WELLINGTON-ALTUS
PRIVATE WEALTH

- INVESTMENT -
INSIGHT

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NAVIGATING THROUGH UNCERTAINTY

In August, Crew Dragon made history as the first crewed orbital flight using a commercial spaceship. It was a true lesson in navigating through uncertainty. The landing was highly automated compared to previous missions, slicing through the atmosphere at 27,000km/hour in 1,900°C temperatures before slowing to 30km/hour for touchdown in the Gulf of Mexico.

Today, as a result of the pandemic, we find ourselves similarly navigating through uncharted territory. We have entered a new era of digitization, deglobalization and debt.

Technology continues to drive the speed of change. While it has helped to keep economies from completely shutting down during the pandemic, it has also changed the way many of us live, adapting work and play to the confines of our homes.

The pandemic has also accelerated a trend towards deglobalization, exposing nations' overdependence on global supply chains. In the summer, the U.S. continued to take actions to protect its national interests, reimposing tariffs on Canadian aluminum (which were then reversed) and instigating further trade tensions with China.

In order to support economies, the world has become substantially levered. Debt can be helpful when it is used to finance productive assets and generate new wealth to help economies grow. But, problems can happen when debt becomes overextended. While stimulus efforts have helped to support economies and asset prices, many questions remain. As stimulus measures wind down here at home, how will the economy acclimate to significant levels of debt? What will drive economic recovery going forward?

For many investors, today's concerns may be different than those of the spring. The rebound of equity markets after the March lows created a disconnect between equity market performance and what was happening on the ground. Will the markets continue to push forward? While we have experienced deflationary pressures in recent months, some wonder if inflation is an impending longer-term threat.

Given the continuing uncertainty, the price of gold recently hit all-time highs. South of the border, the value of the U.S. dollar has been falling. 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.

As the successful return of Crew Dragon should remind us, overcoming uncertainty is often necessary for us to advance and progress. We continue to harness the inevitable changes so that your investments continue to work for you.

In This Issue

PLANNING FOR YOUR ESTATE

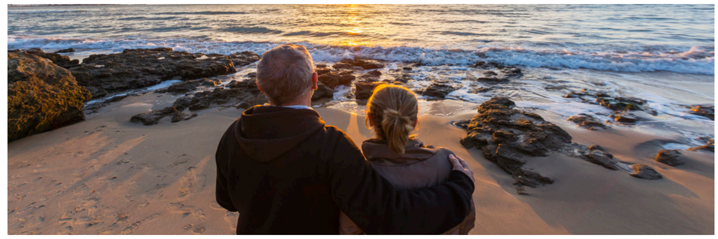
The Will is Not Enough

The health-related consequences of Covid-19 have prompted many to contemplate estate planning. While having a will is an essential part of planning 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 personal care and/or property — a potentially lengthy and costly process.

As such, the following should be considered in addition to a 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 documentation 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 are 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 revisited and kept updated. The arrangement of assets, such as the use of joint ownership with rights of survivorship[3], 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.

Note: 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; 3. Not applicable in Quebec.

BEFORE YEAR END

Offsetting Capital Gains Through Tax-Loss Selling

As the end of the year quickly approaches, some investors may consider realizing gains or losses by selling securities to rebalance their portfolios. As capital gains are subject to tax, one of the more common ways to offset this tax is to use available capital losses.

An Opportunity from a Tax Perspective

Using losses to offset capital gains may be an opportunity from a tax perspective. In general, when you sell an investment you must calculate the gain or loss, which is the difference between the proceeds from the sale and the adjusted cost base. For tax purposes, the taxable capital gain (or net capital loss) is 50 percent of the total capital gains (or losses). A net capital loss cannot be used to offset other income in the current year. It may be carried back to one or more of the last three taxation years to recover capital gains taxes previously paid and/or carried forward indefinitely to reduce these taxes in the future.

Be Aware: The Superficial Loss Rules

When claiming a capital loss, be aware of the superficial loss rules. In general, these rules will disallow a capital loss if property is repurchased within 30 days before/after the sale date and is still held on the 30th day after sale by you or an "affiliated person." This includes a spouse (partner), a corporation controlled by you or a spouse, or a trust of which you or a spouse are a majority beneficiary (such as an RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased

security. This means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold. A loss will also be denied when transferring securities in a loss position from non-registered to registered accounts.

Transfer Losses to a Spouse

There may be an opportunity to transfer capital losses to a spouse/partner, such as to offset a spouse's realized capital gains. Or, a spouse may be in a higher tax bracket and your capital losses would provide a larger tax benefit in their hands. This involves using the seemingly problematic superficial loss rules to your advantage. For example, you could sell your loss securities, and your spouse could purchase the same security at fair market value. Your spouse would hold the securities for at least 30 days and then sell them. To ensure that this is done correctly, please consult a tax advisor.

IT'S BACK-TO-SCHOOL TIME

Softening the Costs of Higher Education

If you have a student in the family attending post-secondary school, no doubt this may be a unique fall. While some students have left town to attend school in person, many are staying home for a semester of online learning. For parents or grandparents, here are some reminders of the tax benefits available for students to help soften the ever-increasing cost of higher education.

Consider the benefits of a **Registered Education Savings Plan (RESP).** We often mention the RESP because we feel it is important for families. From a tax perspective, the RESP provides the opportunity for compounded growth over time while deferring taxes. There are other meaningful benefits. If certain conditions are met, the federal government's Canada Education Savings Grant (CESG) is worth up to $500 per year per student beneficiary to a lifetime maximum of $7,200. The RESP also encourages disciplined saving. Please get in touch if you do not have an RESP set up for family members.

Beyond the importance of saving to support a student's education, you should keep good records to take advantage of the potential tax benefits. As a result of the pandemic, students who received the **Canada Emergency Student Benefit (CESB)** from May to August should note that the CESB is considered taxable income. As such, they will be sent a T4A tax slip for the amount that was received.

However there are ways to offset potential income. The federal government provides the **Tuition Tax Credit**, a non-refundable credit worth 15 percent of the amount of tuition fees, with no maximum. Provincial credits may also be available. If a student doesn't have sufficient income to use the credits in the year of attendance, a credit for up to $5,000 of tuition fees can be transferred to a spouse or to parents or grandparents. Any remaining tuition amount can be carried forward for use by the student in a future year.

While perhaps not applicable this semester, **moving expenses** may also be deductible. For students attending post-secondary programs at least 40 km from home, these expenses may be deducted from scholarships or grants required to be included in income. Depending on the circumstances, certain moving expenses may be deductible against income from a summer job.

Canada: Education By the Numbers

$26,000 – Estimated average student debt amount[1]

$19,499 – Average annual cost of post-secondary education (including tuition, books and other costs)[2]

348% – Increase in average tuition over 30 years[3]

48% – Parents with kids under age 18 who expect to postpone retirement due to post-secondary education costs[4]

#3 – Canada's rank for most educated nation globally.[5]

Sources: 1. cbc.ca/news/canada/ottawa/university-student-debt-photo-essay-1.4305589#:~:text=According%20to%20Statistics%20Canada%2C%20the,how%20it's%20affecting%20their%20lives.; 2. macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/; 3. Statistics Canada Table 37-10-0003-01; 4. FP Canada, Student Debt Study, May 2019; 5. data.oecd.org/eduatt/population-with-tertiary-education.htm; based on population with tertiary education.

INVESTING STRATEGIES & TACTICS

The Ongoing Case for Diversification

While uncertainty has always played a common role in the financial markets, as a result of Covid-19 the path forward may feel particularly uncertain. In these times, diversification remains an important element of portfolio construction. The chart (right) shows the performance of select asset classes/geographies over the past decade (in Canadian dollars). Here are some observations, which provide the case for diversification:

- No single asset class consistently performs at the top over time. 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, and 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.

If you have questions about this, or other portfolio techniques used to control risk in your investments, please get in touch.

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

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.

Investing Perspectives: Are Stock Markets Overvalued?

For some observers, there have been concerns that recent equity market gains have been disconnected from what has been happening in the economy. Have the markets gotten ahead of themselves?

A valuation metric often used to assess whether the stock market is over- or under-valued is the Shiller CAPE ratio, or cyclically adjusted price earnings ratio. It uses earnings per share over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of the business cycle. At the halfway point of the year, the S&P 500 CAPE ratio was approaching 30X.

Is this too high? To put this in perspective, since 1925 when the CAPE ratio for the S&P 500 Index has been in excess of 25X, the 10-year average annual return has been at its lowest. Higher starting valuations have often resulted in lower long-term returns (below).[1]

S&P 500 Valuations Since 1925 & Returns

CAPE Ratio	10-Year Avg. Annual Return
Less than 10	15.5%
10 to 15	13.9%
15 to 20	9.9%
20 to 25	6.1%
Greater than 25	4.2%

S&P 500 Total Returns 12/31/25 to 6/30/20, Shiller.

At the same time, since 1990 the CAPE ratio has been higher than 25X for 53 percent of the time, rarely dipping below 15X (below).

S&P 500 Valuations Since 1990

CAPE Ratio	% of Time Since 1990
Less than 10	0.0%
10 to 15	1.1%
15 to 20	13.9%
20 to 25	31.7%
Greater than 25	53.3%

S&P 500 Total Returns 12/31/89 to 6/30/20, Shiller.

Benjamin Graham, known as the father of value investing, aptly said: "In the short run, the market is a voting machine but in the long run, it is a weighing machine." In the short run, valuations may not always reflect fundamental values or existing economic

conditions. However, equity markets are said to be forward looking in nature.

Differing Perspectives

For many market observers, the market's upward momentum since the March lows has been surprising. However, some suggest that low interest rates and significant stimulus actions taken by central banks justify this type of valuation expansion. With interest rates at near-zero levels, and negative in some parts of the world, there are far less options for investors to put money to work. Given the significant amount of investor money waiting on the sidelines globally, this may help to sustain higher equity prices.[2]

There is also the belief that central banks will continue to support economies going forward. The U.S. Federal Reserve has never provided such a magnitude of stimulus or an open-ended quantitative easing program. These actions have provided confidence that businesses will be supported until recovery can sustain higher valuation levels.

Other analysts argue that metrics like the CAPE are not forward looking and therefore have not considered variables such as current low interest rates. Another way to value a company is to project future expected cash flows.[3] Since many central banks have pledged to hold rates at low levels for the foreseeable future, using these lower interest rates to discount future cash flows results in higher valuations, which may help to justify the market's current valuations.

1. awealthofcommonsense.com/2020/07/it-depends/; 2. financialpost.com/executive/posthaste-waiting-on-the-sidelines-for-markets-to-recover-heres-what-to-do-instead; 3. Using a discounted cash flow or DCF.