyway? The definition is important as many people who I would define as rich, live their life as though their wealth could disappear any day. By high net worth, in this context I mean someone who will likely be leaving an estate of at least $2 million, as well as anyone who has $500,000 or more in a holding company.

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FUND MANAGER COMMENTARY

KEVIN McCREADIE
AGF
MANAGEMENT

KEVIN HEADLAND
MANULIFE INVESTMENT
MANAGEMENT

ERIC LASCELLES
RBC GLOBAL ASSET
MANAGEMENT

NOAH BLACKSTEIN
DYNAMIC FUNDS

Kevin McCreadie, CEO and Chief Investment Officer

AGF Management

The only way to begin prognosticating about 2021 is to first look back on one of most tumultuous years in modern history. The COVID-19 pandemic has left an indelible mark on all who lived through it and those who lost loved ones will never be the same.

Continue Reading

Kevin Headland, Senior Investment Strategist

Manulife Investment Management

Our readers may or may not remember, we wrote about the importance of dividend-paying stocks back in 2011 following the Great Financial Crisis and again in 2016. At the time, we expressed the need to use dividends as part of an income solution in an ultra-low yield environment. The key message wasn't to search out the highest-yielding stocks, but more towards those that paid a sustainable and growing dividend.

Continue Reading

Eric Lascelles, Chief Economist

RBC Global Asset Management

Through a series of charts and graphs, Eric covers the negative and positive developments around the globe. For example, he discusses how Europe is clearly suffering economic damage in November, but Europe's infection rate is finally improving causing news sentiment to increase substantially.

Continue Reading

Noah Blackstein, Vice-President, Senior Portfolio Manager

Dynamic Funds

Insights from Noah Blackstein

"As a musician myself, and a huge fan of Thelonious Monk, I thought this blurb from Noah explained market movements very well" - Sergio Simone

I've played music on and off for most of my life. When I was a teen, I used to visit my guitar teacher who was a professional jazz musician. We'd sit around while he chain smoked Gitanes cigarettes, and he'd teach me my major and minor 6th, 7th, 9th, and 13th chords. Then he would give me some Miles Davis or John Coltrane songs and we practiced the chord changes and traded off soloing in different keys. While I tried hard to like jazz, I really couldn't have cared less except for one jazz musician - Thelonious Monk

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LINKS

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Housing's Sizzle Is Set To Fizzle

The housing market is hitting new highs this year, demonstrating a resilience that's unparalleled

"Tectonic Forces" Could Cause Economic Upheaval: Poloz

Volatility "beyond the norm is now a given," says the former

How To Not Financially Paralyze Your Children

If you've spoiled your kids—or are worried you might spoil them—here are some steps

Institutional Investors Put Portfolios On Defense In Anticipation Of Rising Risks

Eight in ten institutional investors

Canada's Fiscal Plans Could Renew Credit Rating Pressure, Fitch warns

Fitch Ratings, which in June stripped Canada of its triple-A

Will Life Go Back To Normal? Economists Aren't Sure

Even with a vaccine, a return to the office and social activities is

Into The Great Wide Open

Seven insights on how institutions will take on the risks and opportunities of an uncertain 2021

A Decade Left

Geopolitical and economic strains discussed in previous chapters could compromise efforts across many realms, including and

Global M&A Breaks The $1tn Mark For Second Consecutive Quarter

Mergers and acquisitions recorded in the fourth quarter of 2020

THREE OPTIONS FOR DE-CLAWING A BOND BEAR

There is a high probability that a cyclical bond bear market is on its way, but, its hardly cause for panic: investors are unlikely to experience returns much worse than low-single-digit negative territory for the overall bond index.

2021 GLOBAL MARKET OUTLOOK

2020 was a year of surprises. There was the speed at which the pandemic escalated, the severity of the lockdowns, the size of the government stimulus measures globally and the magnitude of the equity market rebounds. Perhaps the biggest surprise is that global equities, as of late November, have gained around 12% since the beginning of the year—an outcome few would have predicted during a global pandemic. With the U.S. election behind us and effective vaccines on the way, investors have become bullish, pushing the S&P 500® to record highs.

VIDEO LINKS

Economic Outlook—December 2020

Rising optimism for 2021 discussed by RBC's Chief Economist Eric Lascelles.

Home Prices To Keep Rising—up 5.5% On Average—In 2021: Royal LePage

The COVID-19 pandemic is

Household Debt Ratio Rises to 170.7%, Statistics Canada Says

Canadian households owed an average of $1.71 for every dollar

PRIVATE WEALTH MANAGEMENT

HOW GREAT CAN 2022 BE...POTENTIALLY?

In 2021 we'll still be in the hands of our doctors. But further out, there are reasons to believe that growth in subsequent years could surprise consensus expectations to the upside. The nature of this particular crisis should lend itself to a solid demand recovery and the capacity to meet that demand, defying some of the caution that the prior cycle's sluggish recovery period engrained into post-recession forecasting.

These days, the conventional wisdom is that deep recessions leave a lower cap on the subsequent pace of growth. It's not just the challenge of reigniting demand, but there's also a haircut on the economy's capacity.

EDITORIAL COMMENT - CONTINUED

Over the next five trading days the index managed to trade over the 30,000-point mark three more times but could not close across the line. Finally, on December 7th the Dow managed to end the day at 30,198 points and has managed to close above the 30,000 barrier every day since except for a slight pull back on December 14th. What I find extremely interesting is there has not been one single trading day that the intra-day low did not fall below 30,000 points, up to and including December 15th.

I believe a pending stimulus bill is all that stands between a solid 30,000-point break-through and a wishy-washy attack on the barrier. More and more the bill looks to become reality and once it does, we will leave 30,000 in our rear view mirror.

The Coronavirus Crash which began on February 20, ended on April 7th when the market charged ahead until it hit the wall of previous highs. After the U.S. elections, the market found some footing and has blown past their previous highs.

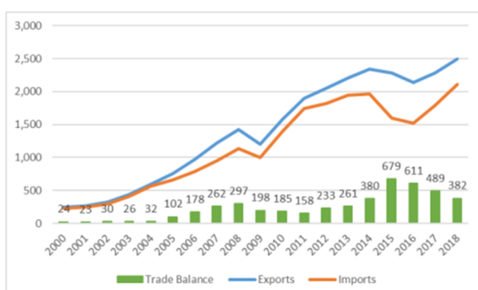
Many have referred to this as a “V” recovery where the market dropped quickly and recovered just as quickly. In my opinion it is not as simplistic as this.

The pandemic caused massive divergences within the economy and the stock market. For example, we experienced booming online retail sales against a backdrop of struggling brick and mortar outlets; booming residential real-estate vs. beleaguered commercial real-estate; the ease in which high-income workers transitioned to working from home while lower-income workers were not allowed to operate from their factories and offices; Stocks that favored stay-at-home lifestyles advanced against the stocks that supported the “get-out-and-about” businesses.

The best piece of advice I can offer at this time is to take the time and assess your investment risks. Whenever the market trades at or near all time highs, it is time to take a deep breath and evaluate the economic environment, the outlook, your goals and your portfolio structure and allocation. Investors should continue to stay disciplined, diversified, and opportunistic as they approach 2021.

As I write this, 2020 is mere weeks away from becoming an historic year. Economic momentum is sputtering along, infection rates are rising, forcing governments to respond with more lockdowns and although there appears to be a light at the end of the stimulus tunnel, it seems we may not see the money until the new year, but along with high-efficacy vaccines it may be time to bid 2020 a not-to-fond farewell and to look ahead to a hopefully better 2021.

All is not doom and gloom. According to current estimates from the International Monetary Fund, 2021 may very well emerge as an economic juggernaut with growth targeted at 5.2%, rebounding from the dismal -4.4% of 2020. Our expectation is that we will see easing of monetary and fiscal policy combined with a vaccine rollout beginning in the first half of the year. There is no doubt that the combination of these two factors will lead to a strong rise in economic and earnings growth.



There is an additional, more subtle reason I believe the recovery will continue. The pandemic did cause a massive hike in unemployment, but it was the lower paid workers that dominated the job losses, aside from the energy sector. Middle to higher income earners maintained their employment but curtailed their spending.

As the vaccine is unleashed and these earners open their pocket books once again, I easily see this as fuel to spur on the next bull wave. Over the last 9 months there has been a monolithic accumulation of savings by consumers who are desperate to spend money, which points to a strong consumer rebound ahead of us.

I expect the world will see the beginning of a shift in economic leadership in 2021 as the U.S. steps aside and Europe takes over the reins of global growth leadership. We are on the cusp of a new economic cycle and new cycles typically come with new leadership.

The U.S. economy has been the envy of the world since the crash in 2006 but I believe it is time for a new market leader to emerge. This is not an unusual situation. These shifts have occurred often throughout history. For example, during the 1980’s international stocks were all the rage. The world was opening, and investors were benefitting from increased allocations to international equities. This changed after the recession of 1990 hit and we experienced a shift back to U.S. equities that were out-performing.

In the 2000’s the U.S. economy slowly declined while China has been among the world’s fastest growing economies, with real annual GDP growth leading the world.

EDITORIAL COMMENT - CONTINUED

According to macrotrends.net, China's GDP averaged an astonishing 12.34% between 2000 and 2007 before beginning to fall. There is a lot of logic behind these shifts. The changes in leadership are often a result of a combination of behavioral and fundamental factors. As expected, economies evolve in cycles and after a full cycle of outperformance, an economy will reach a point where valuations and earnings expectations will get stretched to the point where a catalyst will cause that economy to begin to change course and a new cycle will begin. I believe these factors have once again aligned to favor international equities.

During our 2021 rebalancing and portfolio allocations we will focus on our client's exposure to international equities vs. U.S. equities. We will begin to underweight U.S. exposure and increase international exposure for the first time in many years.

With Joe Biden as U.S President, we can expect less geopolitical trade spats and an increase in multilateral trade agreements. We expect a large-scale international recovery with lower trade tensions. This should reduce the demand for safe haven currencies like the U.S. dollar and increase demand for global stocks. With the advent of further financial stimulus, we expect that effects will be felt more by smaller companies. Small cap mutual funds should be sitting in the "sweet spot" against a backdrop of low interest rates and a slowly but steadily improving economy that will be supported by good news on the vaccine front.

We will continue to use technology as our specialty asset class. Although technology funds can be vulnerable to sudden rotations, solid balance sheets and rich cash inflows have provided valuable protection against any sustained downturns in 2020 and we expect this will be a key consideration for investors going forward as this sector continues to outperform.

We will continue to underweight fixed income allocations. The prospect of rising interest rates make bond investors wary as higher rates translates into lower bond prices. Any fixed income allocation will favor funds that are keeping their portfolio durations low for the time being but be able to increase durations if yields move higher.

We expect "Diversification" across both asset classes and within asset classes to be the key investment strategy heading into 2021.

Perhaps by the middle of Q2 2021 the U.S. will have achieved some level of herd immunity, and it appears that the stock market has already priced in a booming economy by summer. The problem is that we have to get from where we are today to where we will be by next summer. Without a relief bill we may have to deal with a more volatile winter before we swing back into the good times.

The best scenario for the markets is for the politicians to get off their behinds and come to some kind of agreement on a stimulus package so that the country can better enjoy the holiday season. If they continue to let their egos get in the way of doing what's right, fatalities will soar and food lines will lengthen while Congress remains seemingly oblivious to all the suffering.

Before concluding my final Editorial of the year I would like to offer one more reason that I believe 2021 will deliver positive results. It is all about the Copper, and I am not referring to the pennies or the police. Historically, Copper prices have often been a key predictor for the trajectory of the global economy. Rising copper prices are a signal that an economy is strengthening since copper is a core ingredient in construction projects, appliance purchases and the purchase of automobiles.

https://www.macrotrends.net/1476/copper-prices-historical-chart-data

Recently, copper prices have spiked and have hit a seven-year high, having risen a whopping 66% from its recession low. A large part of the reasons for this rise are that the Chinese economy is growing and China consumes more than half of many of the world's base metals.

The global economic outlook is strengthening which is creating higher demand for large appliances and automobiles. Within the auto sector, electric car demand is soaring and electric cars contain three times more copper than an internal combustion vehicle.

I believe that the rise in copper prices is another signal that the economic recovery will continue.

Barring any unforeseen geopolitical issues investors will look back very positively on 2021.

To Page 1 Disclaimer

CHART OF THE MONTH - CONTINUED

The point is that investors should not try to time these rotational shifts, but should try to remain diversified and not tied to one particular theme or group of equities.

MONTHLY SECTOR PERFORMANCE

Schwab Asset Class Quilt®

Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Utilities 6.6%	Comm. Serv. -6.3%	Health Care -4.0%	Energy 30.0%	Info. Tech. 6.8%	Info. Tech. 7.1%	Cons. Discr. 9.0%	Info. Tech. 11.8%	Materials 1.1%	Utilities 5.0%	Energy 33.8%
Info. Tech. 3.9%	Real Estate -6.5%	Cons. Staples -5.9%	Cons. Discr. 20.5%	Materials 6.7%	Cons. Discr. 4.9%	Utilities 7.7%	Cons. Discr. 9.4%	Utilities 0.8%	Comm. Serv. 0.5%	Financials 19.0%
Real Estate 1.4%	Health Care -6.8%	Info. Tech. -8.7%	Materials 15.3%	Comm. Serv. 6.0%	Industrials 1.9%	Materials 7.0%	Comm. Serv. 9.1%	Industrials -0.8%	Materials -0.8%	Industrials 16.8%
Comm. Serv. 0.7%	Info. Tech. -7.5%	Utilities -10.2%	Info. Tech. 13.7%	Industrials 5.1%	Materials 1.9%	Cons. Staples 6.8%	Industrials 8.3%	Cons. Staples -1.9%	Financials -1.1%	Materials 13.3%
Cons. Discr. 0.6%	Cons. Discr. -7.7%	Comm. Serv. -12.2%	Comm. Serv. 13.5%	Cons. Discr. 4.9%	S&P 500 1.8%	Comm. Serv. 6.6%	S&P 500 7.0%	Health Care -2.3%	Industrials -1.5%	S&P 500 11.3%
Cons. Staples 0.2%	Cons. Staples -8.2%	S&P 500 -12.5%	S&P 500 12.7%	S&P 500 4.5%	Real Estate 1.0%	Info. Tech. 5.6%	Cons. Staples 4.6%	Real Estate -2.5%	S&P 500 -2.8%	Info. Tech. 10.5%
S&P 500 -0.2%	S&P 500 -8.4%	Cons. Discr. -13.4%	Health Care 12.5%	Utilities 3.9%	Financials -0.5%	S&P 500 5.5%	Materials 4.2%	Financials -3.7%	Cons. Discr. -3.0%	Comm. Serv. 10.4%
Industrials -0.5%	Materials -8.7%	Materials -14.4%	Financials 9.3%	Health Care 3.1%	Comm. Serv. -0.6%	Health Care 5.2%	Financials 4.1%	Cons. Discr. -3.7%	Cons. Staples -3.0%	Cons. Discr. 9.2%
Financials -2.8%	Industrials -9.6%	Real Estate -15.4%	Real Estate 9.3%	Financials 2.4%	Cons. Staples -0.7%	Industrials 4.3%	Health Care 2.6%	S&P 500 -3.9%	Real Estate -3.4%	Real Estate 7.7%
Health Care -2.9%	Utilities -10.4%	Industrials -19.3%	Industrials 8.7%	Real Estate 1.7%	Energy -1.4%	Real Estate 3.9%	Real Estate -0.1%	Info. Tech. -5.4%	Health Care -3.8%	Health Care 7.5%
Materials -6.2%	Financials -11.4%	Financials -21.5%	Cons. Staples 6.6%	Cons. Staples 1.4%	Health Care -2.5%	Financials 3.5%	Energy -2.1%	Comm. Serv. -6.5%	Energy -4.7%	Cons. Staples 7.4%
Energy -11.2%	Energy -15.3%	Energy -35.0%	Utilities 3.2%	Energy 0.7%	Utilities -5.0%	Energy -5.4%	Utilities -3.1%	Energy -14.6%	Info. Tech. -5.2%	Utilities 1.8%

Source: Charles Schwab, Bloomberg, as of 11/27/2020. Sector performance is represented by price returns of the following 11 GICS sector indices: Consumer Discretionary Sector, Consumer Staples Sector, Energy Sector, Financials Sector, Health Care Sector, Industrials Sector, Information Technology Sector, Materials Sector, Real Estate Sector, Communication Services Sector, and Utilities Sector. Returns of the broad market are represented by the S&P500. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee of future results.

Gifting Wisely —Continued

As such, their new goal becomes transferring a portion of this wealth to their loved ones without having to pay a significant amount of tax.

Despite the best intentions, we want to ensure that assets are maximized rather than depleted when transferring them to our loved ones. The traditional methods that people use to save for their heirs range from Registered Education Savings Plans (RESPs), Tax Free Savings Accounts (TFSAs), or other forms of taxable investments.

Although the thought is what counts when it comes to giving, there are downfalls to these vehicles including: contribution limits, taxation, or inability to provide the level of flexibility one is looking for.

One of the strategies I recently came across seems like a great option worth considering for the transfer of wealth. The strategy relies on the tax efficiency of a permanent life insurance policy to transfer wealth to loved ones, while allowing for control of the wealth prior to the transfer.

Essentially, the parent or grandparent purchases a permanent life insurance policy on the life of the child or grandchild. The parent/grandparent owns the policy and pays an excess amount of premiums than what is required to pay for the insurance, also known as ‘over funding the policy’ (up to the prescribed limits, of course). This results in a pool of cash in the policy, also known as a ‘cash value’.

Over time, the parent/grandparent owner transfers ownership to the child or grandchild; a transfer that may qualify as a tax-free rollover under the rules set out in the Income Tax Act. In order to qualify for the tax-free rollover, the life insured must be the child or grandchild of the policy owner. This includes the spouse or common-law spouse of the child, step-children, and great grandchildren as well. Further, the recipient of the policy does not have to be the same child or grandchild whose life is insured.

No consideration can take place for the transfer, and there can only be one life insured under the policy at the time the transfer takes place. Finally, the rollover will not apply if the policy is transferred pursuant to a will. Upon the transfer, the child/grandchild becomes the new owner of the policy, and as such can access the cash value to meet their current or future needs. This can help fund goals such as education, home ownership and so on.

At a very basic level, this strategy offers the benefit of life insurance protection on the life of the child/grandchild. From a tax perspective, it provides a tax-free death benefit as well as tax sheltered growth of the cash value over the life of the policy. However, the key benefit of transferring the ownership of the policy is that once the child reaches the age of 18, they can access the funds from the policy and any gains are treated as income to the child and not the parent/grandparent.

An additional benefit is that the child/grandchild can choose a beneficiary of the policy of their choosing, and the insurance policy inherently becomes a critical part of their overall financial plan.

As always, this is a simplified explanation of one of the many planning tools we have, please do not hesitate to reach out if you wish to discuss further.

2021 Geopolitical Risks Outlook —Continued

It would be impossible to claim with any certainty what tumultuous geopolitical events will unfold in 2021. The Blackrock Geopolitical Calendar for 2021 shows thirty-six separate events, any of which have the potential to make headlines and disrupt markets.

For the first month of the new year, eyes will once again be on Brexit. January 1, 2021 marks the first day after the official end of the Brexit transition period. At the time of this writing, there is still no trade deal made between the EU and the UK. No deal could mean things like higher prices in UK shops and border delays on imports. But deal or no deal, as of January 1st, the UK will see changes in immigration, new restrictions on living and working within Europe, budget changes, and changes in business trading outside of the UK, among others. There are still unknowns to come out of Brexit, which as a result, may lead to volatility in European markets.

There are also seven electoral events occurring across the globe next year such as in Japan, Portugal, the Netherlands, Brazil and several others in Europe and Latin and South America. Within Europe, climate change, income inequality, and globalisation will dominate political discourse. Globalisation will be of particular importance as Covid-19 accelerates de-globalization with risks to long global supply chains, particularly those linked to China. In any case, look to political outcomes putting more emphasis on 'self reliance' and sourcing resources closer to home as globalism loses out to regionalism in 2020.

There may also be volatility linked to the current US election result although for a much different reason than what we are used to from the previous US president. The current US election result has, according to a white paper by consulting group Fitch Solutions, the highest risk of gridlock and government shutdowns. Fortunately, markets tend to shrug off shutdowns despite the potential negative economic impacts. For example, since 1984, the S&P 500 has averaged a 1.3% gain during government shutdowns.

Of course, the big geopolitical elephant in the room will be the US/China relationship going forward. It's clear that China is making its push as a global economic and military superpower. This will undoubtedly increase geopolitical tension as countries reposition themselves. The risks here are the creation of an unstable world order where trust between nations is eroded and conflicts arise. From a market perspective, the risk will be greater for smaller and emerging economies such as Pakistan, Mongolia, Venezuela, and parts of North Western Africa to name a few. However, a US/China conflict poses the greatest risk for South Korea, Taiwan, Philippines, and Papua New Guinea. There is evidence towards the start of a 'soft power' competition between the two powers. Look for both countries to become competitive in relation to their economies, military, and technological advancements. A revived 'space race' will be indicative of this competition as well as the creation of new economic, trade, and security pacts (an Asian NATO?). Furthermore, India may act as a counterweight to China's progression in the region. This in combination with US pressure and a slowing Chinese economy could mean more instability for China.

There are always geopolitical risks to consider when making investment decisions. Observing possible geopolitical events helps us see what risks are built into our portfolios so that we can diversify those risks away. Unfortunately, the geopolitical events that bring the greatest market volatility (usually over the short term) are those that are completely unforeseen and unpredictable. The best defense against these events is to create a plan and keep to it. If you kept to your plan during the beginning of Covid-19, and didn't sell or move to cash, then you're ending the year on a positive note and I commend you for being resilient.

Kevin McCreadie — Continued

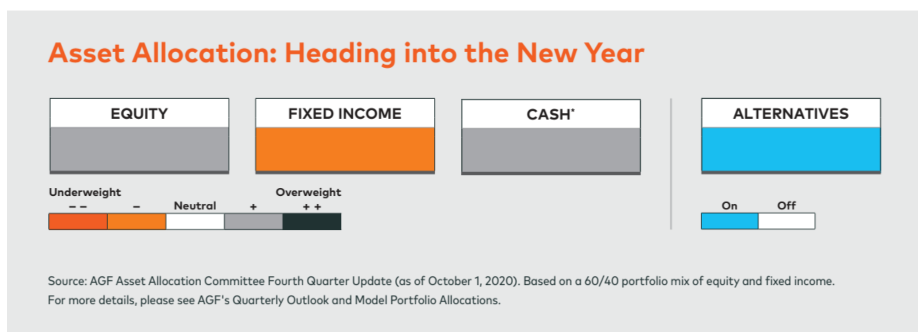
It has tested our resolve and demanded our compassion, but it has also exposed our fault lines and laid bare the inequalities that are keeping society from reaching its full potential.

This is true across all facets of life, but the economic lockdowns induced by the pandemic in 2020 have had their own unique impact on investors. In fact, never have stock markets collapsed as quickly as they did this past March, and never has an economy fallen into a recession as abruptly or as deeply before. And yet here we are, more than 10 months since the crisis began, riding one of the most remarkable market rebounds of all time, all the while anticipating a potent economic recovery that could push stocks and other risk assets even higher over the next 12 months.

Still, investors may not want to get too far ahead of themselves. While the beginning of a new economic cycle seems inevitable, the timing of it remains tenuous and in the first few months of 2021, markets may become even more volatile before giving way to a less tumultuous, more favourable trajectory in the second half of the year.

The key in all of this, of course, is the ongoing fight to end the pandemic as it continues to rage and force new temporary lockdowns in several countries around the world including the United States and Canada. Left unchecked, this could result in a double dip recession in at least some regions of the global economy even as optimism about a COVID-19 vaccine continues to grow. In fact, while there are at least two vaccines (and potentially several others) either approved or in process for approval from regulators in Europe and North America, it will be several months before enough doses are manufactured and made available to quell the global spread of the virus. At the same time, regional differences in vaccine availability will also have an impact on the breadth of the economic recovery going forward.

In turn, this only puts more pressure on governments and central bankers to step up their support over the next few months. Fiscal and monetary policy has never been so globally coordinated or so accommodative as it is today, but the need for more stimulus remains critical to bridge the gap between now and when the pandemic is more firmly under control. Thankfully, the political will to do so remains relatively strong, but time is of the essence and the rollout of new spending in the U.S., in particular, could end up taking longer than would otherwise be desired given the current dynamics of the presidential transition now in progress. A "skinny" stimulus bill before year end with the hope of more later if needed would be received well by an equity market hoping for the recovery to truly begin.



Clearly then, the pandemic – and response to it – will remain one of the big uncertainties facing investors in the early part of the new year. There are, however, several other factors that may come into greater focus as 2021 progresses. For instance, the potential market implications of the new political landscape in Washington, D.C. go beyond the timing and magnitude of the next stimulus package and may still encompass the prospects of higher corporate taxes and stricter industry regulation if run-off elections taking place in January for two seats in the U.S. Senate end up in the favour of the Democrats.

Given this backdrop, it remains crucial to position investment portfolios in a way that protects against downside risks but also takes advantage of the opportunities that will become increasingly evident as the economic recovery picks up more steam.

We believe a bias towards equities over fixed income within the context of a 60/40 portfolio will serve investors well when considering the next year in its entirety. Within equities, a barbell approach that focuses on quality growth companies, but which also tilts towards cyclical stocks, will help navigate the near-term uncertainty around the economy as well as the path to recovery. But then as a vaccine takes hold and economic progress becomes even more certain, a rotation towards those areas of the market that have done well in prior upturns should become more emphasized.

Kevin McCreadie — Continued

Emerging Markets, for example, tend to do particularly well in new economic cycles, as do commodities and those sectors that are most tied to the early stages of an expansion such as financials, consumer discretionary and industrials.

That's not to say investors should completely abandon what benefited them most in 2020. Fixed income will continue to provide important capital preservation despite the threat of rising yields, and while the so-called "work-from-home" equity portfolio may be due for a correction, we believe many of the technology stocks associated with it should continue to resonate long after the pandemic has ended.

Moreover, alternative investments, including long/short hedging strategies and asset classes such as private credit, will continue to offer important diversification to stocks and bonds, and sustainable investment themes may only become more top-of-mind with investors as the need to direct capital more effectively towards environmental and social issues continues to ramp up in the coming years.

Ultimately, investors can take comfort in knowing the worst of the pandemic will soon be over, but what could end up being a very good year for the global economy and financial markets may not necessarily start out that way.

Noah Blackstein — Continued

My musical tastes were blues, rock, and metal, though I did love odd time signatures. I didn't know what it was about Munk's music but I could listen for hours. A number of years ago I was watching a special on comedian Dave Chappelle who for some reason taught himself to play Monk's 'Round Midnight" on the piano.

That was "'Round Midnight" I was playing. That's the Thelonious Monk song. One of my favorite musicians, 'cause his timing was so ill'. Every comedian is a stickler for timing, and Thelonious Monk was off time, yet perfectly on time. You should study it. If you're an aspiring comedian, or an aspiring musician, you should study it.

– Dave Chappelle

So it wasn't that surprising for me to read a December 7th, 2020 CBC article on Toronto Raptors championship coach Nick Nurse who said the following;

"It was coach Ron Ekker who would call his offense "the Monk offense," says Nurse, adding: "So, I kind of stole that from him. I started listening and studying Monk, when I heard [Acker] talk about that." Some may argue that basketball and music are dissonant but, whether it's a band on the stage or a team on the court, both require a mutually supportive collective who will present a harmonious front. For that reason, Nurse says, "it made sense to me to look at my offense as a little bit like a jazz man."

A 2017 New Yorker article wrote that Monk's works have proved to "be catnip to a line of painters, critics, modern dancers, and especially poets". I guess they should add in comedians and coaches as well. I know you are asking yourselves – has Noah gone mad in quarantine? What the heck does this have to do with the markets?

There are many who believe that the markets operate in a pop song format – simple and straight 4/4 time, but that is wrong. With approximately 253 trading days a year, people want 3 basis points (positive returns) a day on average for an annual return of 8% (no I didn't do daily compounding so don't @ me). Of course, this is not how markets work. There are explosive flurries of gains or losses followed by long pauses and empty spaces where nothing seems to happen. The biggest problem investors have is getting bored if something isn't moving right now, or even worse, succumbing to fear in a correction when the long term picture for a company remains excellent. Once investors understand that equites are not annuities or bonds, and returns tend to concentrate and pause, they will understand the importance of patience in long term equity investing. As CNBC's Mike Santoli points out "despite the way it feels, the index is only up (barely) 2% in the past 13 weeks." It's jazz not pop.

The rally in the most distressed parts of the market was of historical proportions since the vaccine news a month ago, with 2020 's worst performers up +43% and stocks with the highest 1M Volatility from up +30%. To continue to own many of these laggards and highly volatile stocks, one now has to look out to the hopeful 2023 analyst estimates just to justify where they currently trade. Do I think everyone will want to party and travel when this is over? Maybe. Do I think most of those stocks valuations now reflect that thesis? Probably. As buyers' remorse sets in along with likely fundamental disappointment we will reapply many of our individual shorts. On the long side, I am significantly more comfortable being patiently long our secular growth names. – N

I recently listened to Noah's podcast from July of this year and thought it was well worth listening to again.

Please take a few minutes to listen to Noah's insights from July.

Listen here

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