

Wealth Insights

Personal Newsletter from The Riedl Group



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For many of us, spring couldn't have arrived sooner. After a difficult winter, we should all be rewarded for our perseverance. The warmer weather brings personal income tax season. As tax planning is a year-round exercise, this may be a good time to start thinking about ways to impact your 2021 tax position. As always, please don't hesitate to call us for ideas on this or any other investing matters.

May the season of renewal bring brighter days ahead. Stay safe and healthy.

-The Riedl Group

The Pendulum Swings

Investor sentiment can swing from one extreme to another, resulting in wide variations in the prices of securities over time. Consider how today's concerns differ sharply from just one year ago.

During euphoric times, some stocks may become wildly overpriced as buyers abandon all sense of value or analysis in their efforts to get in on the action. During bear markets, stocks may become wildly undervalued, as sellers abandon all sense of value or analysis in fear. Somewhere in the middle of the pendulum's swing is fair value and if we buy at or below this level, we are more likely to do well with our investments over time.

While markets are forward looking in nature, their rapid rise — in the midst of the greatest economic and public health crisis of our time — has surprised many. The S&P/TSX Composite (TSX) and S&P 500 indices have posted record highs and, by a variety of measures, many stock valuations appear stretched. At the start of February, the S&P 500 CAPE ratio,* a valuation measure used to generally assess whether the market is under or overvalued, hovered around 34X, its highest level since the dot-com bubble years when it topped 44.2X. The TSX sat more modestly at 23X.

The reasons are many. Historically low interest rates have led to paltry returns of low-risk, fixed-income investments. With central banks pledging to keep rates low for the near term, investors have turned to equity markets as — “TINA” — there is no alternative. Stimulus measures have also inflated asset prices. A rise in commission-free trading platforms has enticed new investors to enter the markets, often operating with little knowledge about the stocks they trade.

Some market observers are asking: can markets continue their climb? Yet, focusing on how far the markets have climbed can be counterproductive. It raises anxiety levels — “how high can the markets go?” And, may prompt us to take unnecessary action — “how can I protect my gains?” Consider, too, that markets can sometimes advance further than many believe. In 1996, during the dot-com years, after then-Federal Reserve Chairman Alan Greenspan's infamous “irrational exuberance” speech, the markets continued their rise for more than three years. Today, while there is a considerable amount of excess, some suggest that there isn't yet the same magnitude of financial leverage that accompanied past exuberance. And, certain areas of the markets are still expected to benefit from continued economic recovery as things return to normal.

Regardless, there is often limited value in trying to predict the direction of the markets — after all, the success of your overall wealth plan isn't dependent on calling the top of any cycle. Instead, a longer-term commitment to, and confidence in, the plan that has been constructed to achieve our goals will continue to serve us well, as the pendulum continues its swing.

*Cyclically-adjusted price-to-earnings ratio measures stock price by the avg. earnings over 10 yrs., adjusted for inflation. At 1/2/21.

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- Why Advice Matters
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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 fulfil 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

Table: 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.

reduced your discretionary spending, and these funds can be invested to make a significant impact on your future nest egg.

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

Beyond Buoyant Market Times: Why Advice Matters

If there's one thing that the pandemic has taught us, it is to expect the unexpected. The financial markets hit all-time highs to start the year, despite what has been happening on the ground. As markets advanced, many stocks invariably became winners. This has helped to drive confidence in many investors. While investing during bull market times may appear to be a winning strategy, longer-term investors should not forget that markets are cyclical in nature.

Seasoned investing involves a variety of elements that may easily be overlooked during good times. Over recent months, with the rise in attention to low-cost and commission-free platforms, many investors have found success in simply trading on momentum and noise, without understanding the fundamentals of their investments. In times like these, the prices of securities often become stretched, but over the long run the markets will generally correct themselves to reflect the fair value of the companies traded.

A recent study looked at the trading activity on a popular commission-free platform over the past two years. It showed that the top 0.5 percent of stocks bought each day experienced return reversals, or losses, of approximately 5 percent, on average, over the following month. Why did this happen? According to the study, many of these investors were inexperienced and tended to chase performance. Furthermore, the commission-free nature of the platform encouraged trading, which led to speculative behavior.¹

Seasoned portfolio management also involves managing risk. As advisors, we use techniques such as asset allocation, diversification, and rebalancing, while taking into account an investor's risk tolerance and time horizon, to adjust and help protect portfolios throughout the inevitable market cycles. Our

focus is to help preserve capital, while generating wealth over the longer term, recognizing that most investors will be investing over multiple market cycles.

What will happen during a market downturn, a time in which some investors may panic or make rash decisions? Professional advice can help to manage emotions during these critical times — something that many investors may find challenging. A study that tracked investors over a longer period of time showed that self-directed investors significantly underperformed the markets over time, likely because they acted on emotion. These investors often traded too frequently, having a tendency to sell winning investments more quickly and hold on to losing investments in the hope that they would regain their losses. The study concluded that, in the words of Benjamin Graham, “the investor's chief problem — and even his worst enemy — is likely to be himself.”²

Wealth management advice can often go beyond investing. This may include exploring tax-efficient strategies, planning for retirement, using asset protection or enhancement tools and even supporting estate planning. There are many resources available to help guide the path to achieving your financial goals. And, by having support for the management of your wealth, you can focus on what is important to you.

1. papers.ssrn.com/sol3/papers.cfm?abstract_id=3715077; 2. https://faculty.haas.berkeley.edu/odean/Papers%20current%20versions/Individual_Investor_Performance_Final.pdf



Digesting Currency Changes: The Flight of the Loonie

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.

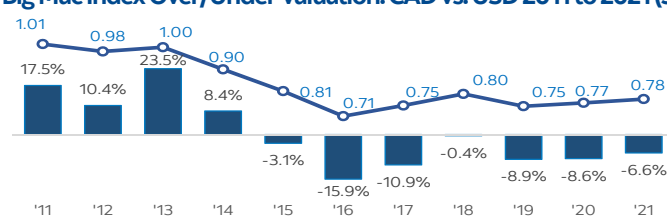
At the same time, the USD has been losing its lustre. Significant U.S. stimulus actions have increased the money supply, creating concerns about future inflation and placing downward pressure on the greenback. With near-zero interest rates and a yield on U.S. government bonds closer to that of other 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, accessed 2/11/21.

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 at the Government of Canada website: 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.

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