Schneider Financial Group

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Looking Ahead, with Confidence

Happy new year and welcome to the new decade! The start of any new year is a time often rife with market predictions. But remember to keep perspective during prediction season.

Perhaps one of the more striking reminders of the dangers of predictions occurred 40 years ago when Businessweek Magazine declared the "Death of Equities". It warned the "death of equities as a near-permanent condition." While inflation was rampant and markets did perform poorly during this time, as Bloomberg recently noted in embarrassment, "the total return on the S&P 500 stock index since its 1982 low, with dividends reinvested, has been nearly 7,000 percent. Not bad for a corpse."[1]

These dramatic predictions haven't subsided over time, likely because the media thrives on this type of excitement. In 2016, the Royal Bank of Scotland warned of a "cataclysmic" year, advising investors to "sell everything except high quality bonds."[2] Investors who did so would have missed out on a gain of 27.6 percent since that time.[3]

While we shouldn't ignore the work of analysts, economists or researchers, we should be careful not to make longer-term decisions based on any short-term worry created by the media. Nobody can predict the course of near-term markets, except to say that fluctuations in both directions should always be expected.

What is the outlook for 2020? 2019 was a year of ongoing geopolitical concerns, slowing economies, global trade tensions, and another hard run for the resources sector at home. And yet, equity markets in Canada and the U.S. held their own quite well. The year ahead brings similar uncertainty. However, should the U.S. and China make progress towards reaching a partial trade deal, it could help to temper some trade tension uncertainty and support growth. We are also in a U.S. presidential election year, historically a time in which U.S. equity markets have performed well.

Regardless, portfolios should be positioned for the longer term, with the expectation that markets will experience ups and downs. Many techniques are used to manage risk, including maintaining diversification, rebalancing to a certain asset mix, and upholding quality criteria, among others. For each investor, these will depend on factors such as investment objectives, needs, stage of life and risk tolerance. These considerations will help to weather the inevitable storms.

During this prediction season, continue to look ahead with confidence. May the turn of the year bring health, happiness and prosperity to you and your loved ones.

1. bloomberg.com/news/articles/2019-08-13/it-s-been-40-years-since-our-cover-story-declared-the-death-of-equities; 2. theguardian.com/business/2016/jan/12/sell-everything-ahead-of-stock-market-crash-say-rbs-economists; 3. Based on FTSE 100 at 1/3/16 & 9/1/19.

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RRSP Season Again: The $1 Trillion Opportunity

Over $1 trillion: At last count, that's how much that was reported by Statistics Canada as the total amount of unused Registered Retirement Savings Plan (RRSP) contribution room of Canadian taxpayers.[1] While unused contribution room may be carried forward indefinitely — and there may be good reasons to do so — there is a forgone opportunity of tax-deferred, compounded growth.

RRSP contributions appear to be declining over recent years, perhaps due to certain perceptions. One belief is that it is better to invest funds in a Tax-Free Savings Account (TFSA) because TFSA funds are not taxed at withdrawal. However, consider that the RRSP may be a better choice than a TFSA if you expect to have a lower marginal tax rate in retirement (see chart). This may apply to individuals who experience peak earning years while working but will have a lower income in later in life.

Don't forgo the tax advantages offered by an RRSP. Does any of that $1 trillion belong to you?

1. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110004501

RRSP vs. TFSA with Lower Future Marginal Tax Rate

	RRSP	TFSA
Pre-Tax Income	$3,000	$3,000
Tax @ 33.33%	n/a	($1,000)
Total Invested (After Tax)	$3,000	$2,000
Growth @ 5%	$150	$100
Total Pre-Tax	$3,150	$2,100
Tax @ 20%	($630)	n/a
Net After-Tax Proceeds	$2,520	$2,100

Reminder: Deadline for RRSP contributions for the 2019 tax year is **Monday March 2, 2020.**

How Often Are You Checking Investment Performance?

Technology continues to change the speed at which we process information. According to Netflix, it takes just 1.8 seconds for subscribers to consider each program title they encounter.[1] Studies show that online shoppers are more likely to make a purchase if they can retrieve product information more quickly. It was reported that for every 100 millisecond improvement in load time, Walmart experienced up to a one percent increase in online revenue.[2]

At the same time, we've conditioned ourselves to seek information more rapidly. In investing, we can quickly access our portfolios online to check performance. This often doesn't take much longer than selecting a show on Netflix.

However, frequent checking of investment performance may not provide the right feedback. The problem? The information we receive about short-term performance isn't usually indicative of what will happen over the longer term. Checking market performance more frequently increases the likelihood of seeing downward movements.

S&P/TSX Composite Returns: '84 to '19

Time Frame	Positive	Negative
Daily	54%	46%
Quarterly	64%	36%
One Year (Annually)	71%	29%
Every 5 Years	91%	9%
Every 10 Years	100%	0%

Source: S&P/TSX Composite Index Returns 10/01/84 to 10/29/19.

Two investors with the same investment performance could have different perspectives based on the frequency with which information is accessed. Checking the S&P/TSX Composite Index on a daily basis, instead of quarterly, would increase the odds of seeing a negative result by 10 percentage points (see chart). While some of us may have the mental fortitude to prevent negative performance from affecting our mood, the reality is that many of us do not.

When focusing on short-term performance, it is also easy to overlook the realities of longer-term investing:

1. Volatility is a normal part of equity markets. Since 1970, over 60 percent of annual S&P/TSX Composite Index total returns have been either greater than 20 percent or negative. Yet the market returned an average of around 6 percent annually over this period. Simply put, there is a high likelihood of large movements in market returns, but this volatility smooths out over time.

2. Different investments, asset classes, or even investment accounts (based on asset location) may perform differently over time. A well-structured portfolio uses techniques such as asset allocation and diversification to help minimize risk by investing across areas that react differently to changes in the markets.

3. Markets and economies are cyclical by nature. Long-term investors will experience both up and down markets; a solid wealth plan builds in this expectation over time.

While it is easy to access investment performance details, checking performance less frequently may better align with the overall investment process. After all, the objective is likely not to liquidate your investments today or tomorrow, but instead to maximize your returns over the longer run.

1. forbes.com/sites/jiawertz/2017/03/17/how-to-compete-for-consumers-online-while-attention-spans-diminish/#1a4f97366679; 2. fastcompany.com/90309682/heres-what-happened-when-i-watched-everything-netflix-told-me-to-for-2-weeks

The Year Ahead: More Stimulus Efforts?

As we start a new decade, with the prevailing theme of slower global economic growth, many investors are asking: what lies ahead? Hong Kong has fallen into recession, while various European countries have been struggling with declining growth. Even China, the hub of global growth over recent decades, is experiencing slower growth.

Canada continues its longest economic expansion on record. The economy has more recently been supported by consumer spending and the housing sector, largely due to a strong labour market. Yet, there are questions as to what will drive future growth, given lingering obstacles faced by the resources sector, once the country's powerful engine, as well as growing debt levels — a concern shared globally.

However, these are unprecedented times. Never before have global policy makers been so pressured to engage in stimulus efforts. In some parts of Europe and in Japan, central banks continue to use negative interest rates to stimulate growth. At the end of October, the U.S. Federal Reserve cut its overnight rate for the third time in 2019, which helped to support equity markets. Regardless, U.S. and Canadian central banks have room to continue lowering rates (chart).

There are other factors to support an optimistic view. If the U.S. and China continue to secure a partial trade deal, it will help to alleviate some uncertainty over trade tensions. This is also a U.S. Presidential election year, typically a time when the government does all in its power to support the economy in a bid for re-election. And, similar to bull markets, economic expansions don't necessarily die of old age: consider that Australia's economic expansion (as of the fall of 2019) has reached its 28th year.

Select Benchmark Interest Rates

Country	Rate	Last Change*
Canada	1.75%	Oct. '18 ↑
U.S.A.	1.75%	Oct. '19 ↓
U.K.	0.75%	Aug. '18 ↑
Switzerland	-0.75%	Jan. '15 ↓
Australia	0.75%	Oct. '19 ↓
China	4.20%	Sept. '19 ↓
Japan	-0.10%	Feb. '16 ↓

*Arrow indicates direction of last rate change. Source: Global-rates.com, as of Nov. 1, 2019.

What Lies Ahead?

It is worth repeating that uncertainties will always be with us: the road ahead is never predictable. But, as Nassim Taleb pointed out in his book The Black Swan, "history doesn't crawl; it leaps." He asserts that much of what was expected to shape the past 30 years never happened and what did help to shape the past 30 years was often not expected.[1] For investors, this may be a good reminder to not get too consumed in the news of the present, and continue looking optimistically to what lies ahead.

1. The Black Swan, Nassim Taleb. Random House, Apr. 2007, page 11.

Don't Overlook the Benefits of Dividends

In the excitement of the rising markets of a bull run, dividends can often take a back seat to capital gains in terms of investor focus. But don't overlook the value of quality, dividend-paying securities or funds in supporting our investing programs.

An article recently published in The Globe & Mail highlighted a little known benefit of the dividend tax credit: the opportunity to earn up to $52,000 in tax-free income from eligible Canadian dividends in certain provinces. With no other sources of income, the dividend tax credit and the basic personal amount have the potential to reduce the taxes on eligible dividends to zero (see chart below).[1]

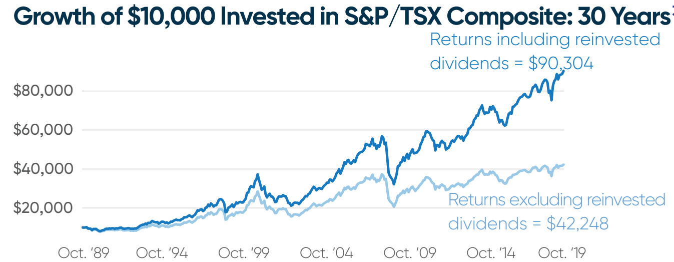
Eligible Dividend Amount That Can Be Received Tax Free 2019[2]

Province	Tax-Free Amount	Province	Tax-Free Amount
BC	$52,070	QC	$39,503
AB	$52,070	NB	$52,070
SK	$52,070	NS	$32,408
MB	$25,588	PE	$47,134
ON	$52,070	NL	$18,495

While neat in concept, most of us have employment or pension income that would get in the way. It would also be rare for many investors to have a portfolio that would generate $52,000 of eligible dividend income. At 4 percent dividend income, it would require more than $1 million in non-registered, dividend-paying securities.

But the article is a good reminder of one of the benefits of dividends. In an age when many of us feel as though we are being substantially taxed, dividends can be a tax-efficient means of investing. Eligible dividends receive more favourable tax treatment in a non-registered account, compared to interest and regular income, since this type of income benefits from the federal (and provincial) dividend tax credit.

Growth of $10,000 Invested in S&P/TSX Composite: 30 Years[3]



It is also worthwhile to remember that dividends can play a significant role in generating longer-term returns for investors. This is evident when comparing the S&P/TSX Composite index returns to total returns including reinvested dividends over the past 30 years (graph above). Dividend income can also help deliver consistent cash flow to investors, especially important for many retirees, as finding income has become more difficult in a low-interest rate environment. And many quality corporations continue to increase their dividends to investors over time.

As such, don't dismiss the power of quality, dividend-paying securities in supporting our investing programs.

1. "How to earn $52,000 tax free", Globe & Mail, 8/9/19; 2. As of August 9, 2019, Source: taxtips.ca/dtc/enhanceddtc/amt.htm; 3. S&P/TSX Composite 10/89 to 10/19.

Your Online Accounts: Are You Keeping Good Digital Hygiene?

As technology advances, online crimes continue to improve in sophistication and our digital security is increasingly being challenged. If our choice of passwords is any indication, we may not be doing our best to stay secure. One example? According to a recent report, 23.2 million people who had their online accounts hacked were still using the password "123456."[1]

Are there ways to improve our digital hygiene? Here are some basic tips. While many may seem obvious, this list can provide useful talking points for discussions with potentially higher-risk individuals, such as young adults or seniors.

Keep strong passwords — Strengthen your passwords. Avoid reusing the same userID/password across multiple sites. With the average person reportedly having over 90 online accounts,[2] this may be a challenge. Using a password manager can help to generate, store, encrypt and auto-fill passwords, and you'll just need to remember one password.

Separate critical information — Consider isolating devices for different activities. For example, online gaming may be more susceptible to security breaches, so it may be wise to avoid storing confidential information on devices used for this activity.

Protect devices in public — Unsecure Wi-Fi hotspots, such as those offered at airports or in taxicabs, or public USB charging stations, are often targets for hackers. Consider using a Virtual Private Network for protection, which allows you to bypass location tracking and adds a layer of obfuscation to your traffic.

Avoid linking accounts — Some third-party websites allow you to link other accounts, such as email or social media. However, linking multiple accounts can increase the potential damage that occurs if one account becomes compromised.

Don't share personal information — Remember that each time you click a website link or answer a seemingly innocuous survey, your data is collected. Information broadcast on websites or social media may be accessible to unscrupulous individuals, even if privacy settings are enabled. Consider disguising personal data (i.e., posting an altered name/birthdate) to protect your identity.

Verify a source to prevent phishing — Criminals continue to improve the sophistication with which they masquerade as others. There may be subtle indications that a source is fake: an email/text doesn't address you directly ("dear customer") or contains spelling or grammatical errors. Remember that reputable institutions will never ask to verify account information or sensitive personal data online. Take time to verify a source. When in doubt, call an organization directly using the phone number posted on a general website.

1. bbc.com/news/technology-47974583; 2. digitalguardian.com/blog/uncovering-password-habits-are-users-password-security-habits-improving-infographic

How Long Does It Take to Crack a Password?

Here is one estimate of how fast a hacker could crack password configurations. (Note: processing speeds continue to increase.)

< 0.01 seconds	Easy passwords (e.g., 123456, qwerty, password, sunshine)[1]
25 seconds	5-digit passwords[2]
11 hours	6-digit passwords[3]
46 days	8-digit password[3]
12 years	10-digit passwords[3]

Sources: 1. spycloud.com/how-long-would-it-take-to-crack-your-password/; 2. Consumer Protection BC; 3. nypost.com/2018/04/19/it-takes-next-to-no-time-to-crack-an-iphones-passcode/awareness/password-best-practices.

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2019 WOMEN IN WEALTH MANAGEMENT AWARDS WINNER WOMEN-LED ADVISORY TEAM OF THE YEAR