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Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

5 signs it's time for a financial review

To keep your financial affairs in order, you need to review them anytime there's a significant change in your life. Any of these developments should trigger a review.

1. Job changes

A new job with higher pay may mean you should review your insurance coverage for income replacement and the contributions you're able to make to your investment portfolio. A decrease in pay, or losing your job, may require some short-term planning and budgeting.

2. Changes in marital status

When you get married, you'll probably want to review your will, as well as your insurance policies, pension plan, and Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). The same applies if your marriage ends because of separation, divorce, or death. Getting married also means there may be spousal tax-saving strategies you can now use.

3. Major life events

Having a child means new responsibilities and new expenses – definite signals that you need to review your whole financial set-up, especially your insurance needs.

Other major life changes include buying a home, starting your own business, retiring, or becoming disabled.

4. Economic changes

If the economy is heading for a shift, for example, a recession, you need to be prepared. A review is in order, including your investment and retirement plans.

5. A shift in your investor profile

As you get older, you may need to take a more conservative approach to investing. It's important to review your investment plan regularly to make sure it's appropriate for the type of investor you are today, not the investor you were five years ago.

Next steps: If you've had changes in your life, let's talk. We can help you with an investment review and ensure it is keeping pace with your current situation.

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In the autumn, the pace of life seems to quicken as work and family life get busy, school is back in session, and we begin to prepare for the many holidays ahead.

All these plans may remind you of some financial needs or goals as well. Maybe it's putting some money aside for the kids' education or investing for what lies ahead – from a family cottage to an enjoyable retirement. Whatever your goals, we are here to help.

We appreciate working with you, and it's our privilege to help guide your financial strategy to reach your dreams.

Our expertise, your success

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These FAANGs make an impression on the market

Innovations in technology have changed everything from how we shop and bank to how we watch TV and movies to how we communicate with family and friends. And many of the companies that have driven these innovations have gone from being unknown start-ups to household names. Consider how Facebook went from being a project of Harvard students in 2004 to a publicly-traded company in 2012 valued at $104 billion US.

As a result, technology companies have come to dominate the best known stock indexes. But just five companies represent most of that dominance. These are the so-called FAANG stocks.

FAANG is an acronym for five of the most popular and best-performing tech stocks: Facebook, Apple, Amazon, Netflix and Google. Each company has been known to move markets and transform not just their own industries, but also how we all live.

Together, these companies make up approximately 13% of the US-based S&P 500 index with a collective market cap as of July 2018 of nearly $3.8 trillion.[1] It's been noted that if FAANG was a country, and its market cap was its gross domestic product, it would be the fourth-largest economy in the world.

What does this mean for investors? What are the opportunities to profit but also what are the risks?

First of all, keep in mind is that while all five are technology innovators, they are very different companies with products and services in different sectors of the market. Apple, for instance, produces devices like iPhones and runs services like iTunes. Amazon is one of the largest online retailers in the world and a big player in corporate web services. Facebook is a social media and advertising colossus.

Each of these companies also has very different financial characteristics. Apple has historically produced products with high price tags and high profit margins. Amazon, by contrast, has concentrated on revenue growth rather than profitability.

With such diversity, it's important not to oversimplify your view of FAANGs as a whole.

So, are FAANGs worthy of your investment dollars? With their size and scope, it's likely most investors already have some exposure to these giants directly or indirectly. Like utilities and manufacturers of past decades, these technology companies have become a core holding of many portfolios as well as a part of our everyday lives.

Next steps: A diversified portfolio tailored to your investments goals offers the chance to benefit from trends of today and protect you from the downsides as our technology habits evolve. Call us today to set up a portfolio review where we can explore the opportunities that fit your individual situation.

1. *MarketWatch*, July 17, 2018.

Just how big are those tech "giants"?

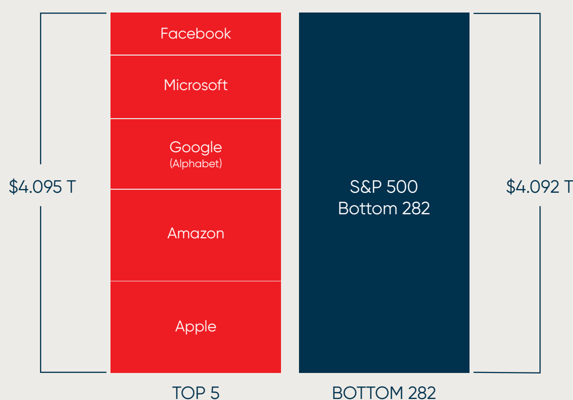
Much is made of the role of so-called tech "giants", not just in their remarkable performance in the stock market run of the last few years, but also in shaping everything from our media habits to the political climate.

So, just who are these giants and how big are they really? This chart shows that top five companies in the S&P 500 -- all tech companies -- combined are worth $4.095 trillion versus $4.092 trillion (all US dollars) for the bottom 282 companies.

How unusual is this? A little historical context may be helpful here. Former market giants AT&T and General Motors represented 14.5% of the S&P 500 during their heyday in 1965. Nevertheless, this market dominance speaks to the increasingly important role of technology in our lives and the economy.

Source: Michael Batnick, Ritholtz Wealth Management, reported in *MarketWatch*, July 19, 2018.

Market Cap, S&P 500 Top 5 vs Bottom 282 (July 17, 2018)



Here's a tax-smart way to rebalance

The Canada S&P/TSX Toronto Stock Market Index reached an all-time high of 16567.42 in July of 2018, just one example in a series of record-setting returns in equity markets around the world. Indeed, the MSCI World Equity Index added $8 trillion in value in 2017.[1] For equity investors, that represents a reason to celebrate, but it also means that it may be time to rebalance your portfolio.

Suppose, for example, that your portfolio target was 50% equities and 50% fixed income. The outperformance of equities may mean that your portfolio no longer has the 50/50 split that aligns with your objectives and risk tolerance.

Options to rebalance

You could rebalance by taking profits in select equity holdings and reinvesting in fixed income. However, that could leave you with taxable capital gains to report on your next income tax return, unless your holdings are in a registered account. A more tax-friendly way to rebalance is simply to direct new funds to underweight areas in your portfolio.

This strategy has an added benefit in that underweight asset classes may be undervalued and thus represent a good investment opportunity.

Next steps: A regular investment program, where you automatically direct cash to your portfolio, is an ideal way to take advantage of current market conditions and keep your portfolio on track. If you're adding to your non-registered investments soon, let's review the areas that are outperforming and consider the best places to allocate new cash.

1. *Trading Economics; Financial Post*

Investing Strategies

5 reasons to invest regularly whatever the markets are doing

An understandable but mistaken idea becomes common when markets are volatile: put off or pause investing until markets look good again.

It's understandable because even the most committed investor can hesitate to invest new money when markets are in decline. It can feel like "throwing good money after bad."

But it's mistaken because investing regularly is one of the most effective ways to build your wealth. It even has some benefits especially when markets are volatile (see point 1 below).

It is also one of the simplest to make a commitment to your future financial success: Set up regular investment contributions. Here are five reasons to start a regular investing plan or increase the amount you invest on a regular basis.

1. Benefit from market volatility

When you invest the same amount every month, you automatically buy more shares or fund units when prices are down and fewer when they are up. This strategy, known as dollar-cost averaging, can lower your average cost per unit over time.

2. Eliminate emotion-based decisions

Most investors are naturally inclined to pour money into hot markets – the very time when astute investors are pulling back. When the market "corrects," there's a tendency to ride to the bottom and then bail out – the very time when astute investors are starting to buy. There is also the risk of "investing paralysis" for those who keep waiting for the right time to commit money, earning little or no return in the meantime.

When you invest automatically, you are far less likely to experience either irrational exuberance or irrational despair as market values fluctuate.

3. It's convenient and flexible

Regular investing contributions can run on autopilot – out of sight, out of mind. Many investors find that they don't even miss the money – much like the income tax that's deducted automatically from your paycheque. For instance, if buying mutual funds, you complete a simple form that authorizes withdrawals of a set amount from your bank account on a regular basis to purchase units of the fund or funds of your choice.

You can even coordinate contributions with your cash flow by scheduling withdrawals for the same day or the day after your paycheque is deposited.

And if an unexpected expense comes up or your situation changes, there's no need to worry. You can change the amount, frequency, or cancel altogether at any time.

4. It's affordable

You can set a monthly amount that's right for your situation. The money can then accumulate and be invested on a regular basis depending on the kind of investment you've chosen.

An added benefit for mutual fund investors: For a one-time, lump-sum purchase, mutual fund companies sometimes require a minimum purchase of $500 or $1,000. When you sign up for regular purchases, however, the minimum is usually much lower – possibly as low as $25 a month for mutual funds held within a Registered Retirement Savings Plan (RRSP).

5. Maximize tax-advantaged plans

An automatic investment plan is a great way to get as close as possible to the maximum contribution to your RRSP or Tax-Free Savings Account (TFSA). Many people find it easier to make twelve small monthly contributions rather than one big one.

Next steps: If you'd like to set up an automatic investment plan, we can help you choose an amount that fits your situation, a frequency that fits your cash flow, and the right investments to match your goals.

Why your home is not your retirement plan

After a decade of soaring prices, many Canadian homes have appreciated considerably in value. If yours is one of them, you may be tempted to be less vigilant in your retirement savings — on the grounds that your principal residence is turning a decent profit for you and will one day supply a large portion of your retirement income.

However, there remains compelling arguments for a robust and diversified investment portfolio, including growth investments like equities, as the foundation of a long-term retirement plan. Consider the following.

Equities outperform over the long term. Historically, equities have provided average annual compound returns superior to the returns of any other asset class, including returns on real estate. In one recent example (see table this page) for the period between 1993 and 2017, the TSX Composite Total Return Index provided a return of 9.0% versus 5.5% from the hot real estate markets of Toronto and Vancouver and just 4.7% based on the national average of real estate values.[1]

You may be overweighted in real estate. If your home has increased in value and you also hold other real-estate-related investments (such as a vacation or rental property or units in a real estate investment trust), your retirement plans will be vulnerable to a downturn in that sector. It's always wise to monitor your diversification across all investments and rebalance if necessary.

You may not want to move when you retire. When it comes time to retire and sell up, you may decide you want to stay put. In fact, a survey by Ipsos in 2018 found that 9 in 10 Canadian seniors wanted to stay in their current home throughout their retirement.[2] Many said they want to stay close to family, friends or their community and maintain their sense of independence.

Market timing can work against you. House prices can go up or down, and there's no guarantee you'll receive top dollar when you're ready to retire.

Housing is not a liquid asset. It takes time to prepare a house for sale, and even after you sell, the closing date may be months away. Having more liquid assets, like market-based securities means greater flexibility in your retirement and income planning.

Moving costs money. Many additional costs are incurred when selling property. Real estate fees, legal fees, land transfer taxes, and moving costs can all take a chunk out of your proceeds from the sale, eating into your retirement funds.

Next steps: We can help you assess your current exposure to real estate and maintain a diversified investment portfolio designed to meet the needs of your unique retirement plan. Call us today to schedule a meeting.

1. RBC Global Asset Management Inc., with real estate information from the Canadian Real Estate Association (CREA). Data as of January 31, 2018.
2. Ipsos poll conducted between June 15 and June 18, 2018, on behalf of HomeEquity Bank.

Compare equity and real estate markets for the past 25 years

The Canadian residential real estate market has been one of the best performing in the world, but as indicated in this table, it still underperformed equities in the period 1993 to 2017. The lesson? Don't over rely on rising house prices to fund your retirement plan.

S&P/TSX Composite Total Return Index vs Select Canadian Real Estate Markets

Based on an initial investment of $300,000 with no leverage over 25 years (1993-2017)

Market	End Value	Rate of Return
S&P/TSX Composite Total Return Index	$2,608,610	9.0 %
Toronto	$1,149,673	5.5 %
Vancouver	$1,163,495	5.5 %
Calgary	$1,021,800	5.0 %
National Average	$949,489	4.7 %
Montreal	$937,722	4.7 %
Halifax	$809,769	4.1 %

Sources: All data as of Jan. 31, 2018. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). Source of the S&P/TSX Composite is RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions. Note that data for the Montreal market is not seasonally adjusted. For illustrative purposes only. An investment cannot be made directly in an index and this table does not reflect cost, fees or taxes which could lower returns.

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