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Financial Focus

Wealth Management
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Dear Clients and Friends,

What a fabulous summer we have had here in Victoria! The pandemic has certainly made me appreciate where we live and how fortunate we are to call this paradise "home".

Over the past few months, the stock market has continued to move higher but now faces some short-term risks. It is often said that bull markets climb "the wall of worry" while they are rising, but is important to remember that there is always some level of risk with unknown events that we don't see coming. Specific risks will continue to come and go as part of a regular economic cycle. The highly contagious Delta variant is certainly a short-term risk that can interrupt the economic recovery, but we expect that risk to fade as progress continues to be made on vaccination rates around the world.

At this time, inflation is a risk as we expect to see higher prices in goods and services as we continue to recover from the pandemic-induced recession from last year. The word "transitory" has been used to describe the current higher level of inflation over the last 12 months based on the lower demand (and therefore lower costs) for goods and services at the start of the pandemic. We anticipate inflation will remain in the 2-3% annual range per year going forward as central banks have the ability to control inflation with their monetary policy.

The US Federal Reserve is expected to start "tapering" their stimulus programs that have been used over the last year to support their economy during the onset of the Covid-19 crisis. Here in Canada, our central bank has also started to withdraw some of the stimulus strategies as well. We do not expect drastic changes to interest rates over the next 12 months, but we could start to see a gradual increase in 2022.

So what should investors be doing as we head in the fall season? Historically, we have seen weaker markets in the months of September and October, so there is the possibility that we could experience some volatility in the stock markets during this time. However, that does not mean that investors should abandon their long term investment plan – remember back to March, 2020 when the best course of action was to remain invested and allow values to recover. We recommend that investors continue to use the "bucket strategy" for investment strategies to ensure that amounts required for income in the next 12 months are always in a principal protected position without any market risk. Let your longer-term bucket (amounts required in 10+ years) continue to have a growth component to offset future inflation.

I continue to be very proud to work for RBC as they were recently the first Canadian bank to announce mandated vaccinations for our employees to return to our branches and offices. At this time, we are not yet permitted to allow clients into our RBC Dominion Securities offices for in-person meetings, so we will continue to use email, phone and video as communication options for now. I continue to dream of the day where my work life returns to normal!

Wishing you a safe and happy fall season,

Sandra

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Onwards and upwards: Why equity markets reaching all-time highs is no reason to change course

New all-time highs in the markets can often tempt investors to "take the money and run." After all, with prices so high, it must mean that the party will end soon enough. Right? Well, actually, wrong. History shows that selling at the market's all-time high doesn't work out over the long term. On the contrary, maintaining a disciplined approach to investing has proven over time to be the smart - and winning -strategy for long-term investors.

"Doom scrolling" - old instincts, new media

Stock markets are forward-looking entities. A rising stock is actually a reflection of a growing economy and increasing profits, and indicates a generally a positive outlook for both. The post-"COVID Crash" bull market that began at the end of March 2020 has shown us once again how equity markets are forward looking: They anticipated the economic bounce back from the government-imposed pandemic restrictions that has materialized over the last year, and is now accelerating.

On the flip side, news headlines are often structured to create fear in readers, drawing on our natural fear instinct, which has been ingrained in the human mind over tens of thousands of years. A recent term for it is "doom scrolling" - or spending an inordinate amount of time scrolling through one's social media feed and clicking on increasingly dystopian and dark new items and stories.

Don't believe every headline you read

Unfortunately, the combination of our ingrained protective instincts and sensational news media doesn't help us to be good investors. As we can see in the chart, there are always "good" reasons not to invest at any given time. Yet, time and time again, equity markets have continued to move higher over time.

Breaking new ground

With markets hitting all-time highs, it's easy to imagine that they are expensive and about to topple. But looking at the chart, note how in 1983, 1986, 1995 and 1996, the "reason" for not investing was markets hitting all-time highs. So, if it was a good idea to sell when markets hit all-time highs and move to cash, clearly history would show that markets have fallen since and not continued to rise over time. However, note that since January 1, 1996, to the end of 2020, the S&P 500 Index has generated a return of approximately 880% including reinvested dividends, or 9.5% per year*. Apparently, hitting all-time highs proved to not be such a good reason to sell equities after all.

There are always reasons to talk ourselves out of investing. Instead, a well-constructed and risk-appropriate investment portfolio can help ensure you stay on track to your long-term goals - and focused on moving onwards and upwards to your goals.

All-time highs a reason to sell? Between 1996 and 2020 (25 years), the equity market rose 880%, and delivered an almost 10% annual compound rate of return (including reinvested dividends) for investors who ignored the headlines and stayed invested.*

1971 Wage price freeze	1988 Election year	2005 London terror attacks
1972 Largest U.S. trade deficit ever	1989 October "mini-crash"	2006 Russia-Ukraine tensions
1973 Energy crisis	1990 Persian Gulf crisis	2007 Housing crisis
1974 Steepest market drop in 4 decades	1991 Communism tumbles with Berlin Wall	2008 Financial crisis
1975 24% inflation in the U.K.	1992 Global recession	2009 Global recession
1976 Economic recovery slows	1993 Health care reform	2010 European sovereign debt crisis
1977 Market slumps	1994 Fed raises interest rates 6 times	2011 U.S. credit downgrade
1978 Interest rates rise	1995 Dow tops 5000	2012 Global tensions with Iran
1979 Oil prices skyrocket	1996 Dow tops 6000	2013 The "Taper tantrum"
1980 All-time high interest rates	1997 Asian financial crisis	2014 Oil prices fall 50%
1981 Steep recession begins	1998 World market correction	2015 First U.S. rate hike in 10 years
1982 Worst recession in 40 years	1999 Fear of Y2K	2016 U.K. votes for Brexit
1983 Market hits new high	2000 Dotcom bubble bursts	2017 Rising interest rates
1984 Record-setting market decline	2001 September 11th terror attack	2018 Slowing global growth
1985 Economic growth slows	2002 Markets drop to 1997 levels	2019 U.S.-China trade war
1986 Dow nears 2000	2003 Iraq war	2020 COVID-19
1987 Black Monday	2004 Indian Ocean tsunami	2021 ???

Source: RBC Global Asset Management (2021).

*Bloomberg LLC. Return shown is the total return - including reinvested dividends - of the S&P 500 Index from January 1, 1996, to December 31, 2020. Note that you cannot invest directly in an index.

Five reasons why an up-to-date Will is a crucial part of your estate plan

It's important to establish a Will, and keep it up to date. Your Will documents the manner in which you want your estate to be managed when you die, and who you wish to benefit from it.

Unfortunately, over half of Canadians have no valid Will*. Dying without a Will — or "intestate" — means that under the succession laws of your specific province, the government becomes the controller and executor of your estate. The government decides how your estate is settled, and when and to whom any assets or residual value goes to. This can often mean higher fees, lost earnings and opportunities regarding your assets, and unnecessary if not devastating hardship for those you would likely wish to benefit from your estate.

Where there's a Will, there is a way

Here are five reasons to establish or update your Will:

1. **Creating your legacy:** A Will tells the government, the courts, your executor and your beneficiaries what your wishes are, as well as when, how and to whom you wish your estate to be dispersed — including any charitable legacy.
2. **Protecting your partner:** While a surviving spouse will usually inherit some or all of a deceased's estate even if they die intestate (depending on the relevant provincial law), that is NOT assured if the partner is common-law or unmarried.
3. **Providing for your children:** Especially if you have minor children, your Will can stipulate whom you establish as their guardian(s), as well as how, how much and when they receive an inheritance.
4. **Maximizing the value of your legacy:** Having a well-considered and established estate plan and Will can help ensure that the assets that make up your estate are properly and timely managed, (e.g., your investment accounts, vacation and/ or rental properties, your business) to maximize their value for your beneficiaries, while also properly managing the estate's taxes and fees.
5. **Appointing a trusted executor:** Whether it appoints a corporate executor and/or an individual, your Will can ensure that you have a trusted and competent executor. This can help ensure your estate is settled the way you wish, alleviate the burden on your loved ones and reduce friction amongst beneficiaries.

"Wilted" Will

Wills can go stale, so it is important to review your Will every three to five years to ensure it still reflects your wishes. As well, life events such as divorce, a death of a spouse or a meaningful change in financial circumstances can have a profound impact on your estate, and can even invalidate a previously valid Will. Reviewing and updating your Will is also an opportunity to reassess your executor's suitability, which may have changed over time.

WHAT YOU NEED
Generally speaking, most people require these three estate planning documents:
1. **Will** (when you pass away)
2. **Power of Attorney** (when you are alive but unable to manage your own finances)
3. **Representation Agreement** (for health care decisions)

*2019 Canadian Financial Capability Survey (CFCS), Financial Consumer Agency of Canada (2019).

The 411 on SPACs

What is a Special Purpose Acquisition Company (SPAC)?

A SPAC is an investment structure more commonly known as a shell company. They've been around for decades, and have been in the news headlines recently as they have surged in popularity. Their unique structure enables certain investors to participate in non-public company acquisitions and subsequent Initial Public Offerings (IPOs). They also offer a more streamlined and efficient way for private companies to go public.

Since the start of the pandemic, SPACs have become a popular way for private corporations to become public through an IPO that is faster, cheaper and more efficient versus the sale of shares by underwriters and the accompanying regulatory processes. According to SPAC Insider, 2020 saw 247 SPACs raise US$83 billion in capital through IPOs in the U.S. More SPACs were established in 2019-2020 than in the previous 18 years combined.

SPAC specs

In its initial form, a SPAC is a "shell" or non-operating public company — meaning it has no actual operations. It is set up solely to raise money from investors in order to acquire an actual operational company, typically a private, non-publicly listed one. The SPAC is usually run or directed by a managing investor (or sponsor) who sets up the SPAC.

A SPAC's two main functions are:

1. **IPO alternative:** Provide a company that wishes to go public with an alternative to launching an IPO directly into the equity market.
2. **"Blank cheque"** investment company: Investors essentially give SPAC sponsors a "blank cheque" in the expectation that they will eventually choose the most appropriate acquisition targets; then, when the sponsor goes public, provide a return to the initial investors.

Importantly, when the sponsor finds an appropriate company to purchase, investors can either remain invested in the SPAC, or they can cash out their original investment plus interest and walk away.

Think before you SPAC

While there is a lot of chatter these days about SPACs, they remain riskier than the standard IPO, as they are subject to far fewer regulatory rules and reviews. Also, the general lack of transparency around SPACs can make it difficult to establish the risks involved with the eventual acquisition, and whether they would be appropriate for your portfolio. Speak to us before considering an investment in a SPAC.

How they work