

# VanderRuyt Wealth Management Group Newsletter



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Please go to [violavanderuyt.com](http://violavanderuyt.com) to find timely information on financial issues relating to COVID and resources for retirement and estate planning"

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## 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)

## 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.

## 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 behaviour.<sup>1</sup>

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."<sup>2</sup>

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](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3715077) • 2. [https://faculty.haas.berkeley.edu/odean/Papers%20current%20versions/Individual\\_Investor\\_Performance\\_Final.pdf](https://faculty.haas.berkeley.edu/odean/Papers%20current%20versions/Individual_Investor_Performance_Final.pdf)

## 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.

## 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)

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