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Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Retirement or regret? How to prepare well

Making the transition into retirement can be a real challenge for many of us. In fact, a 2019 poll by a major Canadian financial institution found that more than a quarter (27 percent) of retired Canadians regret retiring and an almost equal number (23 percent) have tried re-entering the labour market.[1]

A new stage of life

Many of the financial aspects of retirement are well known. Preparing to handle the psychological and emotional aspects of retirement is something else we need to consider.

In the end, retirement is about much more than money; it's about making a major transition — from a life where work plays a major role to one in which you'll need to find different sources of contentment, self-worth, and social interaction. Some of us have developed interests, hobbies or goals that will provide much of the satisfaction we now get from work. Others are just not ready yet.

One way to ensure your decisions are the right ones is to take a phased-in approach to retirement.

Try before you buy?

A gradual approach to leaving the workplace can allow you to acclimatize to a new life, and find interests and activities that will keep you occupied and satisfied.

Consider whether you can arrange with your employer to reduce working hours or to work part time. Increasingly, employers are open to this approach because it works to their benefit as well. Some have sabbatical programs or allow time off to pursue volunteer opportunities.

If that's not feasible, consider alternatives such as a part-time consultancy or working reduced hours for another employer. If you're self-employed, you can set your own retirement agenda.

Once you've made space for non-work activities, use it to explore how you might want to spend your full retirement. Perhaps volunteering can provide greater meaning while still giving you plenty of social interaction. Maybe travel for a couple of months or try living in a warmer climate to explore whether this type of retirement is right for you.

Next steps: Test-driving your retirement like this can involve many of the same financial issues as full retirement – evaluating potential sources of income, reviewing your investments and more. Call us to set up a review where we can test-drive your finances as well as help find the right retirement vision for you.

1. *The 2019 Retirement Income Poll*, January 2019, Maru/Blue, MaruGroup.

Nash Family Wealth Management
National Bank Financial
Wealth Management

802-380 Wellington Street
London, ON N6A 5B5

380 St Clair Street
Chatham, ON N7L 3K2

Toll Free: 1-833-495-8865

As a new year dawns, it is a tradition for many of us to take stock and set goals for the year ahead. Sometimes we are simply dreaming about what the future holds and sometimes it takes the form of resolutions and making plans. Both are important to help us have the future we want for ourselves and our families.

We wish you a happy and prosperous year. We appreciate your confidence in us and have enjoyed working with you. It's our privilege to help guide your financial strategy to reach your goals and dreams.

Happy New Year!

NASH
Family Wealth Management

Should the unending talk on trade affect your investing?

Trade, tariffs and treaties have dominated the financial news this year – and much of the political news too. Trade disputes between the U.S. and China, the Brexit negotiations between the U.K. and the E.U. and the not-yet-ratified USMCA treaty to replace NAFTA all form part of this trend.

But should investors be worried about what it means for them and their own investments? Here are some of the ways that trade issues can affect the state of economies, of companies, and ultimately your investments.

Investor sentiment. Sentiment is one of the quickest ways that economic and political changes can affect the markets and asset prices. Uncertainty or pessimism amongst investors can lead them to exit the market, move to "safer" or more defensive asset classes, or move away from a sector or industry that concerns them.

While trade concerns have depressed investor sentiment this past year, it's important to note that investor sentiment can be fickle and turn quickly – it is the short-term noise that is best tuned out of a long-term investing view. However, when negative sentiment is driven by tangible changes such as the implementation of new tariffs as seen this past year between the U.S. and China, or geopolitical events like attacks on energy infrastructure across the Persian Gulf, it may be worth paying attention to what market experts are saying.

Investment plans. When uncertainty is present, many companies may hold off on investing in expansion, new capabilities or facilities until the future is clearer. This has been widely reported in the U.K. where many firms have indicated that plans have been put on hold until they know the shape of post-Brexit trade agreements.

While these corporate investment decisions can be very real, it can be difficult to assess the impact on the company as an investment. For example, will the scaling back on manufacturing investments in the U.K. by a European car manufacturer make it more or less profitable? It will likely take some time and analysis to know for sure. That's why today's news headlines shouldn't determine your investment strategy.

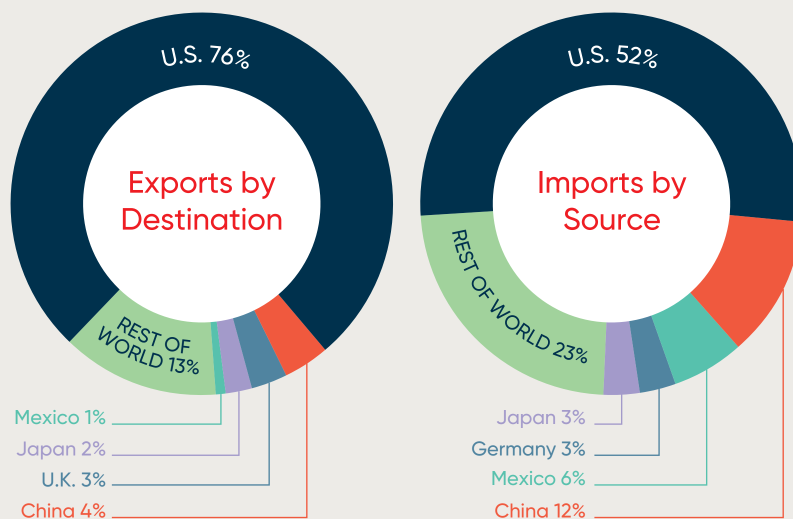
Structural changes. Changes to the terms of trade between countries and trading blocs can lead to changes in the amount and patterns of economic activity in those areas. The supply chains of some industries may be reconfigured. Some sectors may prosper under new rules, others may struggle.

Structural changes can take years, even decades, to become clear. Investors should be careful about making rash investment decisions based on these long-term, unpredictable changes.

Next steps: As with many items in the news, investors are best advised to tune out the short-term noise and emotion. A disciplined investment plan, based on your goals and time horizon, remains the best guide to good investment decision making. Keep in mind that our own experts and market analysts are constantly watching events and keeping us informed. Many of their reports are available on the web site. Let's talk if you feel that it's time to review your situation.

Canada's trade partners

Canada is a great trading nation. According to the World Bank over 60% of our GDP is made up of imports and exports.[1] But who do we trade with? As these graphs show, the United States remains our biggest trading partner by far, explaining the importance attached to the recent NAFTA renegotiations and its yet-to-be-ratified USMCA replacement.[2]



1. The World Bank (*data.worldbank.org*), 2018
2. Government of Canada, *Canada's State of Trade: Trade and Investment Update, 2018*

Why most of us need a growth focus in our RRSPs in all markets

It's not surprising that Registered Retirement Savings Plans (RRSPs) remain a popular tool for Canadians to save and invest; generous tax incentives make RRSPs a great tool to build wealth over the long term.

Tax-deferred returns on your investments, along with the tax break you receive on your annual contributions, give you far greater growth potential than you can realize on investments outside of a registered plan. But beyond the tax breaks, what's the best way to maximize your RRSP's potential?

Time to retrench?

It's certainly true that financial markets, especially the stock market, have provided good growth over the last decade or more. With this bull market so mature, you might be tempted to gravitate toward "safer" lower-return investments in your retirement plan.

However, that tactic could have a detrimental long-term impact on your accumulated wealth. Being overly conservative with lower-return or cash-type investments for too long can strip your RRSP of potential; low returns can mean less wealth accumulation.

It's also important to keep in mind that as Canadians are (thankfully) living longer, the retirement we need to fund may now last longer too. The need to generate income for retirement of 30 or more years means that building wealth in our peak savings years is more important than ever.

A role for equities

To take maximum advantage of the tax-deferred compound returns your retirement plan offers, you need to look to investments that have the potential for higher returns. Equities and equity mutual funds have historically been the best routes to higher long-term returns.

While stock market investments are more volatile than other types of assets over time, they have historically outperformed other asset classes. And, while the volatility we have seen over the last several quarters can be unsettling, it offers an opportunity to invest in stocks at more attractive prices and potentially increase returns further.

Whether you believe the stock market will continue to perform well or that it's likely to see an overdue correction, it's important to focus on the long term. Your asset class targets should reflect your investment goals and your time horizon – not the short-term fluctuations of the market cycles.

Next steps: If you are making a new RRSP contribution this month or topping up your regular savings plan, let's talk. Together, we can explore options for your contribution and position your investments for returns that will meet your retirement objectives.

RRSPs

Skip RRSPs this year? Consider the cost today and for the future

March 2, 2020 is the last day on which you can make a contribution to a Registered Retirement Savings Plan (RRSP) that can be deducted on your 2019 tax return. If you're thinking of not making a contribution this year, you might want to think again. Here's why.

Future cost. Perhaps the biggest cost of all is short-changing your own retirement plans. Maintaining the commitment to your long-term goals can be difficult when there are lots of short-term distractions, be they immediate financial demands or perhaps the media "noise" about turbulence in the investment markets. Come the time for your retirement, however, many of these distractions will be long forgotten.

Opportunity cost. If you are now 55 and skip a single $5,000 contribution, you could end up with nearly $9,000 less in your RRSP by age 65, assuming an average annual return of 6%. If you skip a $10,000 contribution, that lost opportunity may rise to more than $17,900. The younger you are, the higher the potential cost. Using the same 6% assumption, skipping a $5,000 contribution at age 45 could cost you about $16,000 by retirement.

Skipping a contribution at age 35 has an even greater impact on retirement funding. A single $5,000 contribution missed could see you lose out on more than $28,700; skipping a $10,000 contribution could mean missing out on nearly $57,500.

Tax cost. Opportunity cost is only part of the story. Not contributing also means not being able to claim a tax deduction that could reduce your tax bill or maybe even result in a refund. And remember that the higher your earnings, the more valuable that deduction becomes.

Next steps: If conflicting demands on your finances or you're convinced now is not the time to be committing new money to the markets is keeping you from making an RRSP contribution, let's talk. We can help you find an approach that keeps you on track to meet your retirement goals and takes into account your individual situation.

Diversify – Because no one has a crystal ball

In times of market volatility we can become increasingly occupied with trying to determine what the right or best investments are for the times. Dangerously, this takes our focus away from one of the most fundamental principles of successful investing: diversification. Perhaps it's time for a refresher.

Put simply, diversification is the practice of investing across a number of different types of assets so that your exposure to any one type is limited. The benefits are two-fold. First, by not "putting all your eggs in one basket" you are reducing the risk that, should the value of that one asset type drop significantly, you could face catastrophic losses. Second, by holding a portfolio of a number of different types of investments you can reduce the volatility of your portfolio as a whole because losses in some assets can be offset by gains in others. In other words, it "smooths out the bumps."

Start with asset class

Diversifying by asset class is the cornerstone of a well-constructed portfolio. Equities, or stocks, historically have provided greater returns than other asset classes but come with a greater risk profile. Fixed-income investments such as government bonds are less volatile, but usually offer less in the way of returns. Cash or cash-equivalents such as money market funds provide liquidity to your portfolio and are about as safe as can be, though in recent years have offered very low returns. Your portfolio should mix these asset classes in a way that matches your goals, your time horizon and your personal tolerance for risk.

Consider geography

Diversifying by geography helps to further even out the risk and provides the opportunity to explore more investment opportunities. The principle, however, remains the same: some markets may be experiencing growth while others lag. For instance, Asian companies and stock markets may be growing strongly while European ones are experiencing slowdowns. Diversification helps you gain from whatever assets are outperforming but without the risks of being overly concentrated in just one area. One caveat to keep in mind here is that in today's globalized economy, few large companies operate in just one market. The performance of a global car manufacturer such as Mercedes-Benz, for instance, would be exposed to the economic conditions and consumer preferences of Europe, North America and China.

Greater correlations

In recent years, some investment experts have, in fact, drawn attention to increasing correlations amongst asset classes or geographical regions. Some of these are logical: the national equity markets of the European Union states have begun to act more in tandem, as those economies become more integrated. Others, less so, such as when bond and equity markets at times seem to act in step. Nevertheless, the principle still holds. And while the principle of diversification is quite simple to understand, its application can be complex. The skills of an investment professional can be a real advantage here.

Next steps: Diversification is not a one-time activity. The makeup of your portfolio should change when your circumstances or goals change, as your life progresses and you get closer to retirement, or if your own understanding of your risk tolerance shifts. If any of these situations apply to you, let's schedule a portfolio review soon.

Every market has its day in the sun

At any given time, or any year, or any phase of the market, one asset class gets all the attention. Investors can be tempted to chase after these outperformers, hoping to maximize their returns. Of course, none of us can predict the future or who will be next year's star.

Nothing illustrates this better than the "periodic table of asset performance" which documents the top-performing asset classes over a period of years.

In this example, International stocks was the top performer in 2011, but by 2016 it was the worst performer. Similarly, Emerging markets equities struggled in the years 2013 to 2015 with single-digit returns but, just two years later in 2017, they were the top-performing assets with an eye-watering 28% return.

A well-diversified investor is best placed to always take advantage of the assets having their day in the sun but also have some protection against this year's loser.

2011-2018 Annual return in percentage by asset category

2011	2012	2013	2014	2015	2016	2017	2018
9.87	15.96	41.42	24.25	20.70	21.08	28.29	3.99
9.67	15.20	36.02	15.30	18.65	8.90	16.91	1.41
4.40	13.98	31.62	11.18	18.53	8.61	14.60	1.38
1.29	13.53	13.52	10.55	5.10	7.57	13.47	-0.20
1.00	7.61	12.98	8.79	3.52	5.17	9.08	-1.65
-2.94	7.18	4.30	7.04	1.58	1.66	7.78	-5.85
-8.72	3.60	1.01	4.38	0.63	0.51	2.52	-6.81
-16.42	1.10	-1.19	0.91	-8.33	-1.33	0.56	-8.88

Category	Index
Canadian stocks	S&P/TSX Composite
International stocks	MSCI Europe, Asia, and Far East (EAFE) in CAD
U.S. stocks	S&P 500 in CAD
Canadian bonds	FTSE TMX Canada Universe Bond Index
Global stocks	MSCI World in CAD
91-day T-Bill	FTSE TMX Canadian 91-Day T-Bill
Emerging markets	MSCI Emerging Markets in CAD
Balanced profile	

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