

Investment Insight

Balancing Perceptions

When Tiger Woods won his fourth Masters Tournament in the spring, he ended an 11-year drought, creating not only a moment that went down in golf history, but also a lesson in unpredictability. Indeed, it is challenging to predict what will happen and when, and this applies not only to golf.

This unpredictability extends to current financial climates, with the extended bull market run being unexpected by many. Despite sluggish economic conditions, the first four months of the year saw equity markets on an upward trajectory. But these are unprecedented times. Never before have central banks held rates at low levels for such lengthy periods. While the role of a central bank is not to stabilize markets, the markets have been calmed by decisions to hold interest rates steady.

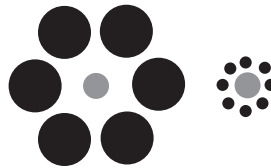
There are many ways in which investing mirrors the game of golf. "High percentage" golfers always consider the risks versus return before playing any stroke. Likewise, a well-constructed portfolio takes into account the same types of factors. Investing, like golf, is a game of patience and persistence, filled with many mental challenges.

One challenge that can affect golf performance is the impact of perception.

Those familiar with the inset optical illusion know that the middle circles are exactly the same size. Psychologists at Purdue University used this illusion in a putting green to make a golf hole appear larger or smaller by projecting circles of light around it. When people perceived the hole to be smaller, they were less successful in putting.

Similarly, perceptions can drive investor behavior. Are there ways in which you allow outside perceptions to influence the way you invest? For instance, are you quick to compare portfolio gains to those of today's market darling, without considering quality, risk or diversification? Or, during volatile times, do negative media reports tempt you to make changes instead of allowing a portfolio the time to grow?

The discipline and patience needed to putt a birdie may be something we can apply to our own investing style. Bringing this sharpened focus is a great step toward mastering our own plans. Stay the course and pursue your game plan with confidence and persistence. Fore!



Quinn+Cardy Wealth Management

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To Our Clients:

The breakdown of U.S./China trade talks in the spring brought volatility back to the equity markets. It is worth repeating that volatility plays a common role in investing. Consider that almost 60 percent of annual returns on the S&P/TSX Composite Index have been year-over-year changes (gains/losses) greater than 10 percent. Corrections are a normal part of the markets and staying invested is important.

Here's to many days filled with sunshine. Have a relaxing summer!

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Federal Budget Recap: Something for the Young & Old

In late March, the federal government tabled their final budget prior to the election in October. While it was a collection of many different initiatives, here are some changes worth noting that may impact you or your loved ones. Specifically, these proposals target the young and the old.

The Young: Housing Affordability

While many children may be hoping for support from the bank of mom and dad when purchasing a home, if this isn't part of your financial plan, the budget may offer some relief in two initiatives:

First-Time Home Buyer Incentive — A qualifying first-time home buyer with household income under \$120,000 per year may be entitled to receive incentives of up to 10 percent of shared equity on a newly constructed home (5 percent on an existing home). No monthly ongoing payments are required but the buyer must repay the shared equity mortgage upon re-sale of the home. The participant's insured mortgage and the shared equity amount cannot be greater than four times annual household income. The program is expected to begin in September.

Home Buyers' Plan (HBP) — As of March 20, 2019, the available withdrawal limit under the current HBP is proposed to increase to \$35,000. Under the current rules, a first-time home buyer can withdraw \$25,000 from their Registered Retirement Savings Plan (RRSP) on a tax-free basis. Access will be extended to those who experience a breakdown of marriage or common-law partnership, even if they do not meet the first-time home buyer requirement.

Seniors: Retirement Support

There was also some good news to help seniors in retirement:

Automatic CPP Enrollment — Starting in 2020, Canada Pension Plan (CPP) contributors who are 70 years old or older will be automatically enrolled to ensure they are receiving their benefits. Currently, an application must be launched in order to receive benefits and some have missed out because they apply late or not at all.

Advanced Life Deferred Annuity (ALDA) — Currently, an annuity purchased with registered funds must commence annuity payments by the end of the year that the holder reaches age 71. The budget proposes to allow up to 25 percent of a registered holding* to be used to purchase an annuity that begins payments at the latest by the end of the year in which the holder turns 85, for a lifetime maximum of \$150,000 (indexed to inflation). This may present a tax-deferral opportunity, allowing retirees to keep more money in their registered plans for longer, and may support those who are worried about outliving their retirement income.

Improved GIS — For low-income seniors, the budget proposes to increase basic earnings exemptions to \$5,000 per year (from the current \$3,500) for Guaranteed Income Supplement (GIS) benefit eligibility beginning with the July 2020-21 benefit year. Earnings exceeding \$5,000 per year up to \$15,000 per year will receive a partial exemption.

For greater detail on Budget 2019, please get in touch.

*Including RRSP, RRI, Deferred Profit Sharing Plan (DPSP), Pooled Registered Pension Plan (PRPP), and defined contribution Registered Pension Plan (RPP). Note that at the time of writing, this initiative has not been enacted into legislation.

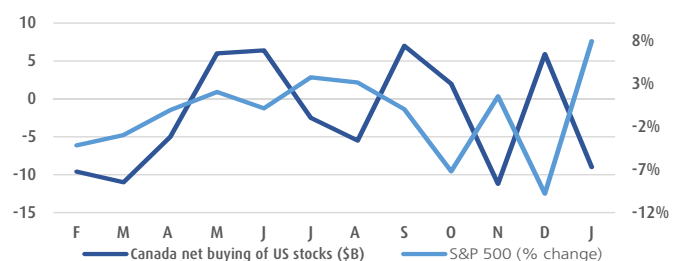
During Volatile Times, Sitting Still Can Be Difficult

During your summer vacation, are you looking forward to relaxing and doing nothing? For many of us, sitting still can be difficult. No more is this true when it comes to investing during periods of market volatility. After all, as humans we are hardwired to want to take action in times of vulnerability. We're all familiar with the phrase: "don't just sit there, do something!"

However, a recent Globe & Mail article highlighted that some investors may be their own worst enemies during periods of market volatility. During the equity market volatility we experienced in 2018, Canadian inflows and outflows into U.S. stocks lagged market performance (see chart). Investors put funds into investments after gains in the markets, lagging the market by about a month, and sold investments after market drops, resulting in performance chasing.

Timing the market is difficult because equity markets are largely unpredictable. Never has this been more true than with the most recent extended equity bull market run. For years now, many market commentators have been calling its end. Of course, there may be good reasons for selling securities, such as rebalancing to

Canadian-U.S. Equity Flows vs S&P 500: Feb. '18 to Jan. '19



Source: "Investors are their own worst enemies", Globe & Mail, T. Shufelt, 3/27/19.

restore asset allocation or taking gains after a long bull run. But if the decision to sell is simply in response to rises or declines in the market, many investors may be better off by just staying put.

Renowned investor Warren Buffett once described his investing style as "lethargy bordering on sloth." Perhaps there may be some good investing insight hidden in those restful summer vacation plans: go ahead, don't just do something, sit there!









Canada's Growing Household Debt Rate

Do Canadians have a growing debt problem?

Recent figures indicate that Canadians on average have a debt-to-income ratio of around 178 percent (Q3 2018).¹ This means that Canadians owe \$1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income (net of taxes).

According to the Organization for Economic Cooperation and Development (OECD), we place 8th in the developed world for high indebtedness.² Comparatively, when looking at our neighbours in the U.S., debt levels peaked at around 116 percent prior to the credit crisis of 2008, but are now under 90 percent.

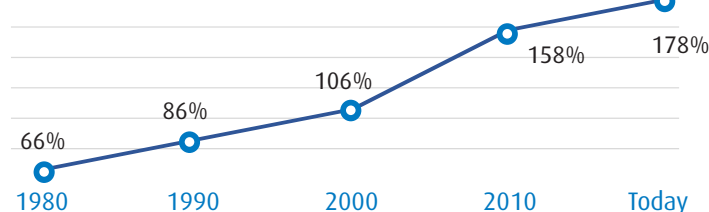
OECD: Top 8 Developed Nations by Estimated Household Debt*

1. Denmark		281%	5. Sweden		186%
2. Netherlands		243%	6. S. Korea		186%
3. Norway		236%	7. Luxembourg		183%
4. Australia		216%	8. Canada		181%

*% of disposable income; <https://data.oecd.org/hha/household-debt.htm>, at 04/19.

In Canada, the ratio has risen over the decades. Consider that just 30 years ago, household debt was only around 86 percent (see graph). Some have called Canada's rising debt figures disturbing, while

Growth of Canadian Personal Debt-to-Income Ratio³



others argue that this assessment might be overly harsh since the ratio lumps in those with significantly high mortgages (in cities like Toronto or Vancouver) and doesn't factor in a household's assets or the ability to pay off that debt load.

Regardless, Canadians (individuals, corporations and even the government) have never been so indebted and we face longer-term consequences as our debt will eventually need to be repaid. When interest rates start to rise, these debt obligations will become more costly. However, one reason why central banks have kept rates low is to encourage spending and stimulate sluggish economies. The paradox? Low rates make borrowing more affordable, and have pushed up housing prices, making us more indebted.

1. <https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036>; 2. OECD ranking 2018; 3. Source: Statistics Canada.

Less is More: Finding Zen in Your Finances

Marie Kondo, a Japanese organizational consultant, has developed an almost evangelical following by helping people transform their lives through decluttering. Beyond her seemingly complex folding techniques, one of the central tenets of her teaching is to keep only those belongings that "spark joy".

While we may not think of the everyday administrative aspects of our finances as sparking joy, there may still be a lesson learned from Kondo: Less can be more. Here are some tips to help you apply this practice to your financial life:

1. Consolidate accounts — Consider the benefits of consolidating multiple bank or investment accounts where possible. This can lead to better asset allocation, improved tax efficiency, easier administration, and no "orphan" accounts forgotten over time.

2. Set up a simple organizing system — If you don't yet have files set up for your paper documents, start by sorting through documents and creating broad categories, such as bank, mortgage, utility bills or contracts. Once you've checked for accuracy, create folders or storage for each set of papers.

3. Organize digital files — Paper clutter has evolved into electronic clutter. Similar to a paper organizing system, create folders and ensure consistency in naming digital files, such as "Account_YY_MM_DD".

4. Purge — Purge older and unnecessary paper documents on a regular basis by shredding to prevent identity theft. The Canada Revenue Agency advises keeping tax-related documents for six years. Archive older digital files to free up disk space.

5. Organize the way you transact — Be systematic about the way you make payments. Automate where possible to avoid late payment penalties. Organize payments to avoid missed payment due dates, such as requesting a change in credit card payment due dates to coordinate across various cards. Consider dedicating credit cards to certain types of purchases, such as one solely for online shopping. This can help to simplify cancellations in the event a card is compromised due to fraud.

6. Handle email more efficiently — Most people receive hundreds of emails each week and it isn't uncommon for emails to be missed, including important bills or notifications. Consider setting up an email account dedicated to your finances separate from one used to communicate with friends and family. This can help to free up a personal inbox or improve its security. Email filters can be set up to sort important emails, automatically filtering out those you are copied on or separating marketing material for reading at a later time. Unsubscribe to marketing emails that you don't read.

The Case for Using a Professional Executor

There is a degree of honour that comes when a person is asked to be an executor.* It often indicates trust in that person to settle affairs with good judgment after a person's death. While you don't have to accept the role of executor, there have been instances where someone may agree to take on the role, but then renounce the job when the time actually comes.

This is understandable. It isn't uncommon for many to realize the job is more than expected: it's not just about dividing assets. There are many responsibilities that will need to be carried out, often during a time of deep grief that may make it difficult for many to function. This can be further complicated by sensitive issues, challenging personalities and difficult family dynamics that can often emerge when settling an estate.

Another complicating factor is that we have become an increasingly transient society. Appointing an executor who resides in (or moves to) a different province, or country, can create issues for the estate or individual.

As such, there may be value in using a professional executor to help address these circumstances or to benefit from the following:

Impartiality — Where assets are involved, there is often emotion. An executor must be able to act as a mediator for any conflicts. A professional can provide true impartiality. Even in a seemingly simple family situation,

lifelong relationships can be destroyed. Add in additional conflicts, such as an estate with potential creditors, and the situation may be very challenging.

Ease of settlement — An executor is generally given one year to wind up the estate. It is a role that can add significant demands to an already busy lifestyle, especially if the executor isn't familiar with the process. Professional executors have dedicated time, expertise and the resources to settle an estate in an efficient manner.

Deep understanding — An executor is legally liable for errors in decisions that are made during the settlement process. For complex estates, such as where a business needs to be wound up, there may be value in having an expert take control to ensure that the estate is settled in the best possible way.

But what about the cost?

One of the main concerns in using a professional executor is the perceived cost. However, an executor (regardless of whether or not they are appointed or hired) is entitled to be paid for their efforts. Keep in mind that many professional executors offer graduated pricing in which the rate declines as the value of the estate increases.

Taking into consideration the time, emotion and complexities associated with settling an estate, it may be money well spent to consider a professional executor to manage the process.

*Also called estate administrator or liquidator, depending on province or territory of residence.

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