

# Wealth Insights

TD Wealth Private Investment Advice

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## Why Pessimism Can Prevail

Against the backdrop of market volatility that has greeted investors in 2018, so too has come a wave of pessimism. The narrative may have shifted, but what has really changed?

The Canadian economy continues to perform well. Jobless claims are still at near lows; the manufacturing sector has performed well. Strong U.S. growth, combined with a lower loonie, has helped to support our exports, which rose to an all-time high in April. Our resource-based economy is expected to benefit from rising oil prices, which have reached their highest levels since 2014.

In the U.S., corporate earnings growth has been impressive; the first quarter marked the best growth since 2011, largely due to recent tax cuts. This has also triggered an increase in capital spending.

Even the threat of nuclear war appears to have diminished, in stark contrast to just one year ago. North Korea’s apparent move towards denuclearization is good news for the world, and one less geopolitical tension to create volatility in the markets.

So why all the pessimism? We are in the late innings of the business cycle and this economic expansion has been more prolonged than most. During periods of imminent change, pessimism often emerges. After all, pessimism is persuasive. A Harvard study showed that pessimism is perceived to be more “expert”, intellectually seductive and competent. Daniel Kahneman, who won a Nobel Prize for his work on cognitive psychology, showed that people respond more strongly to loss than gain. Optimism often means staying the course, which appears oblivious to risks. Pessimism requires action, which appeals to human nature, as people are more inclined to want to take action.

But think about just how much opportunity would have been missed if you had followed the underlying pessimistic narrative over recent years. Even in 2009, the media was claiming that equity markets had reached their peak!

This is not to say that there aren’t challenges. While the International Monetary Fund (IMF) recently upgraded the global growth picture, Canada’s growth has slowed this year. Our global competitiveness, an important engine for economic growth, continues to be threatened: the Trans Mountain pipeline situation is a recent example. For now, North American Free Trade Agreement (NAFTA) negotiations are ongoing and the U.S. continues to impose tariffs globally, adding to trade uncertainty. As interest rates continue to rise, Canada’s debt load, as well as those of individuals, becomes more obvious.

Yet, the backdrop remains positive. A repeat of 2017’s strong global equity environment — where volatility was almost non-existent, global growth was robust and interest rates were kept low — is unlikely. It shouldn’t come as a surprise that things have slowed in comparison, but let’s keep perspective. While pessimism may be prevalent, there are plenty of reasons for continued optimism.



## The Case for Diversification

# Index Asymmetry

Throughout 2017, while it seemed as though record highs were being reported by the media in the U.S. every few weeks, the comparatively sluggish movements of the TSX left much to be desired. This had some investors asking: why is the market performance of Canada and the U.S. so different?

The composition of Canada's benchmark stock index is quite different from the U.S. major indices. The Canadian market is predominantly resource based, with over 65 percent of the S&P/TSX Composite index represented by only two sectors: resources and financials.<sup>1</sup> In the U.S., the S&P 500 is more balanced, with over 70 percent represented by technology, financials, health care and consumer goods sectors. The other major U.S. index, the Dow Jones Industrial Average (DOW), consists of only 30 blue-chip stocks, chosen because they are large and successful companies.

The strong performance of the U.S. market over recent times has been largely driven by the technology sector and S by solid corporate earnings, an improving manufacturing sector and a strong job market. Canadian markets, on the other hand, have been hindered by lower oil prices and weaker resources demand (although it will be interesting to see how this changes with recent increases in oil prices). During the commodities "supercycle", when commodity prices boomed from 2000 to 2011, the situation was quite the opposite: there were periods in which Canada's stock market outperformed that of the U.S. (see chart).

### The Dangers of Chasing the Index

During positive market times, it may be easy to forget that stock markets are inherently risky. Seeking to achieve higher returns often involves taking on more risk. For example, while indices are important market indicators, a portfolio fully invested in equities would, in many cases, be considered high risk.

As it is never possible to predict market performance at any particular time, diversification helps to manage downside risk. The performance of companies, sectors, asset classes and geographies will vary over time. It is worth repeating that a well-constructed portfolio uses diversification to help temper the effects of change.

Your portfolio has been built with your personal circumstances and risk tolerance in mind, with the objective of preserving and growing wealth to meet your goals. While it may be hard not to focus on index gains, do not lose sight of the fact that your portfolio is well-positioned to help support you on the path to financial success, whatever the immediate course of the markets.

#### Performance of TSX, S&P & DOW During Commodities Supercycle<sup>1</sup>

Index	Change from Jan. 2000 to Dec. 2006
S&P/TSX Composite	53.4%
S&P 500	-3.5%
DOW	8.4%

1. 12/31/99 to 12/29/06 (prior to 2007/08 financial crisis). Figures from Bloomberg.

## Protecting Yourself

# Your Digital Footprint

A survey done five years ago by Visa Inc. revealed some concerning statistics about the personal information individuals disclose online. Almost half of respondents listed their birthday on social media, with 20 percent listing their home address. Most surprisingly, seven percent said that they had shared their social insurance number!<sup>1</sup>

Have we become more careful in recent years? Since this survey, the average time Canadians spend online has more than doubled to over 24 hours per week.<sup>2</sup> Given this increased presence, we should be mindful about managing our digital footprint.

### Your Digital Footprint: What is it?

Your digital footprint consists of the trail you leave behind as you use the internet. When you pay bills, make online purchases, do a web search or participate in social media, you disclose information including where you are (a computer IP address or smartphone location), the websites you visit and your social circles.

Many people understand that by using online services, you relinquish a certain level of privacy. But the Facebook scandal earlier this year highlighted that organizations may be using more of our information than we realize. This is a good reminder that everything has a price. What may appear to be free can have hidden costs: if you aren't paying for the product, consider that

you may actually be the product. Many companies build profiles based on our digital footprints and monetize that information. While this data is frequently used for commercial purposes to track, customize and market to you, there is also the risk that criminals can use this information for unscrupulous purposes, such as to steal your identity.

### Managing Your Digital Footprint

Completely eliminating your digital footprint may be difficult, if not impractical, so here are some ideas to better manage it:

- **Develop basic "digital hygiene".** Don't post sensitive information. Create boundaries for your online presence, such as using a separate credit card for digital purchases.
- **Close/delete old accounts.** Try searching for yourself online: you may find old profiles/accounts that have been forgotten.
- **Enable privacy settings** to make data less accessible to others.
- **Delete cookies on your system.** Online sites can leave cookies that track your movements and allow targeted ads.
- **Update antivirus software** to protect your information.
- **Make changes to data.** If you can't delete information, use pseudonyms or modify your data to help conceal your identity.

1. [visa.com/blog/archives/us/category/security/index.html](http://visa.com/blog/archives/us/category/security/index.html); 2. [thejobandmail.com/news/national/concerns-raised-as-report-suggests-canadians-spending-more-time-online/article34360751/](http://thejobandmail.com/news/national/concerns-raised-as-report-suggests-canadians-spending-more-time-online/article34360751/); 2011

## A Look Back in Time

# Are You 89.5% Richer?

Thirty years ago, new loonies were lining our pockets, Brian Mulroney was prime minister and the Canada-U.S. Free Trade Agreement was newly signed, which would pave the way for the North American Free Trade Agreement. Who would have thought that 30 years later, we would be in talks to rescue it from its demise?

Since that time, the average family income has risen by 89.5 percent, which is slightly higher than inflation. According to the Bank of Canada, the consumer price index (CPI), the Bank's measure of inflation, increased by 88.8 percent, or an average of 2.14 percent per year. CPI is calculated by comparing the price of a government-assembled basket of goods and services.

But how has our buying power really changed? The chart lists the prices of select items in 1988 and 2018. One thing is certain, housing prices have dramatically risen over the years. Today, the price of a Canadian home is over nine times the average income (although back in 1988, a five-year fixed mortgage rate was around 12 percent, so borrowers paid almost three times as much interest on every dollar borrowed<sup>1</sup>). At the same time, many technological amenities have become more affordable — televisions are not only cheaper, they are larger and lighter!

The good news? Since 1988, investors have seen the S&P/TSX Composite Index gain over 369.1 percent. Even during this

period, there were four bear markets that collectively lasted 48 months; two of which saw market drops of over 40 percent. Over the next 30 years, these same growth prospects are likely. The equity market continues to be one of the best ways for investors to grow wealth over the longer-term.

### Changes in Prices of Select Items: 1988 & 2018<sup>2</sup>

	1988	2018	Change
Cdn. Family Income (Avg.) <sup>3</sup>	37,118	70,336	+89.5%
Cdn. House (Avg.) <sup>4</sup>	\$129,702	\$652,400	+403.0%
Sony Bravia Television <sup>5</sup>	\$1,599 (32")	\$899 (55")	-43.8%
Top Apple Computer <sup>6</sup>	\$9,150	\$6,299	-31.2%
Microwave <sup>5</sup>	\$580 (680W)	\$140 (1100W)	-75.9%
Bottle of Dom Perignon <sup>6</sup>	\$85.25	\$231.95	172.1%
Big Mac Hamburger <sup>7</sup>	\$2.05	\$6.55	+219.5%
University Tuition (Avg.) <sup>3</sup>	\$1,464 (1990)	\$6,571	+348.8%
Consumer Price Index <sup>8</sup>	70.4	132.9	+88.8%
S&P/TSX Composite Index <sup>9</sup>	3,331.62	15,627.90	+369.1%

1. CANSIM Table 027-0015; 2. 1988 data: Report on Business Magazine, April 2012, pg. 13; 2018 data as of 3/3/18; 3. Statistics Canada; 4. CREA; 5. bestbuy.ca; 6. LCBO; 7. economist.com; 8. Bank of Canada; 9. Close at May 2.

## Estate Planning: Is Your Will Valid?

Every so often, we hear stories about the consequences of not having a valid will. Recently in the U.S., a man who died without immediate family left what he believed to be a handwritten will that passed his \$4 million apartment to his beloved doorman. The problem? The "will" wasn't dated or notarized, a requirement for its validity in his jurisdiction. Sadly, his belongings will likely transfer to his only blood relative who was never the intended beneficiary.<sup>1</sup>

If you die "intestate", meaning that no will has been put in place, or, if your existing will is not valid, the assets will be divided according to rules set out by your province of residence (which may vary significantly; for instance, some provinces do not recognize common-law spouse status under their intestacy rules).

This division may not be what you intend. There may even be additional costs to the estate, perhaps a huge tax bill that could have been avoided with some forethought. The process is also likely to create delays in settling your estate. These situations can make it difficult for your intended beneficiaries.

You can prepare a will yourself by using a pre-printed kit, through an online service, or, in some provinces, by writing it by hand (a hand-written "holographic will" is valid only in certain provinces). However, the old English proverb comes to mind: "penny-wise, pound foolish". The money you save now may seem insignificant if your estate incurs legal fees to complete its settlement.

Creating an effective will can be a complex legal task. Are you



certain that your will contains no errors in form, such as in witnessing, that could invalidate it? Does it comply with current provincial legislation? Do your instructions account for certain contingencies, such as taking care of minors or a complex blended family? If you have assets located outside of Canada, have you properly accounted for them? Have tax consequences been considered? If your will has not been correctly drafted, your estate may not be distributed according to your intent.

It is time well spent to take steps to ensure the validity of your will for the sake of your beneficiaries. It may also be a good time to review the beneficiary designations for assets that do not pass through your will, which may include registered accounts or insurance (not applicable in QC). If you need support, or would like an introduction to an estate planning specialist, please call.

1. [abcnews.go.com/US/doorman-vows-fight-nephew-court-late-mans-handwritten-story?id=55094484](http://abcnews.go.com/US/doorman-vows-fight-nephew-court-late-mans-handwritten-story?id=55094484);

# The Case for Insurance in the New “Gig” Economy

The latest statistics show that the Canadian workforce is moving towards a “gig” economy, where there are fewer permanent jobs and workers are paid for the “gigs” that they perform. By some estimates, 20 to 30 percent of the Canadian workforce now consists of non-traditional workers.<sup>1</sup> Leaving the safety of a full-time job may be a source of freedom, control and flexibility, but there are certain benefits that are not available to the self-employed.

While the occasional bout of the flu may not be cause for long-term concern, what happens in a more serious situation? Sick leave days are one simple example of a benefit that would likely not be available. If you are the principal breadwinner and you are unable to work for an extended period, you would likely not be entitled to the benefits of long-term disability insurance or other provisions often provided by large corporations.

The federal government has acknowledged the transition to the gig economy by allowing self-employed Canadians to participate in the Employment Insurance (EI) program, but the program’s benefits are temporary by design. Self-employed individuals will also need to register to participate and pay EI premiums (although they will not be responsible for the employer’s portion of premium).<sup>2</sup>

As such, insurance should be a consideration to protect yourself. Here is a high level overview of certain types to consider:

**Supplementary health care insurance** — This can help to provide for medical and related expenses over and above the coverage provided by government plans. In some cases, the cost of this coverage may be deductible or considered as a qualifying medical expense for tax purposes.

For more extended periods of illness, specific insurance products may be used to help provide protection to self-employed individuals:

**Disability insurance** — This is designed to replace a portion of income if you are unable to work as a result of injury or illness, including mental health issues. The monthly benefit amount, benefit duration and waiting period are selected at the time of



application. Premiums are not tax-deductible, if personally owned and paid for, but benefits are tax-free.

**Business overhead expenses insurance** — This is designed to help business owners who actively generate income to cover ongoing fixed business overheads, such as salaries, rent, property taxes and utilities, should an owner become disabled and unable to work. There is a waiting period and set duration of coverage.

**Critical illness insurance** — This provides a lump sum benefit amount, based on whether you were to become sick with one of the illnesses specified within the policy (such as heart attack, cancer or stroke) and you survive the waiting period. However, critical illness insurance will only pay out a lump sum amount, not an ongoing payment for the duration of an illness.

**Life insurance** — Life insurance may be purchased to replace lost earnings or cover a debt liability, in the event that a family breadwinner passes away. Life insurance can also provide advantages for retirement or estate planning purposes.

Your personal circumstances, including age, sources of income, and type of business will help determine the best type of insurance to fit your situation. We can provide options for a wide range of investor and entrepreneurial needs, so please reach out.

1. [theglobeandmail.com/report-on-business/rob-commentary/the-gig-economy-is-here-and-we-arent-ready/article36678505/](http://theglobeandmail.com/report-on-business/rob-commentary/the-gig-economy-is-here-and-we-arent-ready/article36678505/); 2. [canada.ca/en/services/benefits/ei/ei-self-employed-workers.html](http://canada.ca/en/services/benefits/ei/ei-self-employed-workers.html)



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