Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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Dear Clients and Friends,

To say the last few weeks have been gut-wrenching would be a gross understatement. As if the further spread of the coronavirus (COVID-19) was not enough for equity markets to contend with, the sudden collapse in crude oil prices has exacerbated volatility and heightened economic uncertainties. Perhaps because this latest correction was sudden and deep, the noise around it seemed particularly loud and gloomy. Welcome to the “uncomfortable” stage of a long-term investment strategy. While many investors feel they have to do something during a market downturn, history shows that the disciplined, patient investor will often be the one rewarded when markets return to their upward path.

Looking back over the last 60 years, every decade has experienced a crisis or two that has affected the markets. The Korean War started in 1950, the Cuban Missile Crisis and the assassination of JFK marked the 1960s. In the 1970s, it was the oil embargo and energy crisis and in the 1980s it was Black Monday caused by program trading. More recently, the 1990s saw the Gulf War, the Asian crisis and the demise of the Soviet Union, and in the 2000s we endured the 9/11 terrorist attacks, the Iraq war and the global financial crisis. Every time, global markets rebounded and went on to produce solid long-term gains.

If history repeats, this latest correction (which is still playing out) may turn out to be another dip in an ongoing bull market. It is important to realize that despite all the drama, corrections are actually common and can be brief. In fact, between 1945 and the current selloff, the S&P 500 has gone through 26 corrections, with the index falling by around 13% on average over a four-month period. And it generally took four months for the S&P 500 to recover those short term losses.

Are we in the middle of a Crisis or an Opportunity? Will we look back 5 years from now and say that was the best buying opportunity of this decade? We honestly do not know. I do know that good decisions are the result of a good process. Re-balancing is a process that involves maintaining a target asset mix, regardless of market conditions. We attempt to accurately represent our current state of knowledge, realizing that we won’t ever have all of the facts required to make any decision that is 100% accurate. Improved decision quality is about increasing our chance of good outcomes….not guaranteeing them.

Opportunity can feel uncomfortable. The best times to invest are when the headlines are the worst. Timing is never perfect to add new equity positions in a falling market – there is no way to perfectly time the exact bottom of any short-term correction. In the investment world, this type of opportunity does not always feel good, but for longer term investors, the ability to look past short-term losses does present opportunity.

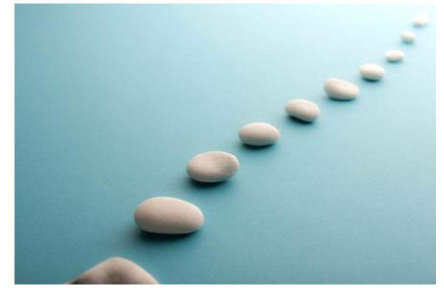
During difficult periods like this, my responsibility is to provide the RBC perspective and recommendations that are suitable for each client’s individual risk tolerance level.

Kind regards,

Sandra

Stay calm and invest on

In stormy markets, keeping a sense of perspective can help you stay on track to reaching your long-term goals, like retirement or a legacy for your family's future.



When the markets are particularly volatile, there's a natural tendency for investors to move into safer investments, hoping to avoid further losses, and wait until the markets recover. But unfortunately it's nearly impossible to predict when the markets will recover. As a result, investors may miss out on the eventual recovery, which can negatively affect their long-term investment goals. The investor who stays invested tends to do better than the investor who bails out and misses even some of the recovery.

Avoid market timing

Some investors try to improve their returns attempting to "time" the market – selling right before the markets go down, then buying right before they go up again. In theory, this sounds great. But in practice, it rarely works, simply because it's so difficult to predict when the markets will go up or down. Unfortunately, that doesn't stop investors from trying, which is why the "average investor" tends to underperform virtually every asset class.

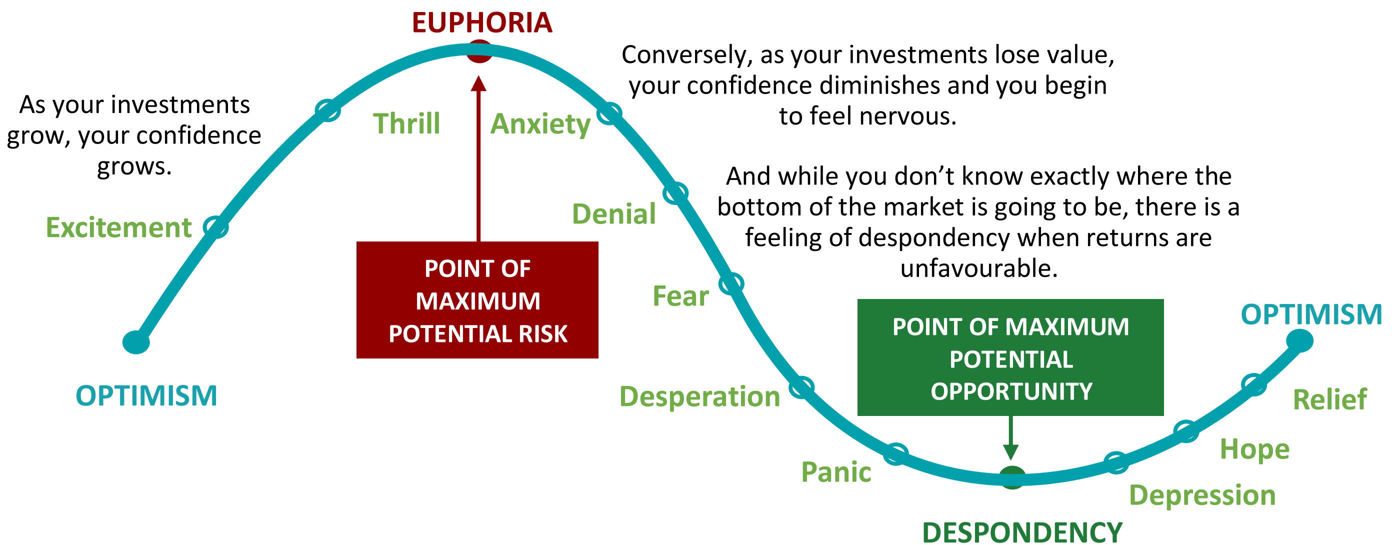
Maintain your sense of perspective

Unquestionably, stock market downturns can be painful, especially when you're in the middle of one. It's not always easy, but it's important to remember that downturns have happened before – and will happen again. Historically, the markets have always recovered and reached new highs.

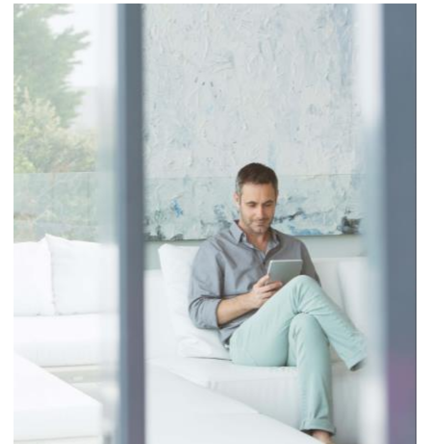
Reassess your comfort level with risk

It's one thing to say you are comfortable with a higher level of risk when the markets are only going up, and another thing when the markets are volatile. If you are finding it difficult to sleep at night because of market volatility, then it might be time to consider how much risk you are truly comfortable taking with your investments.

The market will **TEST** your **RESOLVE!**



How to avoid emotional investing



Tips to help you stay focused on the big picture

A long-term investment plan is the key to a successful retirement. It requires a disciplined approach because when the value of your investments is in flux – and it almost always will be – it's hard not to let your emotional side take over.

When markets are falling and your investments decrease in value, you may become anxious, or worry about what impact it will have on your overall financial well-being (and consequently your retirement). And when markets take a turn the other way and start climbing, you may become a bit over-confident, willing to take on more risk to see your assets grow further.

These emotions are entirely understandable but acting on them in your investment portfolio can be detrimental.

So, how do I deal with this?

As difficult as it may be to watch the value of your portfolio decline, try to think of the long-term implications and remain calm. Here are a few suggestions:

1. Ask big picture questions

There are reasons why you began investing in the first place, which in turn helped determine how your portfolio is constructed. It may be helpful to revisit these goals when volatility picks up to see if anything has changed.

Consider asking yourself questions like:

- Are my goals the same now that my investments have declined?
- Is my investment time horizon the same as it was when we built my portfolio?
- Is my financial situation the same?
- Is my portfolio aligned with my risk tolerance?
- Does my portfolio have an appropriate level of diversification?

If the answer is yes to a majority of these questions, then ask yourself why you need to make any changes, particularly knowing that there are risks to getting it wrong. If the only thing that has changed is the short-term value of your portfolio, should this affect your long-term plan? These bigger picture questions can help shift the focus away from the short-term discomfort.

2. Tune out the headlines

During times of market volatility, watching the news and reading the headlines may only heighten your anxiety and increase the chance that you'll react emotionally. No forecaster can accurately predict where markets will go in the short term and no forecaster has insight into your unique situation. And, remember that the performance of any one market is not the same as the performance of your personal portfolio. If you've diversified your investments, your experience is bound to be different from the one you read and hear about. So take everything you watch and read with a grain of salt.

3. Stop checking your investments every day

Are you guilty of obsessively checking your portfolio? One way to reduce the emotional impact of market volatility is by simply applying a long-term lens and looking at your investments less often. When negative market performance is all you hear about, increasing the frequency with which you review your investments will only serve to increase anxiety. Despite many reasons not to invest, history has shown that over the long term, markets have charted a positive path out of those negative periods and investors who stayed the course have been rewarded. By not checking your portfolio balance each day, you increase the odds of staying the course and seeing the benefits of that approach over the long term.

Understanding the Tax Forms

You may be receiving some the following tax forms to be used with your 2019 tax return:

T3	Statement of Trust Income if you have investment income from mutual funds in non-registered accounts and from certain trusts.
T5	Investment income including interest, dividends and certain foreign income.
Summary of Securities Dispositions (T5008)	This form sometimes looks more like a letter than a tax slip so be sure that you do not overlook it. This is a summary of the proceeds of any sale of securities and your capital gain or loss information.
RRSP Contribution Receipt	Reports the value of contributions made to an RRSP plan during the year and up to 60 days in the next year.
T4RSP / T4RIF	All payments made from RRSP, RRIF or LIF accounts are taxable in the year they are received. If tax has been withheld and sent to CRA, it will be reported on the tax slip.
T4A	Education Assistance Payments from a Registered Education Savings Plan (RESP) are taxable in the hands of the child in the year it was withdrawn. This is only the grant portion of the plan which is taxable as income.

The ABCs of ACBs for Investors

Knowing the adjusted cost base (ACB) of your non-registered investments and how it's calculated is a part of good tax planning

Canadian tax rules require an adjusted cost base (ACB) calculation of an investment's cost for tax purposes to establish capital gains and losses on property you own, which includes your investments in non-registered accounts. The difference between the ACB and the sale price of an investment is what will determine the capital gain or loss for tax reporting.

Purchase price

You may buy the same investment at different times. Each time you buy more of the same investment, an adjustment needs to be made with your ACB to come up with an average cost. The average cost is calculated as the total cost for all purchases of the same investment divided by the number of shares or units you own.

Year-end distributions and allocations

If you invest in mutual funds, it is common to receive distributions and a corresponding tax slip at year-end. If you reinvest the distribution, the amount must be added to your ACB. This is because you are already paying tax on the distribution with the year-end tax slip, so you won't have to pay tax on this amount again when you eventually sell the price. An increase in your ACB means that you will have a lower capital gain in the future when you redeem your units.

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