Wellington-Altus
Private Wealth

- INVESTMENT - INSIGHT

SUMMER 2020

Maili Wong
Senior Portfolio Manager, Executive Vice-President
778.655.2411
maili.wong@wprivate.ca

Terry Wong
Senior Investment Advisor
778.655.2409
terrence.wong@wprivate.ca

Cindy Liang
Senior Associate Investment Advisor, Associate Portfolio Manager
778.655.2412
cindy.liang@wprivate.ca

Elaine Lee
Administrative Associate
778.655.2415
elaine.lee@wprivate.ca

Lena Siu
Administrative Associate
778.655.2408
lena.siu@wprivate.ca

Jerald Choi
Associate
778.746.1851
jerald.choi@wprivate.ca

Miranda O'Shea
Associate
778.746.1865
miranda.oshea@wprivate.ca

1450 Creekside Drive, Suite 100
Vancouver, BC V6J 5B3
Office: 778.655.2410
Toll-Free: 1.833.500.1777
www.thewonggroup.ca

Wellington-Altus
Private Wealth

The Increasing Rate of Change

It has been said that "there are decades where nothing seems to happen and then there are weeks where decades happen." This spring was no exception. We have experienced change that occurred at unprecedented speeds, including physical distancing, home isolation and the voluntary shut down of economies. This led to equally unprecedented reactions: oil futures prices falling to negative levels and rebounding, entire industries being shut down, and record unemployment levels.

Equity markets reacted in a similar manner, falling and then rallying quickly. Typical bear market cycles last between 18 to 36 months. However, this past spring, we saw one that was compressed into a matter of weeks.[1]

Global policy responses have also been faster — and deeper — than ever. From the onset of the crisis, central banks have engaged in significant stimulus efforts in an attempt to stem the effects of the crisis. This increase in liquidity has likely been one reason why the equity markets advanced in April and May, despite what was happening on the ground.

What does the path forward look like? As humans, we grasp for certainty. Yet, uncertainty has always played a common role in the financial markets and unforeseen events such as these can make things even more unclear. One such example: economists attempting to quantify the effects of the shutdown on second-quarter gross domestic product predicted U.S. GDP estimates of between -8 and -50 percent.[2]

During these times of uncertainty, one of our most important roles as advisors is to manage risk. With a focus on preserving hard-earned capital, we maintain a disciplined approach to control risk in portfolios. At the same time, we are monitoring investments based on current market conditions and navigating the changing landscape.

In the near term, equity markets are likely to experience volatility as economic data and earnings continue to reflect the impact of the spring economic shutdowns. We face many near-term challenges as many economies start to reopen and attempt to return to a state of "normal."

As containment efforts continue, opinions are likely to significantly vary about the road ahead for the economy and the financial markets. We understand the challenges that come from an uncertain near-term outlook, but, as much as possible, investors should try to stay focused on their long-term goals.

We continue to work hard for you and your investments, managing risk during these difficult times and positioning portfolios for the inevitable changes that lie ahead. Please call if you have any concerns.

1. http://bloomberg.com/news/articles/2020-04-06/no-one-wants-to-call-canada-s-21-stock-surge-a-bull-market; 2. http://bloomberg.com/news/articles/2020-03-22/fed-s-bullard-says-u-s-jobless-rate-may-soar-to-30-in-2q

In This Issue

Consider the Merits of Dollar-Cost Averaging 2
What Comes After a Bear Market? 2
What is the Economic Path Forward? 3
The End of the Office Era 3
2020 Changes to RRIF Withdrawal Factors 4

INVESTING TACTICS & STRATEGIES

Consider the Merits of Dollar-Cost Averaging

As we have seen in recent equity market performance, short-term price movements can often be unpredictable and nobody knows when the next upturn will begin. Such turns can occur when the outlook is bleak — when the natural inclination may be to sell, not buy. In hindsight, all down markets look like buying opportunities. But in the moment, it is not always easy to commit money to an investment that has gone down in price.

During uncertain times, investors may find dollar-cost averaging (DCA) to be a useful technique. A DCA program mandates regular, more modest investments over time, rather than one major, lump-sum commitment. Here is why DCA can be so powerful:

Takes advantage of falling prices. As the amount of the investment is fixed each period, DCA automatically results in buying more shares or units of a fund when prices fall and fewer shares when prices are higher. Unless prices steadily increase, a DCA program may often mean you own more shares (or units) at a lower average cost (assuming the same investment is purchased).

Matches cash flow. DCA programs can often fit nicely with personal cash flow. It can be a forced way of saving on a steady basis. Payments can be made at any regular interval, such as monthly, quarterly, etc.

Offers flexibility. Should circumstances change, such as income being temporarily halted, the DCA program can be paused and resume at a later time.

Removes emotion. While the best time to buy stocks is when prices are low, it is often difficult to make a buying decision during down market times. With DCA, the buying decision has been predetermined. This helps take emotion out of the investment decision.

The example (chart) uses actual S&P/TSX Composite Index returns to depict a DCA program through an extended bear market period from 2000 to 2002. Each quarter, $1,000 was invested. Despite poor market performance, the DCA program resulted in a modest gain of $1,130 ($17,130 less $16,000), plus the ownership of significantly more units which benefitted the portfolio as time went on.

Had a lump sum investment of $16,000 been deployed at the beginning of 2000, it would have returned a small loss, with an overall value of $15,633 and only 1,902 units owned, compared to 2,084 units under the DCA program.

Profiting Through a Bear Market: Dollar-Cost Averaging Using the S&P/TSX Index, 2000 to 2003

Quarter End	Index/ 1000	Units Purchased	Units Owned	Total Value
12-99	8.4138	118.85	118.85	$1,000
03-00	9.4624	105.68	224.53	$2,125
06-00	10.1995	98.04	322.58	$3,290
09-00	10.3779	96.36	418.94	$4,348
12-00	8.9337	111.94	530.87	$4,743
03-01	7.6080	131.44	662.31	$5,039
06-01	7.7364	129.26	791.57	$6,124
09-01	6.8386	146.23	937.80	$6,413
12-01	7.6884	130.07	1067.87	$8,210
03-02	7.8515	127.36	1195.23	$9,384
06-02	7.1456	139.95	1335.18	$9,541
09-02	6.1804	161.80	1496.98	$9,252
12-02	6.6145	151.18	1648.16	$10,902
03-03	6.3433	157.65	1805.81	$11,455
06-03	6.9831	143.20	1949.01	$13,610
09-03	7.4211	134.75	2083.76	$15,464
12-03	8.2209	--	2083.76	$17,130

Note: Example only; past performance is not indicative of future performance.
Source: S&P/TSX Composite Index closing value on last day of quarter.

DCA can work with almost any investment program, but it works especially well with long-term accumulation strategies. Getting started is simple, so please get in touch for more information.

LONGER-TERM INVESTING PERSPECTIVES

What Comes After a Bear Market?

We have encountered many new situations in response to COVID-19 — isolation, physical distancing and economic closures globally — that have created uncertainties for the short term. Doomsayers cite these factors, and others, to suggest that this time is different and the current economic downturn will somehow last forever. However, economic cycles go up as well as down.

Equity markets are also cyclical. Bear markets happen from time to time. Yet, even in the worst situations, equity markets have turned their course. The worst bear markets in history have seen drawdowns of over -86 percent (1932) and -56 percent (2007). Yet, the average returns following some of the worst bear markets (chart, right) were 53 percent, 78 percent and 143 percent over the ensuing one, three, and five year periods, respectively. Although these positive returns came after the depths of the bear markets, history reminds us that time can heal even the worst market declines.

Forward Returns Following History's Worst Bear Markets — S&P 500 Index

Peak	Trough	Drawdown	1 Year	3 Years	5 Years
1929, SEP	1932, JUN	-86.2%	162.9%	170.5%	344.8%
1937, MAR	1938, MAR	-54.5%	35.2%	38.2%	84.5%
1968, NOV	1970, MAY	-36.1%	34.8%	50.6%	42.2%
1973, JAN	1974, OCT	-48.2%	38.1%	72.7%	117.5%
1987, AUG	1987, DEC	-33.5%	23.2%	55.5%	121.7%
2000, MAR	2002, OCT	-49.1%	24.4%	59.0%	105.1%
2007, OCT	2009, MAR	-56.8%	53.6%	98.0%	181.6%

Source: fortune.com/2020/03/19/coronavirus-stock-market-predictions-bear-market-stocks-bottom-what-to-expect/

While nobody knows the direction of the equity markets over the near term, the long-term trend has been up. In preparation, a disciplined approach emphasizing quality, diversification and a solid plan are expected to continue to serve us well over the longer term.

PERSPECTIVES ON THE ECONOMIC OUTLOOK

What is the Economic Path Forward?

It may be difficult to remember, but it was only months ago that we were in the midst of the longest economic expansion in history. How quickly things have changed. As a result, many investors are asking: what is the economic path forward?

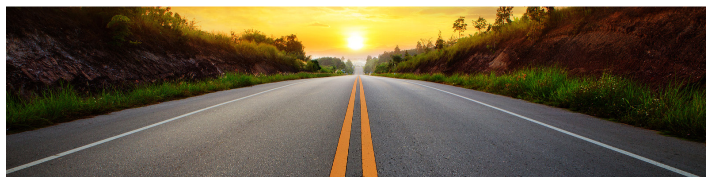
Beyond the terrible health consequences of the pandemic, the short-term economic effects have been equally extraordinary. We have seen individuals, companies and industries affected in adverse ways. COVID-19 has also helped to accelerate certain existing economic and political trends: increasing automation, greater scrutiny of foreign direct investment, nationalism and the evaluation of domestic supply chains. It has also magnified continuing U.S.-China trade tensions.

In the short term, we are likely to expect deflationary pressures due to high unemployment and reduced spending and consumption, as well as a weaker housing market, as economies begin to return to a more "normal" state. While certain media voices raised the potential for an economic depression when projecting unemployment levels and economic growth declines, these historic troubles were likely compounded by a series of poor policy decisions, unlike today.[1]

What is a Trillion? Unprecedented Stimulus...

We must not overlook the unprecedented support by global policy-makers in trying to minimize the implications of the crisis. Consider the U.S., where lawmakers have passed trillions of dollars in stimulus relief. To put the magnitude of one trillion into context, if we were to travel back in time by a billion seconds, we would be in 1989. However to go back a trillion seconds would take us to around 30,000 B.C.

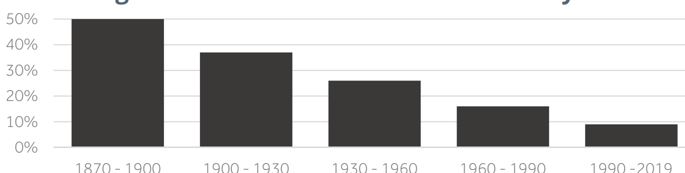
Many central banks have engaged in quantitative easing (QE), a form of monetary policy, by purchasing financial assets to inject money into economies. The Bank of Canada began its first-ever move into QE in April by purchasing $1 billion of government bonds. Alongside record-setting fiscal policy spending, increases in the money supply have not only helped to support asset prices, but also economies. For some economists, this is one reason to remain optimistic about the rate and sustainability of recovery. Of course, there will be new challenges as



a result of significant deficits and debt. There are also questions as to whether these efforts will be enough to help economies quickly recover.

However, economies naturally go through cycles and the speed of recovery from economic downturns has increased over time. Recessions occur when economic output declines after a period of growth. Our economy has spent less time in recession as technology has transformed it to be more service-based, and also due to increased central bank intervention.[2] A century ago, the economy was in recession nearly 40 percent of the time; today this is less than 10 percent.

Percentage of Time in Recession — US Economy[3]



While the longer-term implications of the crisis are less clear, let's not forget that after the financial crisis of 2008/2009, many economists worried about high rates of inflation and slower economic growth — both of which generally did not happen.[4] Instead we participated in one of the longest economic expansions of all time.

Throughout history, economies have continued to advance and progress. Despite the challenges ahead, there may be positive reasons to continue looking forward and maintain a longer-term perspective.

1. http://hbr.org/2020/05/the-u-s-is-not-headed-toward-a-new-great-depression?ab=hero-main-text; 2. https://cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_366_0.pdf; 3. Similar rate to Canada. Data prior to 1930 isn't readily available; https://nber.org/cycles.html; 4. Inflation rates did exceed central bank targets in 2011.

POTENTIAL CRA CHANGES COMING?

The End of the Office Era? Keep Good Records

Is the office era over? For many office workers, working from home became the new normal this spring. As such, some may be wondering if they are able to claim a tax deduction for home office expenses.

The Canada Revenue Agency (CRA) currently allows for a deduction in instances in which one of the following conditions is met: i) The workspace is where you mainly do your work (more than 50 percent of the time); or ii) You use the workspace only to earn employment income, and it is used on a regular and continuous basis for meeting clients, customers, or others in the course of your employment duties.

Deductible costs are based on the type of worker claiming the deduction: employees, commissioned salespeople or self-employed workers. Each of these groups is entitled to deduct different expenses. Expenses generally include such things as electricity, heating, maintenance and supplies. The portion that can be claimed is based on the area attributed to the home office, as a proportion of the total finished area of the home.

If individuals are not self-employed, in order to potentially deduct these expenses, your employer must complete ***CRA Form T2200: Declaration of Conditions of Employment***. Any expenses reimbursed by the employer, such as internet or office supplies, cannot be claimed.

While the current CRA rules normally require that you spend more than 50 percent of total work time in the home office during the tax year to claim deductions, some accounting professionals have indicated that there may be exceptions. Given the unprecedented circumstances in which people have been mandated to work from home, the CRA may consider cases on an individual basis, or may potentially make changes to its policies to address the current situation.[1] As such, it is important to keep good records.

For detailed information, please consult the CRA or seek advice from an accounting professional.

1. http://theglobeandmail.com/investing/globe-advisor/advisor-news/article-pandemic-led-flight-to-home-offices-brings-tax-perks/?fbclid=IwAR24-wttdbsJ4SfloK1d5gRR77hoUEYUyeBa0GshEy5s9oi23TXpheggZQc

Reminder:
2020 Changes to RRIF Withdrawal Factors

Back in March, the Federal Government reduced the 2020 minimum withdrawal amounts for Registered Retirement Income Funds (RRIFs) by 25 percent "in recognition of volatile market conditions and their impact on many seniors' retirement savings."[1]

As a reminder, the RRIF withdrawal factors are based on age. If you were 71 at the beginning of the year, under the existing rules you would be required to withdraw 5.28 percent of your RRIF in the year. For a RRIF with a value of $100,000 at the start of the year, the required withdrawal amount would be $5,280. With the changes made for the 2020 year, the withdrawal requirement would be $3,960, or 25 percent less.

Should Retirees Withdraw Less from the RRIF?

While the lower withdrawal requirement allows investments within a RRIF more time to potentially recover from a market downturn, there may be other opportunities for seniors who don't require RRIF income.

Consider, instead, transferring investments "in kind" from a RRIF to a Tax-Free Savings Account (TFSA), subject to available TFSA contribution room. While the withdrawal from the RRIF will be taxable (in the year of withdrawal), should investments recover, the TFSA will generate no taxable income on future withdrawals or investment income, unlike the RRIF.

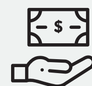
There may be an additional tax opportunity. For seniors who have a lower marginal tax rate today than they expect to have in the future (including at death), drawing RRIF income above the minimum levels may be a way to potentially lower an overall lifetime tax bill. RRIF withdrawals will be taxed at the current, lower tax rate, instead of at a higher anticipated future marginal tax rate. If these funds are invested in a TFSA, any future gains will not be subject to the higher future marginal tax rates. Note that withholding taxes will apply to RRIF withdrawals in excess of the minimum amount. Also keep in mind that the effect on any income-tested government benefits should be considered when contemplating this strategy.

Note that the reduction in the minimum withdrawal factors for the 2020 year also applies to Life Income Funds (LIFs) and other

locked-in RRIFs. If you have already withdrawn more than the lower minimum amount in 2020, you are not permitted to re-contribute any excess to your RRIF.

Please call for assistance with this or any other RRIF matters.

1. https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-benefits-credits-support-payments.html



Reminder: Tax Filing Extension for Balances & Instalments Due

The CRA has extended the deadline for balances and instalments due to September 1, 2020.

For those who follow calendar remittances, keep in mind that the regular Sept. 15 quarterly remittance occurs just two weeks later, so plan ahead to help avoid cash flow issues. However, if income has dropped significantly in 2020 compared to what was initially anticipated, the amount required for the instalment payment may be less than what was originally planned. The advice of a tax advisor regarding your situation may be beneficial.

The information contained herein has been provided for information purposes only. The information has been drawn from sources believed to be reliable. Graphs, charts and other numbers are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. This does not constitute a recommendation or solicitation to buy or sell securities of any kind. Market conditions may change which may impact the information contained in this document. Wellington-Altus Private Wealth Inc. (WAPW) and the authors do not guarantee the accuracy or completeness of the information contained herein, nor does WAPW, nor the authors, assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances. All insurance products and services are offered by life licensed advisors of Wellington-Altus insurance Inc. or other insurance companies separate from WAPW. WAPW is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

2020, Wellington-Altus Private

© 2020, Wellington-Altus Private Wealth Inc. ALL RIGHTS RESERVED. NO USE OR REPRODUCTON WITHOUT PERMISSION.

www.wellington-altus.ca

If you no longer wish to receive commercial electronic messages from Wellington-Altus Private Wealth Inc., please send an email to unsubscribe@wprivate.ca