Fall 2020

Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Keep investing: these 3 tips help you stay committed to your plan

In this year of the pandemic, you may well be tempted to put your investing habits on hold. If you've lost income, that may be a prudent course of action. However, for many of us, fear of market volatility may be at play. But life goes on and our financial goals – like retirement – remain as relevant as ever. Here are three reasons to keep investing – even if in small amounts.

The power of compound growth. Even small amounts today could have a big impact on reaching your goals in the long term because of the power of compound growth. Compounding is when your interest is re-invested, meaning you are now earning on your returns as well as on the original amount.

Consider this example: If you saved $100 a month for 10 years and never earned any interest on it, you'd have $12,000 after 10 years. But, if you invested $100 a month for 10 years that yields 5% each year, you would end up with about $15,693. The more time your money has to work for you, the more you'll benefit from the power of compound growth.

Dollar-cost averaging. If you are investing regularly, you can take advantage of dollar-cost averaging. This strategy involves contributing a fixed amount at regular intervals, no matter how markets are performing. When markets dip and asset prices fall, the amount you regularly add buys more shares or fund units. Over time, this can reduce your average cost and, in a rising market, increase your returns when you sell.

A regular investment plan. Putting large amounts of money – like a big Registered Retirement Savings Plan (RRSP) contribution, for example – into the markets may seem daunting just now. But, by investing smaller amounts more regularly, you may hardly notice the effect on your monthly budget. And, depending on how you invest these contributions, you may also be able to take advantage of the strategies above: compound growth and dollar-cost averaging.

With a structured plan, you can have a set amount (often as low as $50 a month) withdrawn from your bank account and invested right away. This "set it and forget it" approach can be a worry-free way to commit to meeting your long-term goals.

Next steps: If you're not already investing regularly, let's talk about whether now is the right time to get started. If this year's market volatility has shaken your confidence, we're here to help.

Webster Reid Advisory Team
1602-50 O'Connor Street
Ottawa, ON K1P 6L2
Phone: 613-760-3786
Toll Free: 1-800-267-6586
Email: ashlyn.ackerman@nbc.ca
www.websterreid.ca

Now that the fall and cooler weather are approaching, we can look back and reflect on one of the most extraordinary and challenging years that we have ever experienced. As always, we will continue to monitor events and seek the most pertinent information to help guide you through these volatile times.

We would like to wish you and your family a Happy Thanksgiving.

Stay well,

Colin, Hannah, Ashlyn and Francine

WEBSTER REID
ADVISORY TEAM

U.S. firms dominate many sectors. Should they be in your portfolio, too?

As the largest economy in the world, the United States is an economic powerhouse. It attracts the attention and capital of investors across the globe. And, it's not just because the U.S. is an enormous market of almost 330 million consumers with a high standard of living. The U.S. is home to some of the largest and most successful companies in the world, many with an international presence. In fact, in many sectors American firms dominate, and investors looking to buy into those sectors will find it impossible to ignore these U.S.-based companies.

How big is big?

The U.S. capital markets are the deepest and most liquid in the world. That liquidity, meaning that shares can be bought and sold freely, provides investors with more choices of stocks and securities from across many sectors than anywhere else. American markets also feature a regulatory framework supporting transparency and investor protection.

Just how big are they? The New York Stock Exchange (NYSE) ranks at the top, accounting for roughly 40% of the world's stock market capitalization. In second place is U.S.-based NASDAQ, home to some of the biggest technology companies on the planet. The U.S. corporate bond market is also the world's largest.

Sector dominance

This market heft is demonstrated by the dominance of U.S. companies in many sectors, including those in demand by investors (see the Table on this page, based on the S&P Global Broad Market Index[1]). Consider these:

Technology. The dominance of U.S. firms in tech is well known. In 2019, seven out of 10 of the largest technology companies in the world were American.[2] As the table below shows, this pre-eminence is especially strong in Software, with 86% of the sector in the index being U.S.-owned.

Health care. Over $7.8 trillion (USD) a year is spent on Health care globally. Nearly half of that total – $3.5 trillion – is spent in the United States.[3] It's no surprise, then, that American firms hold sway in this sector too, with an especially strong presence in the Health Care Provider sub-sector.

Consumer segments. With its large, affluent market and powerful brands, the United States is home to some heavy-hitters providing products and services to the consumer market. U.S. companies making household products dominate their sector, and American specialty retailers hold supremacy in their space.

It's easy to see why American companies are so attractive to investors, whether it's for the steady performance of Consumer Staples or the high growth potential of Technology. With their global dominance, many U.S. firms also provide global exposure for a portfolio, as they may operate or generate revenue in hundreds of countries.

Easy access

For Canadians, the most common way to access the U.S. market is through mutual funds or exchange-traded funds (ETFs). It will be obvious if you own a U.S. or North American equity fund that you have such exposure. However, what this heavy dominance in key sectors suggests is that you'll likely have even more exposure in other funds as well. Many global funds, depending on their mandate, will likely include a high number of U.S. companies. Specialty funds that concentrate on Technology, Health Care, or Financials will also have substantial American presence.

Next steps: Chances are these global leaders are already working for you in your portfolio. If you'd like to understand more about your access to these sectors or the roles they play in your portfolio, let's review your investment strategy soon.

1. *World Economic Forum with data from S&P.* https://www.weforum.org/agenda/2020/02/dominance-american-companies-global-markets-industry/
2. *Forbes Global 2000 List, Investopedia,* November 2019. https://www.investopedia.com/articles/markets/030816/worlds-top-10-technology-companies-aapl-googl.asp
3. *Investing in Health Care Stocks,* April 2020. https://www.fool.com/investing/stock-market/market-sectors/healthcare/

Where America dominates

One of the key benefits of investing in the U.S. is to gain access to sectors that are under-represented in our own country's stock market. As this Table shows, in sectors and sub-sectors such as IT, Software, and Health Care, American companies really dominate.

Source: *World Economic Forum with data from S&P.* https://www.weforum.org/agenda/2020/02/dominance-american-companies-global-markets-industry/

Percentage U.S. dominance by sector, S&P Global Broad Market Index

Sector	% of U.S.-based Companies	Most U.S.-heavy Sub-sector
Information technology	73%	Software (86%)
Health Care	65%	Health Care Providers (82%)
Utilities	53%	Electric Utilities (57%)
Real Estate	51%	Equity REITs (69%)
Consumer Discretionary	49%	Specialty Retail (73%)
Consumer Staples	46%	Household Products (74%)
Industrials	46%	Aerospace & Defense (73%)
Energy	44%	Energy – Other (73%)
Financials	44%	Financials – Other (73%)
Materials	30%	Chemicals (41%)

The four cornerstones of your estate plan

Are you waiting to be wealthy enough, or old enough, to think about having an estate plan? Do not wait, because for all Canadians estate planning is a fundamental part of establishing financial security. Your estate plan ensures that the right people are designated to make important decisions when you can't, and that your property can be efficiently passed on to those whom you want to receive it.

A solid estate plan rests on four cornerstones: your will, a power of attorney for property, a power of attorney for medical care, and a life insurance strategy.

1. Your will. According to several recent surveys, only about half of Canadians have a signed will. Your will sets out how your assets are to be distributed after death, and names one or more executors (called estate trustees in Ontario; liquidators in Quebec) to wind up your affairs. If you die without a will, provincial law dictates the distribution of your wealth among your relatives without regard to their needs and with no provision for friends and relatives beyond your immediate family. It's best to have your will drawn up professionally to make sure that all the "what-ifs" are covered and that your wishes conform to the laws of your province.

2. Power of attorney for property. This document names one or more trusted people to make decisions about your assets and liabilities if you should become incapacitated. You might assume that your spouse can simply take over if you become incapable of making decisions. That's immediately true only if your spouse is named your power of attorney. Otherwise, your affairs may be tied up until a court or provincial public trustee decides whether your spouse is fit for the job.

3. Power of attorney for medical care. This document is also known as a medical directive or living will (mandate of incapacity or protection mandate in Quebec). It is often prepared at the same time as your will. It indicates who should make decisions about your medical care and how far doctors should go to prolong your life. The goal is to clearly indicate your wishes and avoid arguments that could tear your loved ones apart.

4. A life insurance strategy. Complete estate planning should include seeking advice from a licensed insurance professional. A life insurance strategy is designed to protect your family's lifestyle if you die prematurely. That need may end or diminish once children are grown, but you might still want coverage for debts, as well as taxes due at death. Life insurance can also fund a significant bequest to one or more favoured charities.

Next steps: If you don't have an estate plan in place, now is the time to get started. And remember, life changes such as marriage, divorce, children, or a shift in financial circumstances should lead to a review of your plan. Keep in mind that moving to another province may also necessitate a review because, in Canada, estate law is a provincial matter.

Time to revisit your emergency fund

It has always been a good strategy to have an emergency fund set aside in case you face difficulties – anything from sudden job loss to an unexpected large expense. The wisdom of this advice has been borne out as Canadian households have weathered the COVID-19 pandemic.

How much?

A general rule of thumb is to have enough money to cover between three and six months of expenses. The right amount for you and your family will depend on your personal circumstances. If your household has only one income, then you are more susceptible to the risk of losing that income. If some of your expenses are flexible and you could cut back on your spending easily, you may have more leeway.

Where to keep it?

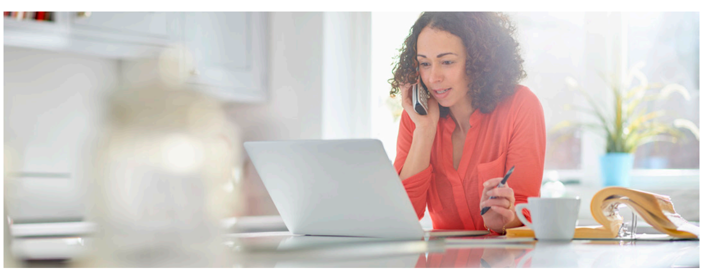
You'll want to keep these emergency funds in highly liquid investments – meaning that you will have access to the funds quickly and easily. Options to consider include High-Interest Savings Accounts (HISAs), cashable Guaranteed Investment Certificates (GICs), or Money Market Mutual Funds.

Can you borrow?

In recent years, an alternative idea has been to think of your Home Equity Line of Credit (HELOC) as a kind of emergency fund, since you may have access to the equivalent of three to six months of living expenses by borrowing from it. This is a riskier strategy, because your HELOC agreement may allow the lender to alter the terms and the interest of the loan at their discretion. Many HELOCs also allow the lender to ask for full repayment on demand – an unlikely, but possible, scenario. Keep in mind, too, that you're adding to your overall debt burden at a time of financial stress.

Next steps: Don't let the "six months of expenses" target dissuade you from getting started on building your fund. Any amount of savings could help you get over a difficult patch. A little regular saving now could be a welcome relief when you really need it.

TFSAs provide flexibility both when withdrawing cash and when re-investing it



The Tax-Free Savings Account's (TFSA) withdrawal provisions are ideal when you need to tap into your savings, as many of us were reminded during the COVID-19 pandemic. The good news is that they also allow us to put money back in easily. However, remember to keep the rules in mind — or face the tax consequences.

The TFSA is a useful savings vehicle, Any amount contributed as well as any income earned in the account, such as interest income or capital gains, is generally tax-free, even when it is withdrawn. Plus, there are no restrictions on the amount or the timing of your withdrawals.

Even better, when you withdraw funds from your TFSA, you do not lose your contribution room and you can put that money back in. But there are rules regarding re-contributions.

Generally, the rule is that the amount of your withdrawal from your TFSA will be added back to your TSFA contribution room the following year. If you want to replace the money you withdrew, you'll need to wait for the new year. The exception is when you have unused contribution room from previous years, you can replace money sooner, as long as you stay within your available room.

If you are holding mutual funds in your TFSA, be aware of any early-redemption fees that may apply (usually if you have held the fund units for less than 90 days). Fund units that are subject to redemption fees are determined based upon the "first in, first out" (FIFO) method, where shares bought first are redeemed first, and those bought last are redeemed last.

When re-contributing and buying mutual fund units, keep in mind that the fund may have minimum purchase requirements on a one-time or monthly-purchase basis.

Next steps: If you are looking to make the most of the TFSA, whether that's on the withdrawal or contribution side, professional advice can be invaluable. Let's talk soon.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

401NBF-FF-FALL2020