

Sandra Sparanese

Financial Focus



Wealth Management
Dominion Securities

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Dear Clients and Friends,

The COVID-19 crisis has created a situation that none of us could have imagined just a short time ago. Our most immediate priority when this situation developed was the safety of our employees and clients. RBC Dominion Securities made the decision to temporarily close all offices across the country and have most employees work from home with secure computer technology.

The economic collapse of 2020 can be described as a “government-mandated recession” where governments chose to protect the health of its citizens over protecting the economy. Governments around the world have imposed harsh restrictions on everyday life, forcing non-essential businesses to shut down. Central banks around the world acted quickly to stabilize the financial system and lower interest rates. Governments implemented stimulus and spending programs at levels never before seen in history.

North American equity markets are still showing losses year-to-date, even after a significant rebound from the March 23rd low. There is still a tremendous amount of uncertainty surrounding the transmissibility and containment of this disease and its long-term impact on the global economy. On the positive side, collaboration among companies playing a role in vaccine development has been tremendous and could lead to an effective vaccine within the next 12 to 24 months and allow for the resumption of more normal daily activities and spending patterns.

Will we move into a recession this year? The technical definition of a recession is two quarters of negative gross domestic product (GDP) growth for an economy. The majority of analysts are now making the assumption that we are already in a recession, given the data that has been published in the last quarter. While the shape and the duration of the current assumed recession are unclear, it is not a “normal” recession which would have been brought on by an overheated economy – it is a recession that has been forced upon us to keep our population safe. A recession does not have to be a catastrophic event with regards to personal financial planning and investment management if you can stick to your discipline and plan ahead for income required for spending.

What does the remainder of 2020 look like? As most countries are in the early stages of re-opening their economies, economic activity should start to improve going forward. The pace of improvement in the second half of the year will be dependent on how quickly the economy opens, the development of therapies or a vaccine to fight the disease, and how quickly people are willing to go back to normal. (Although I believe that “normal” will look much different going forward). Information has been rapidly changing and continues to be reflected daily in stock prices. Over the long-term, markets act in a rational way, but in irrational ways over the short-term. We will continue to manage investment accounts with a long-term perspective.

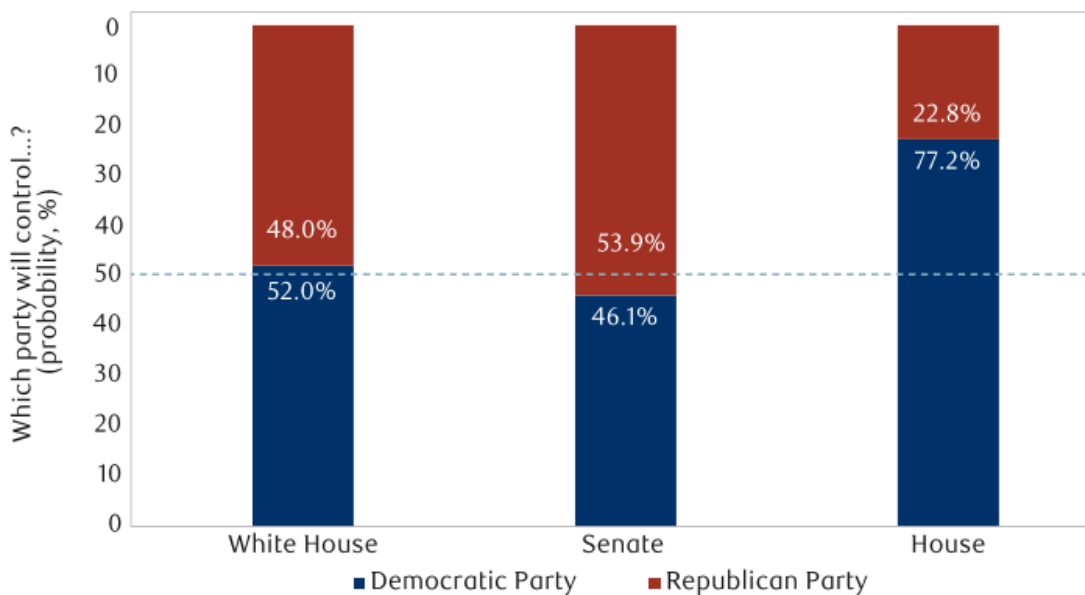
Thank you to our RBC Dominion Securities clients during these unique and uncertain times. Your trust is not something that we take for granted. I feel very fortunate to be working for a firm that was flexible to quickly change and adjust so that we could continue to serve our clients. We do plan to re-open our offices for client meetings in gradual stages over the next few weeks and I will be in contact with clients as information is available.

Take care and stay safe,

The U.S. Political Scene

After several months of almost exclusive focus on the extreme near-term and COVID-19, we are finally able to take a breath and look slightly further into the future. The U.S. presidential election is now just five months away. Whereas most politicians globally have enjoyed massive increases in their popularity in response to their handling of COVID-19, that has not been the case at the national level in the U.S. President Trump's odds of recapturing the White House remain just under 50% according to betting markets, and his party's prospects in the House and Senate have both retreated somewhat (see chart). Republicans are still considered more likely than not to retain the Senate, but it is increasingly close. Meanwhile, the House of Representatives looks increasingly likely to remain in Democrat hands, whereas that was up for debate not long ago. Of course, much can yet change before the election, with key determinants including the extent of any economic recovery, whether the early lifting of U.S. social distancing rules proves to have been in error, and whether seniors (who lean, on average, to the right of centre) feel comfortable heading to the polls given their greater vulnerability to COVID-19.

A tug-of-war for the White House



Note: As of 04/30/2020. Source: PredictIt, RBC GAM

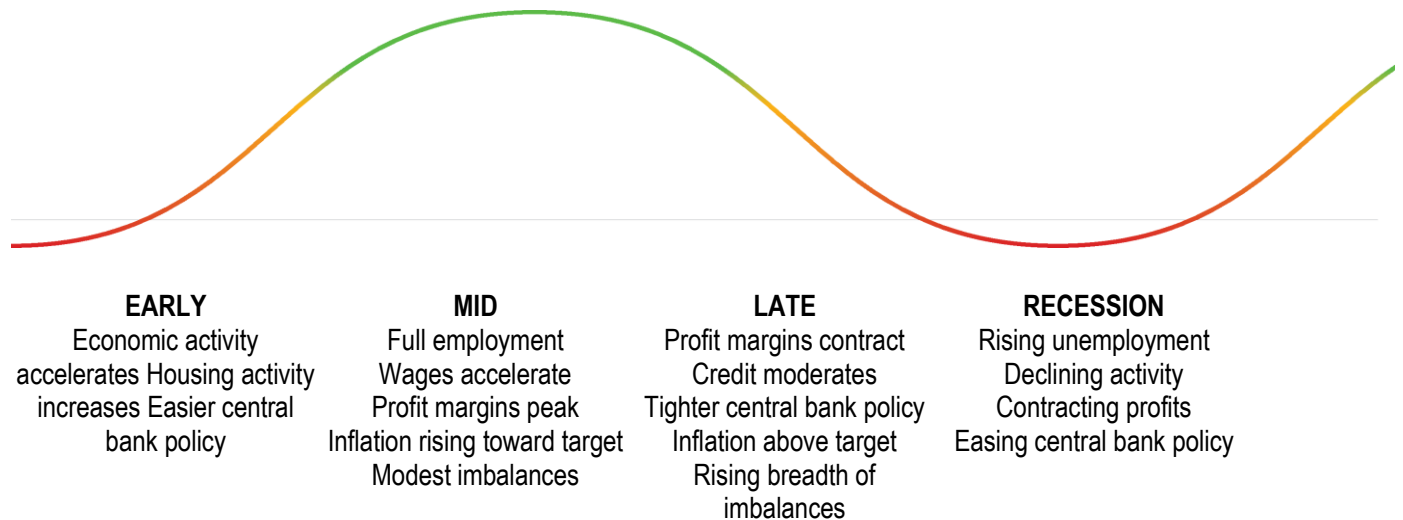
Understanding Currency Hedging with Mutual Funds and ETFs

Currency or exchange-rate risk is a factor when you invest in foreign securities. Although you purchased a mutual fund or exchange traded fund in Canadian dollars, it may invest in securities outside of Canada using a different currency. As a result, changes in the value of the Canadian dollar relative to the foreign currency affect your investment value either positively or negatively.

Currency hedging seeks to smooth the ups and downs generated by exchange-rate movements on the value of a Fund or ETF and provides investors with more certainty as to the level of foreign exchange exposure in their investment. Currency hedging is the act of using forward foreign currency contracts to lock-in future exchange rates; think of it as an insurance policy that aims to remove the uncertainty in exchange rates. Portfolio managers can choose to hedge foreign currencies to reduce volatility from currency fluctuations in their fund.

The objective of currency hedging is to reduce or eliminate the effects of foreign exchange movements over the life of the investment, such that a Canadian investor receives a return solely based on the change in value of the underlying assets, without the effect of changes in currency values.

What is a recession?



Recessions occur when economic output declines after a period of growth. They are a natural and necessary part of every business cycle. The U.S. National Bureau of Economic Research (NBER) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." It is also commonly defined as at least two consecutive quarters of declining GDP.

Past recessions have occurred for a variety of reasons, but typically are the result of imbalances that build up in the economy and ultimately need to be corrected. While every cycle is unique, some common causes include rising interest rates, inflation and commodity prices. An unexpected event shock — such as a health crisis — that is widespread enough to broadly hurt corporate profits and trigger job cuts can also be responsible. When unemployment rises, consumers typically reduce spending, which further pressures economic growth, company earnings and stock prices. These factors can fuel a vicious negative cycle that topples an economy into recession.

What about Canada?

In Canada, the government is responsible for determining when the economy has entered and exited a recession. The announcement comes from the Bank of Canada or minister of finance, based on data provided by Statistics Canada. There may also be regional recessions, as each province has different business sectors. A decline in oil prices could cause a recession in Alberta, but have minimal impact in Ontario.

What happens to the stock market during a recession?

While the exact timing of a recession is hard to predict, it's always wise to think about how one could affect your portfolio. That's because bear markets and recessions often overlap, with equities tending to peak about seven months before the economic cycle. NBER doesn't officially identify recessions until well after they begin. By then, equities already may have been declining for months.

But even if you think a recession is already underway, that doesn't necessarily mean it's time to start selling stocks. Just as equities often lead the economy on the way down, they have also led on the way back up. The Standard & Poor's 500 Composite Index has typically bottomed out about six months after the start of a recession, and usually begins to rally before the economy starts humming again. (Keep in mind, these are just market averages and can vary widely between cycles.) Aggressive market-timing moves, such as shifting an entire portfolio into cash, often can backfire. Some of the strongest returns can occur during the late stages of an economic cycle or immediately after a market bottom. It's often better to stay invested to avoid missing out on the upswing.

The Un-Bucket List

We all have ideas for the fun or exciting activities that we'd like to do during our lifetimes: what is often referred to as our "bucket list." Some of us might want to skydive out of an airplane, while others might find a relaxing cruise to the Galapagos Islands more their speed. Whatever items you want to check off your bucket list, there's another list with items that, while not as fun or exciting, you should definitely check off, so you can get back to your bucket list. Let's call it your "un-bucket list" – and here are some items to consider including:

Update your financial plan

Not everything on your bucket list will necessarily require significant financial resources. Who knows, maybe growing the perfect tomato in your garden or teaching your dog to catch a frisbee is at the top of your list. But especially as you enter your retirement years, it's important to ensure that you will have enough to do all the things you want to do, especially considering today's longer life expectancies, higher taxes and rising costs – among other things.

With a financial plan, you can determine how much you can spend on your bucket list items, while ensuring you will still have enough funds or money for essentials like food and shelter (and for as long you're going to need those things). What's more, a financial plan may uncover opportunities to maximize your wealth, minimize taxes and protect your legacy for your family.

Simplify your finances

Who wants to worry about financial matters while they're more concerned about finally completing that half-marathon or mastering the intricacies of woodworking? One way you can simplify your finances, and gain more time to live your life, is by

consolidating your various financial accounts. It's simple: the fewer your accounts, the easier it is to keep track of everything.

Take advantage of online services

Wondering what's going on with your finances while you're busy renovating your lakeside cottage or aspiring to be a novelist? With RBC's online services, you can keep track of your banking and investments on your schedule, while reducing the paperwork you receive in the mail. Contact us to discuss DS Online if you haven't already done so.

Set it to automatic

Bill payments, RRSP/TFSA contributions, RRIF withdrawals and more: it can all happen automatically once you set it up, leaving you more time to plan your next adventure.

Ensure you have the insurance you need

So you want to learn how to skydive? Or, maybe backcountry heli-skiing is more your thing? Whether or not "extreme sports" are on your bucket list, you will want to ensure you have adequate life insurance. If travel is on your bucket list, you will also want to consider out-of-country health insurance.

Keep your Will up-to-date

Generally, you should update your Will every three to five years, or whenever there's a significant change in your life. Once it's done, you can carry on checking off items on your bucket list!

Consider who you name as your executor and Power of Attorney

Your executor probably has their own bucket list, and being your executor may not be on it. While it is often considered an honour, being named an executor can also be a burden, with a lengthy task list that includes everything from making final arrangements to filing final taxes. Similarly, put some thought into who you name as your Power of Attorney – the person responsible for making important decisions on your behalf if you're unable. This person may be responsible for making decisions about your financial or health matters – or both. Consider naming someone who truly has the time, expertise and ability to carry out their duties (even if it's not an "obvious" choice such as your spouse or one of your children). Another option is to name a trust company as your executor or Power of Attorney.



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