RBC Dominion Securities Inc.

Cooper Wealth Management

Wealth Management Dominion Securities

Winter 2020

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"Prediction is very difficult, especially if it's about the future." – Neil Bohr, Nobel Laureate in Physics

A 20/20 look at 2020

Since the dawn of time, it has been human nature to want to know what happens next. If we have suffered hard times, we want to know when it will end. When we have success, we want to know how long it will last. This is especially true for the financial markets. After a successful 2019, the question is what does 2020 have in store for us? Rather than give you predictions of 2020, let's review the market as it stands today with as close to 20/20 vision as possible.

There are a number of factors at work that show promise for this year. First, is the U.S. economy. Despite weakness in manufacturing, new jobs are being created monthly and unemployment remains at a historically low 3.6%. Inflation remains stubbornly below 2% and the U.S. Federal Reserve continues to add $100 billion per month in liquidity to the financial markets, thereby increasing the assets on its balance sheet. If they keep up at this pace, they will own the equivalent of 25% of their national debt by year end. It is difficult to imagine another financial crisis with that much liquidity at hand. The government's hope is that borrowing will increase and inflation will rise. Unfortunately, most increased corporate borrowing has gone to stock buy backs, which does little for the economy but is a large boost to the stock market. Most of the government's purchases have occurred in the short end of the yield curve, driving down short-term yields and reversing last year's yield curve inversion, a further positive for the economic outlook.

The growth in technology and the need for more storage, analysis and processing power are clearly visible by observing the increased use of all the world's data. Currently, there is nearly 40 zettabytes of data globally, up from less than 10 in 2013. For perspective, one zettabyte is approximately equal to a trillion gigabytes. According to a 2016 blog by Cisco, if each gigabyte in a zettabyte were a brick, 258 Great Walls of China (made of 3,873,000,000 bricks) could be built. No other industry matches that level of growth and therefore technology stocks will remain a key investment area for us.

There are a number of greyer issues which could pivot markets in either direction. Let's start with U.S. politics. It is an election year in the U.S., which is generally positive. The impeachment process will likely amount to nothing for markets, but recent developments with Iran could lead to volatility, particularly for oil. Oil stocks rallied on the Iran news and this is particularly positive for Canadian producers who have better adjusted to today's oil prices.

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For illustration, Canadian Natural Resources produced $1 billion of free cash flow by producing 1.1 million barrels per day. It took the entire U.S. mid-cap oil sector, representing 8.3 million barrels per day and $624 billion of market capitalization, to match them. Any sustained increase in oil prices will have a large impact not only for Canadian oil producers, but for our dollar as well.

U.S. stock buy backs will be another important trend to follow. If buybacks are done from corporate cash flow, the U.S. market rally will likely continue. However, if too much borrowing is used for buy backs, the market will react poorly. Real growth in corporate earnings, especially in the U.S., has been a concern over the last year as price-to-earnings multiples expanded during last year's stock market rally. Stock market buybacks have significantly reduced the number of shares outstanding, thereby increasing earnings per share, but for many sectors, actual growth has only moved at the same pace of U.S. gross domestic product (GDP), somewhere between 1.5% and 2.5%. If the mood of the U.S. stock market turns negative, we could see another temporary sell off like December 2018. However, the current appetite for U.S. stocks remains strong and will likely stay positive as long as leading sectors such as technology and defense continue their strong growth, pulling the stock market along.

Our overall equity positioning for this year will continue to be a balance between dividend-paying stocks in defensive sectors such as banking and pipelines, as well as growth stocks in areas such as U.S. technology. Even within our growth investments, we take a more defensive view by selecting names with reasonable price-to-earnings multiples, such as Apple and Microsoft in technology and Honeywell in defense, for they have proven over time that they sell off less and rally faster than their more aggressive competitors.

Our 20/20 vision for 2020 is a simple one: the more things change, the more they stay the same. We can expect the market to rise and fall based on the level of worry on that given day. Predicting the future is impossible but market history and the mathematics of probability tell us that the market will rise over time. While we can't predict the time frame, underlying market trends look promising for 2020. U.S. equity valuations are currently slightly elevated based on history, but they remain supported by record low global interest rates, with little chance of rising as global central banks continue to flood the market with liquidity. Canadian bank earnings may disappoint in the short term on provisions for potential loan losses, but U.S. banks look to finally return to growth levels approaching their pre-2008 form. For all these reasons, we believe 2020 will be another positive year in the stock market, not based on prediction but on the facts before us.

As always, if you have any questions, concerns, or would like to review your investments or financial plan, please give us a call.

All our best wishes to you for 2020!

Yours truly,

Walter Harmidarow & the Cooper Wealth Management team of RBC Dominion Securities

RRSPs vs TFSAs: Learn the basics

What is an RRSP?

A Registered Retirement Savings Plan (RRSP) is an account designed to help Canadians plan for their future. Your RRSP is an investment portfolio, meaning it can hold a variety of investments like mutual funds, ETFs, guaranteed investment certificates (GICs), bonds and equities.

Essentially, by "registering" your retirement savings plan you're entering into a contract with the government: you put money away for retirement and they provide some perks. And those perks are what make RRSPs special.

What's in it for me?

Anything you contribute to your RRSP is not taxed until you withdraw funds at retirement, which means more money down the road. Say you make $50,000 this year and put $5,000 of that in your RRSP account. This contribution can be deducted directly from your income so that only $45,000 is considered taxable by the government.

Another benefit is that any investment gains you make within the RRSP are able to grow tax-deferred until you withdraw money from the account. When interest and earnings on investments are not taxed, you gain more, leading to more money for you to spend in retirement. When you do begin to withdraw money from your RRSP, you'll most likely be retired and earning much less than when you were working, and will therefore be in a lower tax bracket.

The details

Since an RRSP is a registered plan, there are rules around how much you can invest and for how long. First, you can contribute to your RRSP until December 31 of the year you turn 71, then you have to convert it to another vehicle, such as a RRIF. Second, there is a maximum you can contribute. The amount changes from year to year. For 2018, the total amount that can be contributed is the lesser of $26,230 or 18% of your earned income the previous tax year (plus any unused RRSP deductions from previous years). In 2020, the limit will be bumped to $26,500.

What is a TFSA?

The Tax-Free Savings Account (TFSA) was introduced in 2009 to encourage people to save for retirement. You're eligible to start contributing as soon as you turn 18.

What's in it for me?

This account can hold a basket of investment products – GIC's, mutual funds, ETFs, stocks, bonds, etc. And even though the money you put into your TFSA is 'after-tax income,' the gains you make from the investments inside are tax free. There's good news on the withdrawal side too. You can withdraw money from your TFSA at any time and withdrawals are not taxed.

The details

Maximum annual contributions can change each year, so for 2020 you can put in up to $6000, but check back next year to keep on top of the limits. Any unused contribution room can be carried forward to future years, and if you do decide to withdraw money, the withdrawal amount is added back to how much you can contribute the next year. The fact that the money you take out of your TFSA isn't considered income is even more important for retirees. Why does this matter? It means you can take money out without it affecting other benefits (like Old Age Security) that are based on income.

What's the difference between a TFSA and RRSP?

They're both investment accounts with tax advantages but there are important distinctions between the two:

TFSA

- Contributions are not deductible from income
- Growth within your account will be tax free
- When you contribute to a TFSA, you have already paid tax on the money you deposit
- With a TFSA, there is no tax on any money you take out (including any interest, dividends or capital gains earned)
- TFSAs have no age limits and can be appealing for seniors who don't need the money immediately – you're not required to make withdrawals as with a RRIF
- Can be used for short-term goals, such as saving for a house or a car, and long-term goals like retirement

RRSP

- Contributions are deductible and reduce your income for tax purposes
- Income earned in your RRSP is not taxed until it is withdrawn. Capital growth is tax sheltered and so the total value may grow more quickly
- Money you withdraw from an RRSP is added to your income and taxed accordingly
- You can contribute to an RRSP until December 31 of the year you turn 71, then you have to convert it to another vehicle, such as a RRIF

Please be advised the RRSP contribution deadline for 2019 is March 2, 2020.

Contact us to find out which account type is right for you based on your individual goals and needs.

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Please contact us

For assistance in planning or acting on any of the ideas shared in this article, please reach out to us and we will have our team arrange a meeting to discuss how we can best serve your family's needs. Once again, thank you for your support and we look forward to serving your future investment needs at Cooper Wealth Management of RBC Dominion Securities.