Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

Winter 2020

Dear Clients and Friends,

This year has been one that has quietly nudged all of us to hit the pause button for a moment and reflect on the things that are most important to us. The reality of COVID-19 has forced us all to step out of our busy, sometimes self-important lives and remember all the things that we are grateful for.

From a financial perspective, 2020 has been a year like no other with regards to unforeseen events and market volatility. We could not have predicted that a global pandemic would become part of our everyday lives which resulted in a government-mandated recession to occur. The volatility of the markets has again been a gentle reminder to all investors that the stock market does not move in a straight, upward-sloping line that we sometimes see on charts and graphs. It can sometimes be very rewarding when good news drives markets higher, and at other times very disappointing when things that are outside of our control result in lower markets.

And if 2020 had not already delivered enough drama and angst, more was piled on with the delayed U.S. presidential election results. Generally speaking, we recommend that clients do not adjust their investment strategies based on politics as the noise and rhetoric will fade and more important issues (government stimulus, GDP growth, corporate profits, inflation, and interest rates) will come into play with regards to investment strategies.

As always, we cannot predict what will happen in the markets tomorrow, next week or next month. It is important that we continue to focus on the variables that are within our control and retain a long-term perspective with our investment strategies. Staying invested is still the recommended strategy for long-term investors. Short-term volatility continues to remind me of Warren Buffet's famous quote, "If you are not willing to own a stock for ten years, then don't even think about owning it for ten minutes". Your long-term bucket still needs to have a growth focus to provide income in 10+ years.

What will 2021 look like for financial markets? The economy and corporate profits have substantially improved since the COVID-19 induced recessionary lows in March. Health officials have a better handle on how to treat those who are sick. More effective treatment regimens are being implemented, new therapeutics are coming and vaccine progress seems very likely, according to medical experts. The pandemic will not last forever.

On a personal note, this year has reminded me how much I value personal relationships with family, friends, clients and colleagues. I would like to thank my loyal clients for their continued support during these times of social distancing and lack of in-person meetings. I continue to very grateful to have two wonderful support staff, Heather Murdock and Mary Howley who both rose to the challenge of 2020 with flexibility, positive attitudes and continued exceptional service to my clients.

Best wishes for a safe and happy holiday season,

Sandra

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Why Investors buy stocks

You probably understand more than you realize about the basics of the stock market. But maybe there are details on which you're a bit foggy — why people invest in the market, what drives a stock price higher or lower, and all that business about bulls and bears. You're not alone. Most Canadians admit there are areas of finance they don't fully grasp. And when it comes to stocks, there's a lot to know.

Stocks, shares, equities - it's really three ways of saying the same thing. Whatever you call them, they generally fall into two categories: common and preferred. Most shares are common ones, as the name suggests. They usually come with voting rights, typically one vote per share, giving the owner the power to decide things like who sits on a company's board of directors. That board will hire and fire the CEO, and decide how much profit is returned to stockholders. Preferred shares, meanwhile, don't come with voting rights, but they do come with a fixed dividend payment.

Dividends are one key way for stockholders to make money from equities. A rise in the intrinsic value of the stock, or earnings per share, is another. An increase in the valuation of company earnings or other assets, measured by the price-to-earnings ratio, is a third. When you buy stock in a company, you are basically buying a small part, or share, of that company. Your sliver of ownership entitles you to a relative share of the company's profits — and its losses.

So what drives a share price higher or lower?

At its simplest level, the market is an auction, with prices determined by supply and demand. When demand exceeds supply, sellers can charge a higher price. When supply outstrips demand, buyers can drive the price lower. Predicting demand is the hard part. It can rise or fall based on lots of factors — news from inside the company or around the industry, indicators about the broader economy, political uncertainties, even the effects of weather events.

Company news

You've seen this play out before. A company unveils an exciting new product and the share price leaps. Or it announces a cyber breach, and the share price falls. Layoffs, mergers or acquisitions, management changes, fraud scandals — they all have an impact on the stock price, as investors calculate whether the move will result in more money for shareholders, or less.

Industry news

Sometimes, good news from one company cascades across an industry. If an automaker forecasts higher demand for cars, for example, other automakers might see their stock prices rise, too. In fact, the news might also boost stocks of other consumer goods — athletic shoes, electronics, retailers — particularly if it signals an improving economy. Bad news, meanwhile, can have the opposite effect, dragging everyone down.

As always, it helps to do research before you invest to make sure an investment is right for you.

Economic news

When the economy is expanding, creating jobs, and stoking demand for goods and services, the appetite for stocks also rises, with companies expected to realize stronger profits. When an economy is slowing, or contracting, stock prices flatten or fall, in anticipation of weak earnings.

A healthy labour market and strong gains in gross domestic product mean a healthier consumer, which can be a positive for stocks. But that can also lead to higher consumer prices, or inflation, as demand for goods increases. Inflation can itself have a slowing effect on sales and profits, particularly when it leads to higher interest rates.

That's why investors keep watch on the economic outlook, parsing data for hints of its future direction.

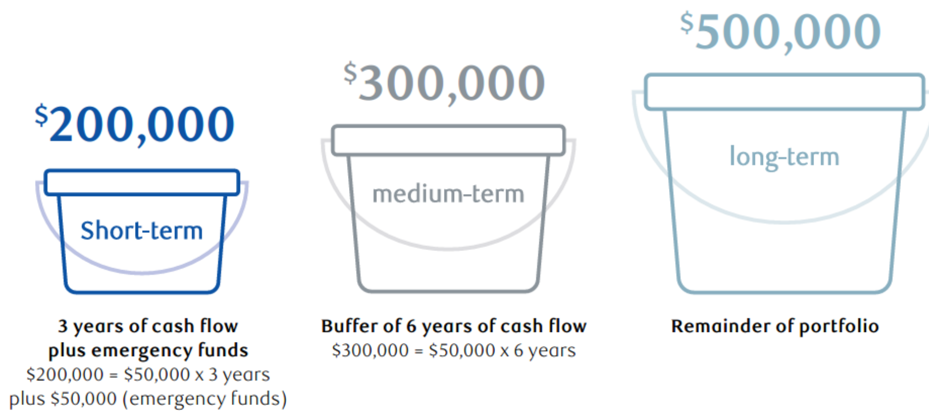
Bulls, bears and market sentiment

Now about those bulls and bears. When investors feel confident in the stock market, they're bullish, buying up shares and sending prices higher. When they're fearful, they're bearish, selling and sending prices lower. Why bulls and bears? It's said to relate to the way they attack. Bulls thrust their horns upward; bears extend their claws and slash down.

Protecting the puck: the three-bucket approach

A straight-forward approach to helping retired and cash-flow-focused investors sustain their investment income and preserve their portfolios through all market conditions.

Easy as 1-2-3:
An example of the three-bucket strategy using an initial investment of $1 million to generate required annual income of $50,000



Old risks remain, new risks emerge

For most Canadians, the coronavirus pandemic has been a healthcare crisis that has brought about an economic shock and what appears to be a relatively short-term market downturn.

However, for most retired Canadians – the age group that is most at risk from its effects – COVID-19 is a deeply worrisome and potentially deadly risk. What's more, the pandemic brought with it the "COVID Crash" and subsequent sharp volatility. It further exacerbated the already historically low interest rate and bond yield environment that has challenged low-risk savers, as central banks slashed interest rates to stave off economic disaster.

These developments serve as an important reminder of the vulnerability of retirees and cash-flow-focused investors to economic conditions that together could threaten their ability to sustain their retirement cash flow and preserve their well-earned nest eggs. In short, it is a reminder of the need to help ensure that these types of investors don't have to change their lifestyles in the face of shrinking cash flow, or worse, face the ultimate risk of outliving their savings.

Playing portfolio defence

Fortunately, there is a way to ease these investors' minds when faced with the twin threat of low interest rates and yields on fixed-income investments and volatile markets: the three-bucket approach. As long as it is aligned to their investment objectives and suitable given their risk-tolerance, retirees – and those whose primary portfolio goal is to produce cash flow to support their lifestyle – may wish to leverage this approach to help ensure that they have enough income to provide for their short-term needs, while still growing their portfolio over the medium- and long-term:

The three buckets:

Short term – Income (1-5 years):
The short-term bucket holds cash and short-term investments for cash-flow withdrawals and emergency funds, while also helping to reduce the impact of short-term market volatility on the portfolio.

Medium term – Buffer (6-10 years):
Holds income-generating investments, including low-risk, low-volatility equities for stable capital gains. This bucket serves as a buffer between the cash bucket and the long-term growth bucket.

Long term – Growth (10+ years):
Holds growth-oriented equity funds, which are more volatile but offer higher potential for capital growth to sustain the portfolio for the later years of retirement.

The best defence is a good offence

While hockey fans know that protecting the puck is a critical part of maintaining a lead, the other part is not getting so defensive that you are hemmed in to your own end by your opponent – more often than not, playing too safe leads to a loss. In order to protect your portfolio from impact of ongoing cash-flow demands, as well as the ravages of inflation, investors can use a well-structured and considered strategy that, if properly aligned to their investment objectives and risk tolerance, can help ensure they meet their long-term cash-flow needs and help preserve their retirement nest egg.

2020 Year End Tax Tips

As year-end approaches, it is wise to take some time to review your financial affairs for any tax savings strategies. Here are a few strategies for your consideration, all of which should be reviewed with your qualified tax advisor to ensure they make sense for you.

Tax Loss Selling Opportunities

Year end is a great time to look for opportunities to make changes to your non-registered investment portfolio. It may be the time to move away from an investment that has not been performing well and potentially triggering a capital loss, which can be used to offset capital gains on other assets that you may have sold earlier this year, or may sell in future years. The capital loss that you realize on the sale of an investment (outside of RRSP, RRIF or TFSA) can be carried forward to offset capital gains in future years as well. The deadline to trigger a capital loss (or gain) for 2020 is December 29th to make sure the trade settles by December 31st. Capital losses can also be carried back 3 years to offset capital gains you have realized and already paid tax on (potentially resulting in a tax refund for you).

Defer Realizing Capital Gains

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2020, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2021 for the following reasons: your marginal tax rate may be lower in 2021 compared to 2020, and if you wait until 2021 to sell a security with a capital gain, it defers the tax payable until April of the following year, 2022 (unless you are required to make tax installments).

Superficial Loss

If you did sell a security to trigger a capital loss and are planning to repurchase that same security, beware of the "superficial loss" rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. Under the rules, your capital loss would be denied.

TFSA Accounts

The Tax Free Savings Account allows you to earn tax-free investment income including interest, capital gains and dividends. You can make tax-free withdrawals any time, for any reason, and any amount you withdraw is added back to your available contribution room on January 1st of the following year. If you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31st. This will allow you to recontribute the amount withdrawn as early as January 1st of 2021, rather than having to wait until 2022. New TFSA contributions for 2021 can be made on the first business day in January. The annual TFSA contribution limit remains at $6,000 for 2021. With the TFSA contribution limit of $6,000 for 2021, the cumulative TFSA contribution limit in 2021 will be $75,500 for a Canadian who has never contributed to a TFSA, and who was 18 years old or older in 2009, the year in which the program was launched.

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