Silicz Birdsall Advisory Group Newsletter

Winter 2020

In this edition

Charlene M. Birdsall CPA, CMA, CIM®, RIAC
Investment Advisor and
Portfolio Manager
204-925-2252
charlene.birdsall@nbc.ca

Michael Silicz
B.A. (Hons.), M.A., M.P.Adm., LL.B., RIAC
Investment Advisor and
Portfolio Manager
204-925-2265
michael.silicz@nbc.ca

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. If you want to make sure your portfolio matches up with your risk tolerance, please give us a call.

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.

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

SB SILICZ | BIRDSALL Advisory Group

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.** The 2019 limit is $26,500 and the 2020 limit is $27,230. The 2020 TFSA limit is $6,000.

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

Teaching Kids About Finance in the New Era

If you're having a hard time pulling your (grand)child away from their smartphone, you're not alone. A recent CBC article shed some light on the complications emerging from smartphone use. Meal delivery services have become so ubiquitous that high-school students are ordering meals to school. One high school reported 50 to 70 deliveries in a day before a ban was put in place.[1]

It may seem harmless, but there are concerns that deeper behaviours are being cultivated. In this age of smartphones, will children adopt poor spending and saving practices if things like meal delivery services become habitual?

Indeed, the digital age has brought new challenges when teaching children about finances. The basic lessons haven't changed: teaching the virtues of saving and compounded growth, imparting good budgeting and spending behaviours and helping children to set and achieve goals. Instilling these habits at an early age can pay dividends down the road. However, these lessons may need to adapt to new realities:

Debt perceptions — Canadians were once known for having moderate debt levels. Just 30 years ago, our debt-to-income ratio* was around 85 percent; today it is in excess of 175 percent.[2] With interest rates at historical lows, debt has become more accepted. Children need to be taught the dangers of holding debt, especially the high cost of debt associated with credit cards.

Social media influences — Social media has perpetuated "FOMO", the fear of missing out. Yet children often fail to recognize that social media is not a true representation of reality and trying to keep up with celebrities can be a recipe for "insta-debt." Children should also be taught the dangers of social media in compromising privacy and potentially putting finances at risk.

Instant gratification — The digital age has fed our appetite for instantaneous results. With access to immediate information and one-click shopping, we've been conditioned to expect goods (or gratification) at the tap of a finger. Succumbing to spending temptations can be expensive and children should learn the importance of sacrificing immediate "wants" for later "needs."

A cashless society — As we move towards a cashless society, with payments by smartphone and credit card just a tap away, keeping track of expenditures may become more difficult. This may mean that keeping accurate records and exercising budgeting discipline will become even more important.

A Sign of the Times?

Even the classic board game Monopoly, in its 85th year, has had multiple facelifts to ensure its relevance.[3] A new cashless Monopoly uses electronic transactions, a mini ATM and debit cards. Another edition incorporates "voice banking", in which players command a voice assistant to manage financial transactions: a sign of the times.

Likewise, the financial lessons we impart on the next generation need to adapt to these new challenges. If you need assistance or require resources to support these important and necessary conversations with kids, please reach out. We would be happy to help.

Notes: *outstanding debt divided by disposable income; 1. cbc.ca/news/canada/british-columbia/lunch-delivery-woes-at-surrey-schools-1.4932723; 2. cbc.ca/news/business/debt-to-income-ratio-second-quarter-1.5282226; Statistics Canada T3810023501; 3. cbsnews.com/news/new-monopoly-game-in-2019-goes-cashless-with-voice-assistant-banker/

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.

Make Estate Planning a Priority in 2020

Have you made your estate plan a priority? If not, why not resolve to do so for the year ahead.

An effective estate plan ensures the efficient distribution of assets according to your wishes to maximize the legacies to your family or other beneficiaries. With the realities of complicated family structures or business ownerships, and the intricacies of tax and succession laws, forward planning can help promote efficient administration and minimize expense down the road.

A well-prepared estate plan offers benefits that go well beyond just your money. It can help to put your mind at ease, for situations involving fairness to heirs. It may also help to ensure that those incapable of managing funds will be protected, or limit exposure to potential liability or access by others to your assets.

Here are three considerations that may get you thinking about whether your plan is structured in the best way, or if a review may be warranted:

Consider the Use of Trusts

Trusts can be effective tools to help preserve assets for beneficiaries and prevent access by others. For example, a testamentary spousal trust can be created to hold assets for which only a spouse can receive income or distributions during their lifetime. A trustee could be appointed to help manage particular assets if a spouse is not capable. A trust may also protect assets from current creditors or past/future relationships. In provinces where applicable, assets held within the trust will not be subject to probate fees.

Consider the Benefits of Insurance

A life insurance policy can offer a variety of estate planning benefits. It can help to cover future income tax liabilities, for instance the potential capital gains liability of a family cottage to be inherited. Or, it can help to equalize an estate for multiple beneficiaries when passing along a family business in which all beneficiaries may not be involved. For those looking to provide a significant gift to a charity, without impacting bequests to heirs or retirement income, an insurance policy may also provide a good solution. Life insurance can be owned by an individual, a trust or a corporation, and in all cases the beneficiary receives the benefit tax free upon the death of the insured.

Business Owners: Plan with Available Tools

If you are a business owner, planning ahead for the eventual succession of your business can provide benefits down the road. For example, an estate freeze may help to manage the value of your business and the accompanying taxes upon its transfer. It may allow you to multiply the lifetime capital gains exemption with family member beneficiaries, which can provide significant tax benefits. It may also provide income-splitting opportunities and cap the tax liability of your shareholdings on death.

We Can Help

Being familiar with the aspects of your financial situation, we can help provide counsel and recommend experts in the field if you require assistance with your estate plan.

Congratulations Michael!

We're excited to let you know that Michael was the recent recipient the 2019 Wealth Professional Award for Advisor of the Year in Responsible Investing! An award of excellence presented to the outstanding advisor dedicated to providing outstanding socially responsible investment strategies to clients, Michael was up against seven other finalists from across Canada, and successfully brought the award to National Bank and the prairies! The Wealth Professional awards in Toronto follows a strict process to both select nominees, and then a group of independent judges selects a category winner. Winning the award speaks to the fact that you don't have to sacrifice returns to do good! Check out the hardware!

Wishing You A Healthy and Prosperous 2020!

Charlene M. Birdsall, CPA, CMA, CIM®, RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2252
charlene.birdsall@nbc.ca | charlenebirdsall.ca

Michael Silicz, B.A. (Hons.), M.A., M.P.Adm., LL.B., RIAC
Investment Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2265 – Toll free: 1-800-461-6314
michael.silicz@nbc.ca | michaelsilicz.com

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

SB SILICZ | BIRDSALL
Advisory Group

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial – Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). This newsletter has been prepared under contract for the Investment Advisor noted by J. Hirasawa & Associates, and is published for general information only. Content copyright by the publishers and may not be reproduced without written permission. Statistics, factual data and other information are from sources that we believe to be reliable but we cannot guarantee their accuracy. It is furnished on the basis and understanding that the author and its affiliates are to be under no liability whatsoever in respect thereof.