



Portfolio Strategy

The V-shaped recovery in the stock market since March lows has led many to question the sustainability of the advance. Given the unprecedented collapse in the market due to COVID-19, which was quickly followed by unprecedented fiscal and monetary stimulus, it is possible that the market will avoid retesting recent lows (which has historically been the pattern). Significant economic risks remain, of course (a resurgence in U.S./China tensions in particular), and the market will not go up in a straight line, but it is also unlikely countries “re-shutter” their economies if a second wave materializes, since virtually no country can afford this economically. On another positive note, JP Morgan research notes that virtually everywhere, infection rates have declined (not increased) after reopening, even after allowing for an appropriate measurement lag. In May, equity markets in both Canada and the US continued their recovery, generating strong gains.

In fixed income, markets have settled down after seeing significant volatility in previous months. In our fixed income portfolios we have reduced our exposure to preferred shares, selling our positions in 3 different securities. With the proceeds we are reviewing investments and plan to invest shortly.

We made a number of equity purchases during the month including Activision Blizzard (a video game content provider), Metro Inc., Abbott Labs and a global gold company index. With the results of our activity during the month of May, on an asset mix basis, we are overweight cash, underweight fixed income and relatively neutral on equity exposure.

Looking Forward to Life’s Milestones

Life is a highway, with each of us choosing our own unique path. Your personal journey will be shaped by the decisions you make during significant milestones, and how you navigate through the detours you may be faced to take along the way. As a result, it’s important to understand how to deal with some of life’s milestones. Please see attached to ensure you’re better prepared to navigate your way through these important crossroads.

As always, if you have any questions, please do not hesitate to contact us.

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Looking Forward to Life's Milestones

Life is a journey, with each of us choosing our own unique path. Your personal journey will be shaped by the decisions you make during significant milestones, and how you navigate through the detours you may be faced to take along the way. As a result, it's important to understand some of life's milestones to ensure you're better prepared to navigate your way through these important crossroads.

So, what qualifies as a major milestone? This is subjective and will depend on your personal priorities and the direction you want your life to take. Further, what may be considered a major milestone for you may not hold the same significance to someone else.

Milestones are generally considered to be markers or touchpoints in life, and have traditionally included events such as graduating and starting your career, getting married, buying your first home, and retiring. However, as social norms continue to shift, these traditional events are no longer considered universal. Today, people may favour living together in lieu of marriage, decline the pursuit of a formal education, elect not to buy a house, or may continue to work well after the traditional age of retirement. Regardless, while many traditional milestones are changing, there are still some that can be considered common to most people.

Major milestones

Generally, the first of many major milestones begin during the teen years. And, while many of these major milestones may occur just once, they may also happen several times in a lifetime. Further, they won't necessarily happen in the order listed below and may not directly affect you, but may impact someone close to you – such as a child, family member, or close friend – or indirectly affect you, either emotionally or financially. The following are some of life's potential major milestones:

- Graduating from high school, post-secondary program and/or graduate school;
- Acquiring your first full-time job, getting a promotion or changing careers;
- Moving out, buying your first home, or upsizing/downsizing your current home;
- Becoming engaged, married/common-law, divorced or widowed;

- Becoming a parent/guardian or grandparent;
- Starting a business; and
- Retirement.

We may look forward to certain milestones with optimism because they give us meaning and direction, while others will cause us to reconsider our choices. Regardless, they all merit forward thinking and financial preparation to make sure they do not cause undue stress.

Because the milestones listed above generally have a financial planning component associated with them, having a financial plan helps connect these milestones to financial goals, and can also provide a safety net. A financial plan that outlines how to address these milestones from a financial perspective provides clarity and peace of mind, and the ability to confront them head-on with confidence.

In this article, we start by focusing on milestones that generally occur earlier in life when an individual is just starting to make their own way in life, and then cover milestones that may occur at different stages in life, but do not happen in any specific order.

Starting out

We typically think of starting out as leaving home to pursue a post secondary education or acquiring your own place to live. Leaving the family home is often filled with mixed emotions. While there may be excitement in this new-found independence, you may also be apprehensive or nervous about striking it out on your own; questioning whether you are ready to fully support yourself without the comfort and security that the "family home" provided.

Living independently is a great opportunity to learn about responsibility, budgeting and debt management. Earning and spending your own money teaches you about yourself and your

values, and will have a direct impact on how you manage future milestones you experience. Specifically, learning how to prioritize your financial responsibilities is an important first step to a healthy financial future, and includes paying for living expenses, managing debt, starting an investment plan, and building an emergency fund to cover unexpected expenses.

A budget that helps you manage your money is a useful tool at any stage, but is especially important when you're starting out because it reinforces important financial behaviours. A budget will help you determine how much money you earn, spend and save. You should first budget for necessary expenditures such as housing, food, clothing, entertainment and any debt obligations. You should also set aside funds for savings goals such as travelling, buying a car or a down payment for a home. Developing a forced savings plan prevents getting into the habit of overlooking the need to save, or considering it only when you have money left over after covering and paying all necessary and discretionary expenses. Finally, if your budget confirms that you don't have enough to cover all your necessities and discretionary expenses, you may have to reduce spending on things that you want, but can live without.

Milestones across the ages

At any stage in life, you may encounter one, or more, of the many major milestones. The following discusses several of these common, major milestones, and provides financial tips to consider, or that merit seeking advice from your BMO financial professional.

Living together (married or common-law)

Living together can be a mutually exciting and fulfilling experience, providing companionship and the ability to share resources for managing household expenses. But, it also requires compromise, partnership, and tolerance from both individuals to ensure success.

In Canada, there are two types of relationships that are legally recognized: marriage and common-law, for both opposite and same-sex couples. Although being married and living common-law share certain similarities, there are also important differences depending on the province in which the couple resides. The differences include whether or not property rights can arise in a common-law relationship and whether support obligations may be required.¹ Quebec law recognizes three

different spousal arrangements: De Facto Unions (i.e., common-law); Civil Unions; and marriage. You should consult with your legal professional about specific rights and obligations under each arrangement.

When making the decision to enter into one of these relationships, you may want to give thought to the following, in addition to other personal considerations:

- What are the differences between being married and common-law?
- What is a prenuptial agreement, cohabitation agreement and marriage contract, and do you need to prepare one?
- How should ownership of property, savings and investments be structured?
- How will living together affect your financial situation, income taxes and financial goals?
- Do you need individual insurance coverage?
- What will your consolidated financial plan look like?
- What would happen in the case of a death or breakdown in the relationship, depending on the type of relationship you're in?
- Do you need to have, or to update your Wills or Powers of Attorney (called "mandates" in Quebec)?

Finding a home (renting or owning)

Your home is your castle. How you choose a home – whether you rent or own – includes considering the size, location, your budget and lifestyle to ensure it supports the needs and priorities of you and your family. These may revolve around building your career or business, securing the best education for your children, or transitioning into retirement.

An important question is whether to spend a significant portion of your earnings on rent, or "invest" your money in the purchase of your own home? While buying a home may seem exciting, you don't want to end up being asset rich and cash poor. The cost of home ownership includes not only mortgage payments but property taxes, home insurance, maintenance, utilities and more.

Your BMO financial professional can help you review your personal situation to determine whether renting or buying is the right strategy. Before speaking, you should consider the following:

- Do you need a real estate agent, and how can you find one?
- Where should you start looking for a home?

¹For taxation purposes, the Income Tax Act ("ITA") defines that common-law status commences after one year of cohabitation. Although common-law couples can take advantage of the same tax planning strategies as do married couples, their respective property rights may not be the same as those of married couples. Since the ITA is a federal statute while succession law and family law governing spousal property and support rights are under provincial statutes, the estate planning implications of common-law spouses must be considered provincially.

- How do you confirm how much you can afford to spend?
- How should you finance your new home?
- What is the Home Buyers' Plan?
- What type of insurances do you need if you own a home?
- How will home ownership affect your long-term financial plan?

Becoming a parent

Whether you're having your first child or adding to your family, you'll need to be prepared. In addition to setting up the nursery and stocking up on diapers, it's important for parents-to-be to get their finances in shape before the new baby arrives.

Priorities may shift with the upcoming arrival, so you may want to adjust your spending to accommodate for a potential drop in income resulting from a maternity or parental leave, as well as extra expenses such as child care.

It might make sense to make adjustments now, and save the difference to give your finances a boost before the baby arrives. There are a few things you should consider, both before and after your child arrives.

Before your child arrives:

- Take control of any outstanding debt before your expenses increase;
- Set up a savings plan to pay for costs associated with having children;
- Discuss maternity and parental leave options with your spouse or partner, and apply for them promptly;
- Review your employer's maternity and parental leave benefits program; and
- Request a Record of Employment from your employer to apply for Employment Insurance ("EI") benefits.

After your child arrives:

- Apply for a birth certificate and register your child's birth;
- Apply for your child's Social Insurance Number ("SIN") and health card;
- Review your insurance coverage to ensure your child's needs are properly covered;
- Open a Registered Education Savings Plan ("RESP") to save for their post-secondary education; and
- Write or update your Will, ensuring you name a guardian for your child.

Embarking into entrepreneurship

If you're thinking of starting a small business, you'll need to be totally dedicated to this endeavour, because it will require

a serious commitment, both personally and financially, to be successful. For most start-ups, a well thought-out business plan can help turn your vision and capital into a viable business. It's also essential for attracting support, providing direction, and securing financing from lenders and investors. Preparing a business plan forces you to think about everything involved in opening and running a viable business. The plan should cover all aspects of the business, including: sales, marketing, production, competition, customers, employees, and financial requirements. When you consider as many moving parts as possible in your business plan, you're less likely to miss any key factors and can identify key issues before they become a problem. Here are some key considerations when contemplating starting a business:

- What is the purpose of your business, and what makes it a great idea for starting a business?
- Are you taking on a partner, or starting the business independently?
- How will you finance the start-up of your business?
- What products or services will you offer, and how will you market them?
- Who are your customers and suppliers?
- What is the state of the local economy, and what are the projected growth rates of the market in which you are entering?
- Who is your competition and how do you plan to win business?

Transitioning into retirement

Your transition into retirement will mean a change in lifestyle. To ensure you're prepared, it's important to review your overall financial situation and personal goals in advance. As retirement can potentially last 20 to 30 years, consider every detail of your retirement, including: where you plan to live, travel plans, how you plan to spend your retirement, whom you'll spend your retirement with and, if you're a business owner, whether you plan to stay engaged with the business. The following tips will help you embrace retirement confidently:

- Discuss your plans with loved ones, especially those you plan to spend a lot of time with;
- Determine your sources of income from savings, investments, property, and government and employer pensions;
- Assess whether your investment objectives will need to change in retirement;
- Determine what your retirement will cost you, and which expenses will increase, decrease or stay the same;

- Ensure you understand how different sources of income are taxed, and how to minimize taxes and preserve age benefits and credits;
- Make sure your Will, Powers of Attorney and beneficiary designations are up-to-date;
- Determined your eligibility and coverage for health and dental benefits, insurance and employer discounts or benefits once you retire; and
- If you're a business owner, begin transition planning for your exit from the business at least three to five years before retirement or semi-retirement, if you intend on remaining involved with the business in some capacity.
- Make any necessary updates to your estate and/or retirement plans;
- Confirm any tax implications of becoming a retiree or 'empty nester;' and
- If you're a business owner who will remain involved with the business during retirement, it's important to have a succession plan in place in case you unexpectedly become unable to continue functioning in the business, or if funding your retirement will be dependent on selling the business, transferring it to a successor, or winding it up and selling the assets. A succession plan should be in place well in advance to ensure the readiness of a successor or to take advantage of the right market conditions to sell the business or assets.

Retirement and 'Empty Nesters'

Retirement can be exciting, but may also be a stressful time. Each person has their own vision of what they want to do in retirement, but may be concerned whether they will be able to do what they envision, and whether their money will last as long as they need it to. Whatever your plans, to make the most of your retirement it's important to stay physically and mentally active so you can enjoy fully your golden years. For many, retirement also means you'll become an 'empty nester.' While it may be sad to have your children leave the family home, it also presents opportunities. Here are some retirement tips for consideration:

- With increasing life spans – stay active, involved and eat healthy;
- Don't live beyond your means – maintain a budget and emergency fund for the unexpected. Determine how the budget may be impacted if your children are gone, or they still need some support;
- Ensure your investments keep up with inflation – you can still benefit from investing some of your money in long-term investments;

Conclusion

Milestones are events that involve change and a need to make decisions in order to move forward in your life. They may be long-term goals that you've successfully reached, or events that make you anxious. In either case, preparing and planning financially for these milestones can enhance the excitement and provide peace of mind to any feelings of uncertainty and unpreparedness.

It's also important to consider which milestones are most important to you, and which events you are looking forward to the most, or least. Once you have identified these milestones, speak to your BMO financial professional to make sure you're prepared and have a comprehensive financial plan in place to manage through these milestones with confidence.



For more information, speak with your BMO financial professional.



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