Investment Insight

The Unprecedented Speed of Change

If there's a common theme to characterize 2020, it is that change can happen at an unprecedented speed. While we experienced the fastest bear market in history in March, this was quickly followed by one of the strongest quarters for equity markets, despite what was happening on the ground. This was largely attributed to the remarkable speed and magnitude by global policymakers to provide stimulus.

The increasing speed of change continues to be driven by technology. Through the pandemic, it has helped to keep economies from completely shutting down. This has changed the way we live, from adapting daily activities of work and play to the confines of our homes.

Covid-19 has also accelerated a trend towards deglobalization, exposing the vulnerabilities of being over dependent on global supply chains. The U.S. has been increasingly vocal about protecting its national interests. U.S. Secretary of State Mike Pompeo opened a new chapter in global tensions when he declared that free nations should be concerned with China's Communist Party: "distrust and verify."

Have we seen the worst from the spring economic shutdowns? There has been some optimism as short-term economic data has been "less bad" than expected. Canadian retail sales rebounded over the summer. Even unemployment figures released were better than anticipated.

However, we are confronted by continuing challenges. We have yet to defeat the virus, though the race to finding a successful vaccine continues. What will drive economic recovery? How will we acclimate to high levels of national debt? Given the prevailing uncertainty, gold has hit all-time highs. South of the border, the value of the U.S. dollar has been falling. Moreover, U.S. containment efforts have been slower than expected, hampered by social and civil unrest. With just weeks until the presidential election, all eyes will be on the U.S. as a change in leadership may be imminent.

During periods of extreme change, it is more important than ever to take advantage of professional advice in managing financial assets. Investing requires shifting gears on a continuous basis, particularly in assessing new situations. Fast-moving markets can mean additional risks, so careful review and monitoring of investments is vital. Balancing portfolio exposure to account for the many risk factors and potential economic outcomes can ensure that investing for the long term remains a profitable strategy. We continue to harness these inevitable changes so that your investments continue to work for you.

In This Issue

Quinn+Cardy Wealth Management
BMO Nesbitt Burns

Jelena Milivojevic, Geoffrey Cardy, Meredith Roberts, Joe Quinn

To Our Clients:

After many difficult months, the return of cooler and shorter days reminds us that the end of year is fast approaching. Before year end, there may be actions to take to support your 2020 tax position, including RESP contributions, tax-loss selling or charitable donations. Think about them now and call if you require support.

Of the many challenges, Covid-19 has created an environment of rapid change. We continue to work tirelessly to support your investments in these changing times. During this Thanksgiving season, we extend our thanks for your confidence in our services.

Estate Planning: Looking Beyond the Will

The health-related consequences of Covid-19 have prompted many to contemplate the importance of estate planning. While creating and updating a Will is an essential part of preparing for when we are no longer here, an area often overlooked is how things will be managed while we are alive but unable to provide direction. Without properly documented instructions, there may be the potential for family disputes during stressful times. In some cases, a family may have to apply to the courts or have someone appointed as guardian to manage both personal care and property — a potentially lengthy and costly process. As such, the following should be considered in addition to your Will:

Power of Attorney for Personal Care and Property — Do you have a plan in place to support you in the event you are unable to speak for yourself? One of the most important aspects of planning for incapacity is to identify substitute decision makers you trust to make financial and/or healthcare decisions on your behalf. They are often called an "attorney."[1] Having this document in place generally allows the attorney(s) to make decisions if you cannot act for yourself. Generally, you are able to appoint a different attorney for Power of Attorney for Personal Care and Power of Attorney for Property.

Advanced Directive — What kind of care would you want to receive if you were unable to communicate? Our current crisis has led to the question of whether an individual would want to use a ventilator for life support. In provinces where applicable, this document provides

specific medical or lifestyle decisions to clearly indicate your wishes and provide guidance to your substitute decision maker.

Other Considerations

Beyond a Will and Power of Attorney documents, there may be other documentation to consider. Beneficiary designations for registered plans[2] and beneficiaries of life insurance should be kept updated and revisited from time to time. The arrangement of assets, such as the use of joint ownership with rights of survivorship (not applicable in Quebec), may also be a consideration as, depending on the circumstances, it may help with the transfer of assets.

Estate planning goes well beyond a Will. As estate planning is governed by provincial legislation, it is important to consult local legal and estate planning experts to ensure your Will and Power of Attorney documents reflect your intentions.

Notes: 1. The name, terms and conditions of the Power of Attorney document vary by province (e.g. known as a mandatary in Quebec); 2. In Quebec, the designation may have to be done using a Will.

Year-End Tax-Planning Checklist

It's only autumn, but this is a good time to be thinking about your financial affairs in preparation for the year end. December 31st is the deadline for many tax and pension-related activities. As you consider the opportunities to best position yourself, here are some ideas:

Capital Gains/Losses: Consider realizing capital losses to offset realized capital gains for 2020, or take advantage of the carry-back rules to recover taxes paid on taxable capital gains realized in three preceding taxation years. There may also be opportunities to transfer capital losses between spouses. In order to do this, please get in touch well before the end of the year.

Income Splitting: There are various ways to split income. For example, you may pay reasonable salaries to spouses for services provided to your self-employed business or private company. You may elect to split eligible pension income with a spouse on your tax return. With interest rates at low levels, income splitting with a spouse may also be achieved by way of a prescribed rate loan. A tax advisor can provide the best options available to you.

RRSP Contributions: Why wait until the last moment if you are planning to make Registered Retirement Savings Plan (RRSP) contributions for the 2020 year? Remember, you will still be able to contribute until 60 days after the calendar year to impact 2020 taxes.

RESP Contributions: If you have a Registered Education Savings Plan (RESP), consider making a contribution before year end. While this won't impact your 2020 taxes, you may benefit from the Canada Education Savings Grant for 2020.

Charitable Donations: Make eligible charitable donations before December 31st to benefit your 2020 taxes. Remember that gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for its fair market value, but also eliminates the associated capital gains tax.

RRSP Conversion: If you turned 71 this year, make sure to collapse your RRSP. Consider making a final RRSP contribution, as this must be done by year end and not the usual March 1, 2021 deadline.

Pension Income Tax Credit: If you're at least 65 years of age and don't have eligible pension income, consider purchasing an annuity or opening a small Registered Retirement Income Fund before year end to claim the federal pension income tax credit. Eligible pension income may also be split with a spouse on a tax return.

Many of these actions require planning, so don't wait until it's too late. For further assistance, please contact us and, as always, seek advice from a tax professional.

How Does Quantitative Easing Affect the Markets?

Given the rebound of equity markets after the March lows, many investors have been asking how quantitative easing (QE) has played a role. Here are some answers to your QE questions:

What is QE? In order to support economies, policymakers can engage in fiscal or monetary policy. Fiscal policy refers to government spending and tax policies. Monetary policy is used by central banks to control the supply of money. Traditionally, this has involved changing the key interest rate: i.e., lowering rates reduces the cost of capital and entices businesses and consumers to borrow more, increasing the money supply. However, as interest rates have approached near-zero levels, more unconventional approaches like QE have been required. With QE, the central bank purchases financial assets from financial institutions and issues credit to their reserves, thereby increasing the money supply.

During the 2008/09 financial crisis, the U.S. Federal Reserve began its first foray into QE, purchasing over $4 trillion of government bonds until 2014. Today, it has expanded its QE efforts to include mortgage-backed bonds, corporate bonds and municipal bonds. The Bank of Canada began its first-ever move into QE this past April.

How does QE affect equity markets? There are various reasons why QE is said to be supporting equity markets. When central banks purchase government and other bonds, yields are pushed down, reducing the return on these safer assets. Investors may look further along the risk curve, such as to equity markets, in search of greater returns. QE and other stimulus also increase liquidity and the money supply, which may flow into equity markets. Stimulus actions have also provided confidence to investors that central banks will continue to support economies through difficult times. Some market analysts contend that this has led to artificially-inflated asset prices.

What does it mean for your portfolio? In some ways, the actions taken by central banks have changed certain historical assumptions about the financial markets. This may be why there are differing opinions of what is yet to come. Is inflation imminent? Some argue that stimulus actions have put excess funds into economies, which is inflationary. If the world moves towards deglobalization and supply chains exit China, higher production costs will likely lead to higher prices. Many central banks also want moderate inflation. Inflation worries may explain the increasing interest in gold and cryptocurrencies.

Yet, when QE ended in 2014, many economists expected to see a substantial rise in inflation. This never occurred and the stock market advanced in the years that followed. It remains unclear exactly what happens to equity markets upon the departure from low interest rates and easy money from central bank policy. Eventually, economies will need to acclimate to significant levels of debt, the consequences of which are yet to be seen.

However, one reason for investors to maintain confidence is that well-constructed portfolios use asset allocation and diversification, not just across different asset classes but also risk factors, to help mitigate risk. This involves balancing portfolio exposure to account for the ongoing uncertainty and potential economic outcomes over the near term. Another reason? Being invested. Participation is key to generating returns for the longer term. History has shown that even the worst periods of retrenchment have been followed by times of economic growth. This time is likely no different.

The Continuing Case for Diversification

Uncertainty has always played a common role in the financial markets, but due to Covid-19 the path forward may feel particularly uncertain. In these times, diversification remains an important element of portfolio construction. The chart shows the performance of select asset classes/geographies over time (in C$). Here are some observations, which provide the case for diversification:

- No single asset class consistently performs at the top. A diversified portfolio can give access to the best performing asset classes every year.
- As we have seen with Covid-19, industries, sectors and even entire asset classes can fall out of favour, sometimes with little warning. Diversification can help to protect from the downturns that may affect asset classes at different times.
- There is often a large gap in performance between the best and worst performing asset class. Diversification helps to smooth out performance returns within a portfolio.
- Markets change, and so does your portfolio. This is why rebalancing on a periodic basis is important, to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes, Best to Worst: 2010 to 2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canadian Equities 17.61%	U.S. Bonds 10.59%	EM Equities 15.61%	U.S. Equities 41.27%	U.S. Equities 23.93%	U.S. Equities 21.59%	Canadian Equities 21.08%	EM Equities 28.26%	U.S. Bonds 8.92%	U.S. Equities 24.84%
EM Equities 12.67%	Canadian Bonds 9.67%	Int'l Equities 14.72%	Int'l Equities 31.02%	U.S. Bonds 15.39%	U.S. Bonds 20.46%	U.S. Equities 8.09%	Int'l Equities 16.82%	Global Bonds 7.70%	Canadian Equities 22.88%
U.S. Equities 9.06%	Global Bonds 8.26%	U.S. Equities 13.43%	Canadian Equities 12.99%	Canadian Equities 10.55%	Int'l Equities 18.95%	EM Equities 7.34%	U.S. Equities 13.83%	U.S. Equities 4.23%	Int'l Equities 15.85%
Canadian Bonds 6.74%	U.S. Equities 4.64%	Canadian Equities 7.19%	U.S. Bonds 4.60%	Global Bonds 9.65%	Global Bonds 16.15%	Canadian Bonds 1.66%	Canadian Equities 9.10%	Canadian Bonds 1.41%	EM Equities 12.43%
Int'l Equities 2.13%	Canadian Equities -8.71%	Canadian Bonds 3.60%	Global Bonds 3.94%	Canadian Bonds 8.79%	Canadian Bonds 3.52%	U.S. Bonds -0.80%	Canadian Bonds 2.52%	Int'l Equities -6.03%	U.S. Bonds 3.37%
U.S. Bonds 1.24%	Int'l Equities -9.97%	Global Bonds 2.01%	EM Equities 3.93%	EM Equities 6.63%	EM Equities 2.04%	Global Bonds -1.45%	Global Bonds 0.34%	EM Equities -6.87%	Canadian Bonds 2.81%
Global Bonds 0.04%	EM Equities -16.40%	U.S. Bonds 2.01%	Canadian Bonds -1.19%	Int'l Equities 3.67%	Canadian Equities -8.32%	Int'l Equities -2.00%	U.S. Bonds -3.18%	Canadian Equities -8.89%	Global Bonds 1.44%

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GRI; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMX Canada Universe Bond Index; US Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; US Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.

A Closer Look at Market Performance: The S&P 500 Index

Those of us who follow the markets on a regular basis have watched as the major indices have climbed from the lows experienced in March of this year. Over the summer, the S&P 500 surpassed its previous record closing high set back in February, prior to the pandemic. What has driven this performance?

A closer look at the S&P 500 over the first half of 2020 shows that the biggest companies by market capitalization have had the best returns. This has helped to drive overall performance of the index. While the median stock in the index was down by 11 percent at the mid-point of the year, the index was only down by around 4 percent.[1]

The S&P represents about 80 percent of the market value of the U.S. equities market so it acts as a relatively good reflection of U.S. equities. However, it is weighted by market capitalization (the share price multiplied by number of shares outstanding) so a higher market capitalization will have a greater impact on the movement of the index. In fact, the top 10 stocks make up more than a quarter of the S&P 500 market value.[2]

Many portfolios may not be performing at the same level as the index, and this is not unexpected. As the pandemic is far from over, economies have a ways to go to return to normal levels. The current challenges we are facing are reflected in the price of many securities. As the economic situation improves, many are expected to recover.

Portfolios also use diversification to help protect from risk. The largest stocks driving index gains in the first half of the year were largely in the technology sector — which has fared well throughout the pandemic. However, in any given year, the best and worst performing sectors, or even asset classes, often rotate. Without diversification, a portfolio may have the prospect of really fantastic returns, but it also has the risk of poor returns.

S&P 500 Median Year Results: Jan. to July 2020

Company Rank*	Market Cap*	P/E Ratio	YTD Returns
Top 10	$848.5 B	31.4	9.6%
Top 50	$198.7 B	28.7	2.4%
51-100	$77.6 B	26.0	-5.7%
101-150	$49.5 B	22.9	-1.9%
151-200	$30.5 B	26.4	-6.7%
201-250	$24.6 B	24.4	-9.3%
251-300	$20.2 B	23.2	-5.5%
301-350	$14.9 B	23.9	-8.5%
351-400	$11.8 B	22.1	-17.6%
401-450	$8.9 B	13.3	-22.6%
451-505	$5.1 B	13.9	-38.5%

*Based on market capitalization: price x outstanding shares from January 1 to July 3, 2020. Source: awealthofcommonsense.com/2020/07/explaining-the-2020-stock-market/

There may also be opportunities for those investors looking to add positions to their portfolios. The aggressive rebound of the largest equities is a good reminder that care should be taken in assessing the price paid for any security. Yet, with many equity prices below their highs, there may be quality opportunities to be found with stocks that have been temporarily underperforming.

At the end of the day, investing requires the understanding that financial markets will fluctuate in the short term and the patience to see this through.

1. S&P 500 Index closing values, 1/1/20 to 7/3/20; 2. spglobal.com/spdji/en/indices/equity/sp-500/

With the compliments of...

Joe Quinn
Vice President, Portfolio Manager
416-359-5812
joe.quinn@nbpcd.com

Geoffrey Cardy
Portfolio Manager
416-359-5599
geoffrey.cardy@nbpcd.com

Meredith Roberts
Associate Investment Advisor
416-359-4797
meredith.roberts@nbpcd.com

Jelena Milivojevic
Administrative Assistant
416-359-4456
jelena.milivojevic@nbpcd.com

BMO Nesbitt Burns Inc.
1 First Canadian Place
38th Floor, P.O. Box 150
Toronto, Ontario M5X 1H3
Toll Free: 1-800-263-2286
Fax: 416-359-5346
www.quinncardy.com

BMO Wealth Management
BMO Nesbitt Burns

Quinn+Cardy Wealth Management