

# Silicz Wealth Management Team Newsletter



Spring 2021



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## Bring on Spring!

It's hard to believe but a year ago we were all experiencing "lock down" no matter where we were on the continent, as COVID continued to upend our lives, the markets and the world. Now a full year later, many of you will be vaccinated, some of you may be making travel plans, and with spring around the corner, things are hopefully looking up. We all have experienced changes in our lives, and we all have much to be grateful for especially in light of all these changes we have been through.

With this in mind, I would like to welcome you to the inaugural Silicz Wealth Management Team newsletter. I'm excited to announce that I am now leading my own practice going forward. I have made some simple, beneficial and positive changes that you'll be able to experience right away!

To start with, my team and I are offering more thorough digital options for your convenience. One of the main results from the client survey many of you answered back in the fall time (thank you) was the desire for more digital service. This is definitely in line with the post-COVID world where we now more than ever shop, meet, and interact digitally in ways we never have before. We are happy to offer you a variety of digital services that are consistent and will make your lives easier. Some of the recent practice management upgrades we are excited to offer you include:

### Electronic signatures via DocuSign – less paper!

We're excited to formally announce our team's embracement of DocuSign – digital signing technology! Going forward, you'll be offered by default the choice to "sign" documents electronically on your phone, tablet or computer. It is convenient, super easy, and speeds up administration considerably. Should you still want to deal in paper, that option is always available, and note that some things still need to be done on paper (notarized documents and beneficiary changes for example). Next time we send you a form to sign electronically, Jas, Tracy or I will send you a heads up via email or phone about the incoming DocuSign email so as not to catch you off guard.

### Sending in money electronically

Another new and convenient service we can offer is the electronic transfer of money in and out of your National Bank Financial account. Should you prefer to send regular contributions in electronically instead of by cheques, please reach out to us and we can help facilitate this through your existing online banking.

### Improved automatic savings into your accounts

If you would like to save money directly into your account, instead of investing directly into a mutual fund, we can now facilitate this.

### Virtual Meetings

As you're likely aware, I am available to meet in person (COVID compliant), but can also meet you virtually over Microsoft Teams. If you would like to review your portfolio, just reach out to me (Michael) directly. You can also now book a meeting with me at **anytime** by clicking the link in my email signature, or [by clicking right here](#) in this newsletter, to see when I'm available. Try it out! I hope to soon offer a virtual seminar on the topic of wills and estates – stay tuned!

Tracy Boutet will continue to work alongside me to provide any administration required for your accounts, and Jas Deol will continue as my investment associate, able to help you with trades in addition to handling the team's marketing efforts and computer administration. I thank you for allowing me to manage your investments, I look forward to helping you grow your wealth prudently, and will continue to work hard to maintain your trust and confidence. If there is anything my team and I can do to assist you in any way, please contact me directly, I am here for you.



## The Market Pendulum Swings... A Brighter Economic Outlook

Stock market valuations can swing back and forth from one extreme to the other, sometimes being depressed and offering high value, and at other times appearing overvalued and speculative. Somewhere in the middle of this swing may be the fair value of any particular equity.

Consider how quickly the market's pendulum changed course over just the past year. After last spring's significant drop in the markets, in the midst of the greatest economic and public health crisis of our time, the pendulum swung to the other side. To start 2021, the S&P/TSX Composite (TSX) and S&P 500 indices posted record highs, with many stock valuations appearing stretched.

Of course, equity markets are forward-looking in nature: economies will eventually fully reopen and pent-up demand is anticipated to be released. However, other factors have helped to push the markets higher. With central banks pledging to keep interest rates low for the near term, investors have turned to equity markets given a lack of alternatives. Continuing stimulus measures have also helped to inflate asset prices. A rise in low-commission trading platforms has enticed many new investors to enter the markets, often trading based on momentum.

More recently, long-term bond rates have been rising, which has increased inflation expectations. Yet, this shouldn't be a surprise: rising yields are often seen when economic expectations strengthen. In the U.S., where the opening of the economy is, to a considerable extent, ahead of Canada, recent employment and manufacturing data has been better than expected.<sup>1</sup> Here at home, accelerating vaccination programs continue to support the path to economic reopening—the light at the end of the tunnel we have long awaited!

Will the markets continue their climb? For many investors, there is limited value in trying to predict the near-term direction of the markets; after all, the overall success of your wealth plan isn't dependent on calling the top of any cycle. Yet, consider that equity markets can often progress further than many believe. With growing optimism for a return to normal, there has been some rotation into areas of the markets that are expected to benefit as economies reopen. Volatility has also returned, largely in market sectors that have seen significant gains throughout the pandemic. After many months of market advances, this can be expected and may provide opportunities to put capital to work as investors continue to build portfolios for the future.

For most investors, the investing journey will be a long one. With a sound wealth plan to guide us, and a portfolio built on quality, diversification, and focused on the longer term, it should serve us well no matter where the market pendulum may swing. Continue to have confidence in that plan, enjoy the market advances and look forward: brighter days are ahead!

1. [bloomberg.com/news/articles/2021-03-05/u-s-feb-payrolls-increase-379-000-est-200-000](https://www.bloomberg.com/news/articles/2021-03-05/u-s-feb-payrolls-increase-379-000-est-200-000)

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## Food for Thought: the Rising Canadian Dollar

Over the past year, the Canadian dollar (CAD) has been gradually appreciating in value, rising by 15 percent after it fell to a low of 0.69 USD in March 2020. What's driving the loonie's flight?

Oil prices, which briefly turned negative in April 2020, were one reason why the loonie struggled. The CAD is largely impacted by the price of oil since Canada earns a large portion of its U.S. dollars (USD) from the sale of oil. As oil prices have rebounded to pre-pandemic levels, this has helped to strengthen the CAD.

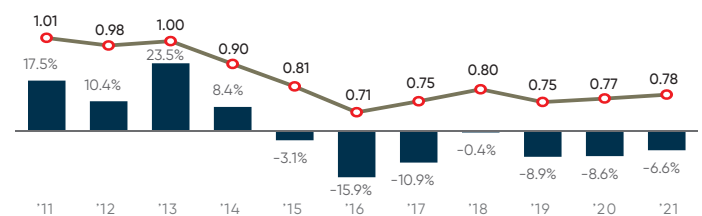
At the same time, the USD has been losing its lustre. Significant U.S. stimulus actions have increased the money supply, creating concerns about future inflation and placing downward pressure on the greenback. With near-zero interest rates and a yield on U.S. government bonds closer to that of other developed nations, this may reduce demand for U.S. treasuries and further weaken the USD.

Will the loonie continue its upward flight? Here is some "food for thought." The "Big Mac Index," published by The Economist magazine, is a fun tool to make exchange rate theory digestible. It compares the purchasing-power parity (PPP) of global currencies. PPP suggests that over the long run, exchange rates should adjust so that an identical basket of goods/services costs the same in each country. Instead of using a basket of goods, it creates an exchange rate by comparing the cost of a Big Mac in a nation's currency to its cost in the U.S. Comparing

this to the prevailing exchange rate determines whether a currency is considered under- or over-valued. The bar chart shows the under/over-valuation of the CAD versus the USD based on the Big Mac. The actual exchange rate is shown on the blue line.

Currency fluctuations are a normal part of the financial markets. While a stronger CAD may provide better buying opportunities to purchase U.S. assets, for longer-term investors, the impact of currency changes on returns has the tendency to even out over time.

### Big Mac Index Over/Under Valuation: CAD vs. USD 2011 to 2021 (Jan.)



Source: January data: [github.com/TheEconomist/big-mac-data](https://github.com/TheEconomist/big-mac-data), accessed 2/11/21.

## Your Estate Plan: Is a Review in Order?

When was the last time you reviewed your estate plan? While this should be done at least every five years or when personal circumstances change, the pandemic reminds us of the value in revisiting plans when circumstances around us also change.

As part of your review, one place to start is with those appointed to help carry out your estate plan: the attorney (mandatory) named under power of attorney (POA) documents and the executor (liquidator) of your will. Here are a few considerations:

**The importance of checking in.** When was the last time you spoke to your named executor or attorney about the role? The pandemic may have altered an individual's capacity to act on your behalf. A front-line healthcare worker may not be able to manage additional duties if under significant work obligations. Immune-compromised individuals may be unable to safely perform certain functions of the role. If the individual is not aware that they have been appointed, consider that court intervention will be required if they are unwilling or unable to act and an alternate has not been named. Under normal circumstances, this is a lengthy and costly process; throughout the pandemic, this has been complicated by further delays as court operations have been impacted in many provinces.

**The value in communicating the "basics."** Have you provided direction to help support those acting on your behalf? With your executor/attorney, have you communicated where important documentation can be found? This is important to prevent an unnecessary search, and with many businesses now having reduced operations (including banks, law firms), access to documents may be made more challenging. Is your executor/attorney aware of the financial or healthcare choices you wish to make in the event of incapacity?

The health consequences of COVID-19 have highlighted the differing outcomes that some may find more controversial, such as the use of a ventilator for life support.

**Is your executor/attorney aware that tasks may need to be carried out differently?** There have been positive changes as a result of the pandemic; many provinces have allowed for virtual witnessing of certain documents or electronic submissions for some court-related applications.\* However, the pandemic has also made seemingly easy procedures more difficult or time-consuming, such as constraints on in-person meetings. Jointly appointed executors/attorneys may struggle to effectively act in unison. With limits on travel, if an executor/attorney doesn't live locally, can they fulfill their role?

In some cases, changes may be needed, such as appointing temporary alternatives during this period. However, the impact of the pandemic on those appointed to support you is just one area to contemplate as you review your estate plan. For a discussion on this, or other aspects of your estate plan, please get in touch.

\* Some measures have been approved under emergency conditions and may be temporary.



### Spring Cleaning Your Estate Plan

Here are five questions that may prompt a review:

- 1 Is my plan structured in a way that promotes efficient administration and limits expense?
- 2 Will my plan minimize family effort or even controversy?
- 3 Are my assets structured to limit exposure to potential liability (i.e., former spouses, creditors)?
- 4 Do I have protection in place to allow my family to make financial and healthcare decisions in the event I am unable?
- 5 Can my family maintain their current lifestyle if I am no longer able to contribute?

## Wealth Creation: How Much is \$30 per Week Worth?

Success in building wealth has always started with saving. What may seem like a little can make a big difference over time if you're able to stick to a regular savings plan.

If you have (grand)children learning about finances, the table to the right may be a worthwhile share. It shows the potential impact that just \$30 per week of savings—or \$1,560 per year—can have down the road based on various rates of return. It's a good reminder of the power of time and compounding as we save for the future.

For those wanting to save more, it may be as simple as making moderate lifestyle changes, such as reducing impulse purchases or giving up the daily designer coffee. Perhaps the pandemic has reduced your discretionary spending, and these funds can be invested to make a significant impact on your future nest egg.

### How Much is \$30 per Week Worth?

Years	Annual Rate of Return*		
	4%	5%	6%
30	\$90,226	\$108,194	\$130,587
40	\$153,655	\$198,383	\$258,894
50	\$248,216	\$346,925	\$492,335

\* Assumes compounding at monthly rate, no taxes or fees. For illustrative purposes only.

As the old saying goes, "mighty oaks from little acorns grow," and it all starts with saving.



## The Great CPP Debate Continues...

It is a decision that many Canadians will need to make prior to retirement: when should you start Canada Pension Plan (CPP) benefits? At age 60, 65 or wait until 70?

Despite the potential for a higher CPP payout—an increase of 42 percent if the CPP is deferred to age 70<sup>1</sup>—less than one percent of Canadians wait until age 70 to collect CPP. For those who have a choice,<sup>2</sup> taking CPP before 70 may not be that surprising. In the 1972 Stanford Marshmallow Experiment, psychologist Walter Mischel gave his young participants a choice: one marshmallow immediately, or two if they waited 15 minutes. While most wanted to wait, less than one third were able. As the experiment showed, humans tend to favour instant gratification.

When considering delaying benefits, here's the good news: most of us are likely to live longer than we may believe. If you reach the age of 65, chances are you will likely live to age 85.

### The Probability of a 65-Year-Old Reaching Various Ages?

Age	Women	Men
75	90%	86%
80	82%	75%
85	69%	59%
90	50%	38%
95	26%	17%

Source: Statistics Canada, T1310-0135.

This may mean many wonderful years in retirement, but it may also create worries for those concerned about outliving retirement savings. For many, income challenges from the pandemic haven't helped to ease these concerns.

Yet, given our life expectancy, studies continue to show that deferring CPP results in greater overall lifetime income for the average individual. A recent study published in the popular press will have you believe that taking CPP early at age 60 instead of 70 could cost you over \$100,000.<sup>3</sup>

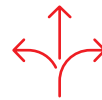
While there is no disputing that waiting until age 70 may deliver higher lifetime payments for the average retiree, there may be reasons to consider taking an earlier CPP.



**Need for early income** — Retirement costs aren't often linear in nature and may mirror life stages. Often, more income may be needed earlier in retirement, and CPP may provide this supplementary income.



**Concerns about longevity** — Some individuals may worry about longevity due to family history or illness. Life expectancy is difficult to predict.



**Opportunity cost of other income** — If CPP is deferred, other sources of income will be used. This may require withdrawing investments, which involves an opportunity cost of the potential loss of future growth. The recent study suggesting that you may forego \$100,000 by taking CPP early may be misleading as it does not factor in this potential loss, which would reduce this gap.<sup>4</sup> In other cases, individuals may expect to leave certain investments to family members. A study done by the Society of Actuaries suggests that if the goal is to maximize a RRIF/RRSP for beneficiaries, then the best option may be to take CPP at age 65 so that the RRIF can be depleted more slowly.<sup>5</sup>

There are other factors that may impact the decision of when to start CPP benefits, including the amount of CPP to which you are entitled, the preservation of other income-tested benefits, and your current or future income tax bracket. All of these considerations can vary significantly by individual. For a thoughtful analysis specific to your particular situation, please call.

1. Or 0.7 percent for each month • 2. Other sources of income enable a CPP delay • 3. [financialpost.com/executive/executive-summary/posthaste-canadians-who-take-cpp-at-60-lose-100000-in-retirement-income-study-finds](https://financialpost.com/executive/executive-summary/posthaste-canadians-who-take-cpp-at-60-lose-100000-in-retirement-income-study-finds); [theglobeandmail.com/investing/personal-finance/article-taking-cpp-early-can-cost-you-100000-and-limit-your-long-term/](https://theglobeandmail.com/investing/personal-finance/article-taking-cpp-early-can-cost-you-100000-and-limit-your-long-term/) • 4. [fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp\\_qpp-reseach-paper.pdf](https://fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-reseach-paper.pdf) • 5. [cia-ica.ca/docs/default-source/research/2020/rp220114e.pdf](https://cia-ica.ca/docs/default-source/research/2020/rp220114e.pdf)



## Working From Home? Don't Forget to Claim Home Office Expenses

Did you work from home last year? As a result of the pandemic, the Canada Revenue Agency (CRA) has made changes to the rules surrounding home office expense claims.

The CRA has introduced two simplified methods for claiming home office expenses on your 2020 personal income tax return:

**New Temporary Flat Rate Method** – A simplified flat rate method to calculate the home office expense deduction has been introduced for those eligible in the 2020 tax year. If you worked more than 50 percent of the time from home, for at least four consecutive weeks in 2020 due to COVID-19, you may claim \$2 for each day worked from home, to a maximum of \$400 per individual. This method can be used by those claiming eligible home office expenses only, if you were not reimbursed by an employer for all of your home office expenses.

**Simplified Detailed Method** – For home office expense claims exceeding the temporary flat rate maximum of \$400, the CRA requires individuals to use a “detailed method.” The CRA has created a simplified form for the detailed method, Form T2200S.\* While this form does not have to be attached to the tax return, it should be saved for auditing purposes. Under this method, the employee will need to calculate the size of their work space, as a proportion of the home, and detail the hours per week that the space was used for work. The CRA has provided an online calculator to help perform this calculation.

In both simplified processes, employees must complete and attach Form T777S, Statement of Employment Expenses from Working at Home Due to COVID-19, to their tax return. The CRA will accept an electronic employer signature on Form T2200S.

### Changes to Eligible Expenses

The CRA has also expanded the list of claimable expenses. As a result, reasonable home internet access fees may now be claimed. Detailed information regarding allowable expenses and claims can be found on the Government of Canada website: [canada.ca/cra-home-workspace-expenses](https://canada.ca/cra-home-workspace-expenses).

\* For claims for expenses other than home office expenses, Form T2200 must be completed.



### Investing Reminders: Diversification is Important

No matter how you invest, certain principles are important to maintain the boundaries of risk exposure and the return of your portfolio. Diversification is one of these principles:

During strong market times, the importance of diversification may be overlooked as we focus on securities or sectors that have outperformed. However, comparing portfolios to this performance is not a prudent exercise as a well-diversified portfolio is not meant to generate the highest returns.

Diversification is put in place to help protect a portfolio from unsystematic risks, such as those that may affect a specific security or industry. By having a mix of different investments, such as across industries, sectors, geographies or even asset types, the positive performance of some investments has the potential to offset the negative performance of others, which may help minimize the portfolio's downside.

In order for diversification to work to your benefit, rebalancing a portfolio on a regular basis is important. Perhaps recent market gains have led one security to dominate the portfolio. Or, over time a portfolio's asset mix may become unbalanced. What mix is appropriate? This depends on personal circumstances and should be established as part of your overall wealth plan.

Diversification remains an important element of portfolio construction. Having these principles, and consistently following them, is an important element of risk control that has been put in place to support your investment success.

## The Short & the Long of It: GME & the Problem of Wealth Inequality

The rise and fall of GameStop (GME) shares captured the headlines in January. While it exposed the dangers of options trading, it highlighted a more endemic issue: the growing problem of wealth inequality.

GameStop had a significant amount of short positions held by large hedge funds.<sup>1</sup> Recognizing this, a group of retail investors, using an online forum, worked together to purchase shares and drive up the price.

### First, a Primer on Shorting Stocks

When you short a stock, you must borrow the stock from a broker and then sell it in the open market. Since it is borrowed, in order to exit your position at a later date, you must repurchase the stock to return it to the broker. If the share price declines in value, you have made a profit. If the share price increases, you suffer a loss. The higher the price, the greater the loss.

With GME, as retail investors purchased shares to drive up the price, those holding short positions needed to repurchase the shares to exit their positions and minimize their losses, which further pushed the stock price higher. Before long, the GME share price jumped from US\$17 to \$347, in what is called a "short squeeze."

### Does This Signal a Problem with Financial Markets?

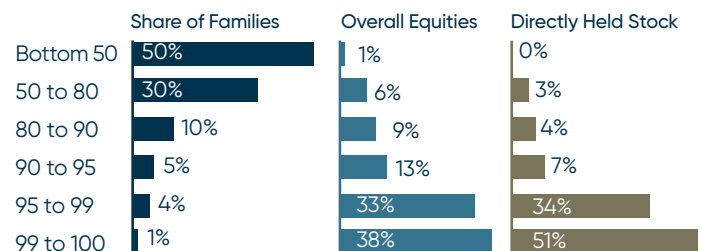
Some have questioned whether the financial markets can effectively function when stock movements become so disconnected from fundamentals. But let's not forget that, over time, markets have always attracted speculation resulting in temporary periods of inefficiency.

Individual investors are far from the point where they are disrupting the main purpose of equity markets: to help companies raise capital. Traders today do have a greater ability to influence stock market movements; retail order flows have reached 20 percent of the U.S. stock market's total, twice what they were in 2010.<sup>2</sup> Yet, it is unlikely that the players creating large intraday movements for single securities can have the same impact on the overall market.

### A Problem: The Rise of Populism & Stock Market Inequity

However, the GameStop situation has highlighted a more pervasive issue. Some have compared it to the Occupy Wall Street movement,<sup>3</sup> representing a generation that feels left behind. Income inequality is at significant highs. No more is this evident than in the stock market. Consider that the top 20 percent of earners own nearly all of the stocks held by U.S. households.

### Wealthy Families Own a Greater Share of Overall Equities



Families grouped by percentiles of net worth:

Well-respected economist Jeff Rubin confronts these realities in his book, *The Expendables*, suggesting that we now stand at the edge of a "cliff" created after sacrificing our middle class and outsourcing production and jobs to low-cost China. The economic consequences stemming from the pandemic have only made this inequality worse. The anger from the GameStop situation has been palpable, and it is not likely to end here.

1. By some accounts, approximately 140 percent of the public float had been sold short • 2. "Day Traders Won't Sack Wall Street," *The Wall Street Journal*, Mike Bird, Jan. 27, 2021 • 3. [cnet.com/news/reddits-amc-gamestop-surge-happened-because-of-anger-over-wall-street/](https://www.cnet.com/news/reddits-amc-gamestop-surge-happened-because-of-anger-over-wall-street/)





## The Rise of Cryptocurrencies: Will Bitcoin Become the Next Gold?

As bitcoin continues to hit record highs, it has garnered much attention and fuelled an ongoing debate: Is bitcoin the next gold?

The current economic environment has helped to support bitcoin as an alternative asset in the search for safety. Today, central banks continue to push the limits of monetary policy by expanding their balance sheets, while government stimulus spending has been unprecedented, increasing debt to levels not seen before. As a result, some investors have turned to bitcoin when looking for a store of value—to act as a hedge against uncertainty and the potential for currency depreciation or inflation.

### Gold – and Bitcoin? – As a Store of Value

Traditionally, gold has been considered the pre-eminent safe-haven asset. Its qualities make it a recognized store of value: it is durable, fungible, divisible, portable and scarce. Proponents of bitcoin would argue that it, too, possesses these qualities. However, while other precious metals, like platinum, may also have these characteristics, what distinguishes gold—and now increasingly, bitcoin—is the collective belief in its shared value.

### Bitcoin: The Move to Mainstream

Over recent years, one of the most significant changes has been bitcoin's move into the mainstream. There has been an increasing acceptance of bitcoin, perhaps partially driven by its rise in value. Many high-profile institutional investors and companies now hold and accept bitcoin, which has helped increase its utility. Millennials have been leading the charge to support the adoption of digital currencies,<sup>1</sup> attracted by the price gains, but more importantly frustrated by governments and elitists in a financial system they believe has failed their generation.

As digital payment systems have become more mainstream, even governments and central banks have begun to adopt, accept and develop digital currencies. Bitcoin is now one of hundreds of cryptocurrencies that exist today.

While it is likely that cryptocurrencies are not going away any time soon, there are reasons to exercise caution when considering bitcoin as an alternative asset. Here are three:

**Unclear Valuation** – There is considerable debate over what is the fair value of bitcoin, since it is simply the product of open-source software. Some argue that bitcoin lacks an intrinsic value when compared to other assets: stocks represent companies that produce goods and services with tangible value; even gold's physical properties may make it useful outside of being a safe-haven asset, such as utility in jewellery or electronics. However, proponents of bitcoin would argue that its fixed limited supply, decentralized and transparent nature, and growing acceptance have given it relevance as a store of value.

**Significant Volatility** – Since its inception in 2009, bitcoin has been subject to unpredictable and drastic price swings, perhaps a consequence of being a new asset. In January alone, the price dropped by almost 20 percent on two occasions. Some note that gold experienced similar volatility in the 1970s as it became a trusted store of value; prices appreciated by 2,300 percent in that decade.

**Security Concerns** – Like many things of value, bitcoin has been targeted by unscrupulous individuals. Platforms that buy and sell bitcoin are often unregulated. Bitcoin transactions can be subject to fraud and theft, perhaps facilitated by the anonymity of the digital world. In 2014, the world's leading bitcoin exchange was hit by a cyberattack; customers had a significant amount of bitcoin stolen without recourse, and the exchange filed for bankruptcy. Today, the controversial cryptocurrency Tether is under investigation for potentially manipulating the price of bitcoin.

For now, the risks are likely to challenge bitcoin's viability as a stable safe-haven asset. However, as the world continues its digital transformation, cryptocurrencies continue to gain increasing relevancy. Will bitcoin become the gold of our future?

1. [fintechmagazine.com/digital-payments/millennials-are-driving-bitcoin-economy](http://fintechmagazine.com/digital-payments/millennials-are-driving-bitcoin-economy)



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