Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

Fall 2020

RBC Dominion Securities Inc.

Sandra Sparanese, FCSI, CFP, CIM
Vice-President
Portfolio Manager & Financial Planner
sandra.sparanese@rbc.com
250-356-4859

Heather Murdock, CFP
Associate Advisor & Financial Planner
250-356-3970
heather.murdock@rbc.com

Mary Howley
Senior Associate
250-356-4946
mary.howley@rbc.com

5th Floor, 730 View Street
Victoria, BC V8W 3Y7
www.sandrasparanese.com

Dear Clients and Friends,

It has been another beautiful summer in Victoria and it seems like many of us are having “stay-cations” on Vancouver Island this year. I can’t think of a better place to be during this time of continued physical distancing and staying safe.

Canadian and U.S. equity markets have shown an amazing recovery since the low of March 23rd. As the economy reopens, the stock market has risen at a much faster rate which some clients are finding to be very concerning. The stock market is a forward-looking mechanism and is currently pricing in the assumption that the economic recovery will continue.

While there is still tremendous uncertainty surrounding the containment of COVID-19 and its long-term economic impact, human behaviours and corporate strategies have started to evolve and adjust to this new reality. In addition, collaboration among government and companies playing a role in vaccine development has been tremendous. Going forward, these advances could lead to the resumption of more normal daily activities and spending patterns within the next few years.

However, we do see some short-term risks in the market at this time. A second wave of COVID-19 could appear as the regular flu season comes into play this fall. Will there be another government-mandated shut down of the economy? We hope not but this falls into the category of things we do not know. Recently, the U.S. and China have had challenges in solidifying a trade deal that both superpowers can agree on. The U.S. election is also a short-term risk as we draw closer to the November 3rd election day (see page 3 for more information).

There will always be risks to investing. It is really about balancing these risks with each client’s own personal financial goals. The bucketing investment strategy continues to be the most conservative option for clients. Keeping your short-term bucket in guaranteed investments means that you are protecting amounts that you require for income in the next three years. Conversely, the portion of your account not required in the next ten years will be the long-term bucket and should have some growth potential, knowing that fluctuations in the short-term do not significantly affect the long-term results of this bucket. As always, it comes down to each client’s own personal risk tolerance level.

I am grateful that I have recently been allowed back into my downtown office as RBC Dominion Securities has put in place protocols to allow 20% of our staff to return to the premises. At this time we are still not permitted to have client meetings in our offices, so we will continue with email, phone and video meetings to stay in touch and keep you informed.

Wishing you a healthy, safe and happy fall season,

Sandra

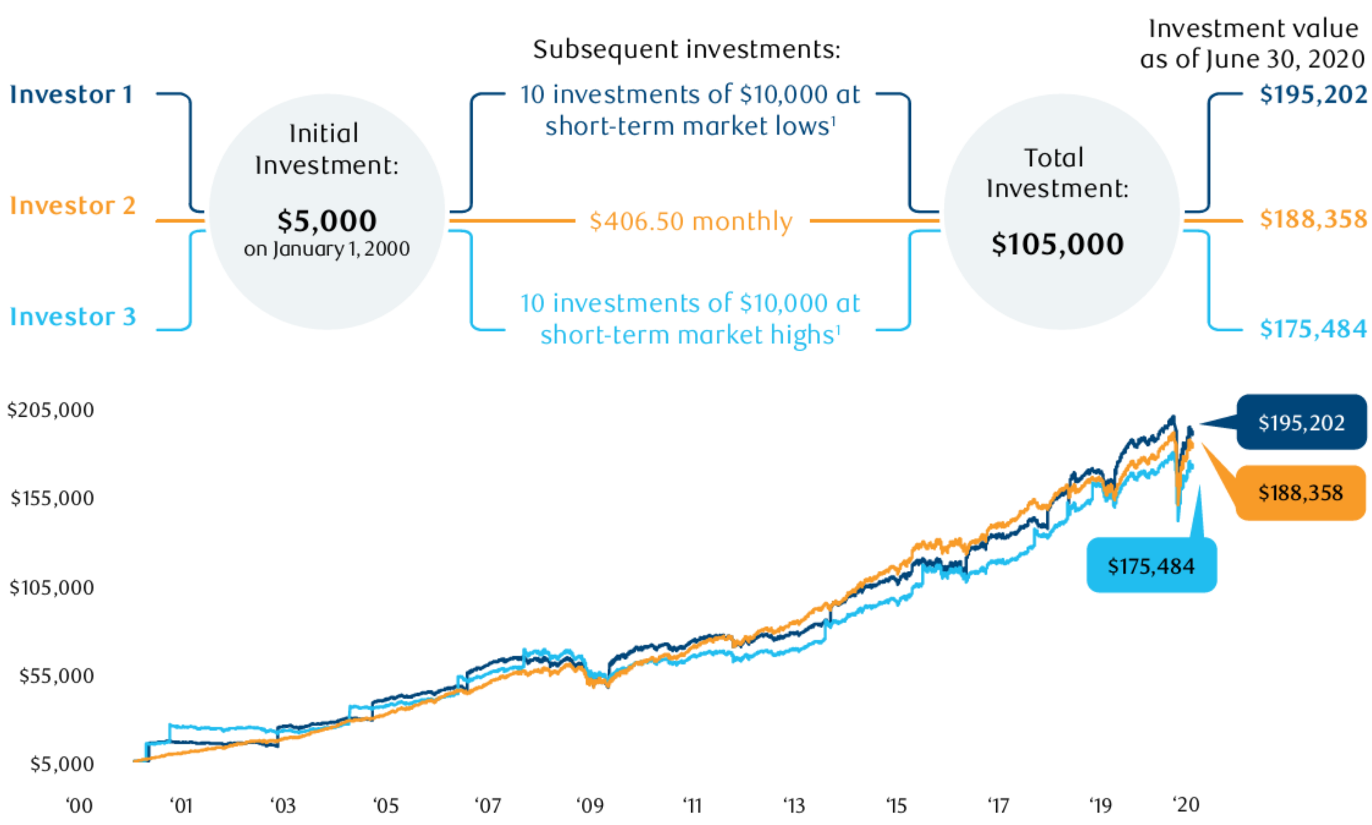
Time in the market vs. timing the market

Time is one of the best assets that many investors have, but they do not always know how to take advantage of it. This is especially true when markets turn volatile. At such times, many investors sell out of the market and/or hold their cash on the sidelines, waiting for the perfect time to invest.

It's important to understand that trying to time the market seldom works. Equity markets can get volatile in the short term, but **over the long term they tend to rise.** This means that an investor who stays in the market generally has a much higher probability of long-term success than one who tries to pick the perfect time to invest.

A tale of three investors

To illustrate, let's consider three hypothetical investors in RBC Select Balanced Portfolio since January 1, 2000. Each investor made contributions to the fund at different times, totaling $105,000.
Investor 1 was lucky and invested when prices had dipped to short-term lows.
Investor 2 did not attempt to time the market but invested at regular intervals according to a financial plan.
Investor 3 inadvertently selected the ten worst times to invest: when prices were at short-term highs.



Source: RBC GAM. RBC Select Balanced Portfolio (Sr. A). Performance period January 1, 2000 - June 30, 2020.

The results

Even though the three investors took very different approaches to investing, there is not much difference in the end result. All three investors were able to benefit from compounding over the long term.

The chart also illustrates that Investor 1 only modestly outperformed Investor 2, even though they were lucky enough to time the markets perfectly. The lesson here is that investing at regular intervals is an effective and potentially less stressful approach to building wealth over the long run and during any type of market.

Short-term market lows: 04/14/00 | 10/09/02 | 08/13/04 | 06/13/06 | 03/09/09 | 06/24/13 | 02/11/16 | 09/08/17 | 02/08/18 | 12/24/18. Short-term market highs: 03/26/00 09/04/00 | 03/01/04 | 04/05/06 | 07/19/07 | 05/21/13 | 04/12/15 | 06/04/17 | 01/23/18 | 07/19/18. "Regular monthly investor" made pre-authorized contributions on the last trading day of each month over the period indicated.

Fund performance as of 30-Jun-20: 1yr: 2.9%, 3yr: 4.3%, 5yr: 4.5%, 10yr: 6.7%, Since Inception: 6.3% (Dec, 1986).

What about the U.S. Election?

The U.S. is preparing to go to the polls on November 3rd, 2020. It is safe to say opinions and emotions about the U.S. elections are running hot. U.S. presidential elections have polarized the public for many decades, especially when there are major differences in the candidates' policy proposals on taxes and other issues, as is the case with this election cycle. This presidential election will happen during a recession and pandemic, which is certainly shaping the candidates' campaign promises. We are expecting the rhetoric to pick up sharply in the weeks to come.

The race for the presidency understandably gets most of the attention during the vote. But, the legislative branches of the U.S. government will also be elected in November. The U.S. Congress is made up of the Senate (currently controlled by Republicans) and the House of Representatives (currently controlled by Democrats). Within Congress, there are certain rules that require enough bipartisan support for a law to be passed. This important division of power acts as a guardrail of sorts, and ensures that any sweeping policy changes have enough support from both Democrats and Republicans. In other words, there are checks and balances in the U.S. political system that ensure a President alone cannot drive policy.

With respect to election outcomes, we see three plausible scenarios: 1) status quo; 2) Joe Biden as President while the House and Senate stay unchanged; and 3) sweeping victory for the Democrats (President, Senate, and House). This latter scenario may pose the most uncertainty for the market as it could increase the odds of higher taxes and more restrictive regulation in the future among other things. Nevertheless, we think the elections are unlikely to alter the course of fiscal policy in the intermediate term as both Democrats and Republicans are incentivized to help their constituencies through this period of economic malaise. Furthermore, accommodative monetary policy, which has helped ignite the economic and market recovery is unlikely to change any time soon regardless of election results.

U.S. Presidential Elections: Stay Invested

Staying invested matters more than the outcome of U.S. presidential elections.

Despite some volatility along the way, the S&P 500 has tended to power through presidential elections, regardless of whether a Democrat or Republican won the White House. In 18 of 19 presidential elections, a hypothetical $10,000 investment made at the beginning of each election year would have gained value 10 years later. That's regardless of which party's candidate won. In 15 of those 10-year periods, a $10,000 investment would have more than doubled. While past results do not guarantee future returns, election-year jitters should not deter investors from maintaining a long-term perspective. The only negative 10-year period followed the election of George W. Bush in the year 2000. During that decade, the S&P 500 posted a negative return amid two seismic events: the 2000 dot-com crash and 2008 global financial crisis. In contrast, the biggest election year return would have been in 1988, when George H. W. Bush won office, and $10,000 would have grown to $52,567 by the end of 1997. By design, elections have winners and losers, but the real winners have been investors who stayed the course and avoided the temptation to time the market.

Who will speak for you when you can't?

To help older Canadians make sound decisions about their personal finances, investments and health-care planning, RBC Wealth Management and the National Institute on Ageing at Ryerson University (NIA) recently formed a strategic partnership. This alliance is especially timely considering the COV1D-19 pandemic, which has led many Canadians to think about their own health and well-being, and what might happen if they became incapacitated.

It's important to care about your care

The NIA reports that over 80% of Canadians have no form of written plan regarding their financial matters in the event of incapacitation. What's more, less than 50% have had a conversation with a trusted family member or friend about their preferred health-care treatments should they unexpectedly become incapacitated.'

This is particularly concerning given the likelihood of incapacitation as we age. The average timespan between when we are living a healthy life and the time we die is nine to 11 years.[2] During this span there is an ever-increasing risk that we will become incapacitated and unable to communicate or make decisions about our financial affairs or health care. Despite this, over 70% of Canadians do not have a Power of Attorney covering financial and health care-related matters.[3]

Their voice, your words

In the event you become incapacitated, you are likely to want to ensure that your financial interests and health-care choices are dealt with as you would wish, and by whom you wish. For that, you require a Power of Attorney (POA). There are generally two types:

> **Standard Power of Attorney for property:** empowers your attorney to legally make decisions about your finances and property on your behalf.
>
> **Standard Power of Attorney for personal care:** empowers your attorney to legally make decisions about your health care on your behalf.

Advancing the conversation on care

The conversation around ageing and health care needs is evolving and deepening — and that's one of the many reasons we are excited about our partnership with the NIA.

According to the NIA, Canadians should consider Advance Care Planning (ACP) in addition to POAs. This is the process by which a person expresses what they wish to take place should they become incapable of consenting to, or refusing, treatment or personal care. This includes deciding who will make decisions on the person's behalf if this happens, and involves discussions with family members, friends and loved ones. It covers a wide range of scenarios and treatments, including end-of-life care, chronic conditions, and long-term care needs. It may also involve health-care providers, and lawyers who can help to document the decisions with an advance directive.

Engaging and empowering those you trust can help ensure your most difficult moments are spent in the manner you would hope for — and with the dignity and care you deserve.

Notes:

'*National Seniors Strategy Evidence Informed Policy Brief:* Ensuring Older Canadians and their Caregivers are Enabled to Participate in Informed Health Decision-Making & Advance Care Planning. National Institute on Ageing, Ryerson University (2018).

[2,3] *Mind the Gap* - Canada's baby boomers need Power of Attorney planning to protect themselves. RBC Wealth Management (2013).

Wealth Management
Dominion Securities