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What's in Your Wallet (Portfolio)?

Happy New Year!

You may have seen the Capital One commercials with the tag line "what's in your wallet?". It means that if you have someone else's credit card in your wallet instead of Capital One's you are making a mistake.

Similarly, I like to answer the question for clients "what's in your portfolio?” Going into 2020, I make sure that all clients have suitable investments (credit cards) in their portfolio (wallet).

I have clients at both ends of the spectrum when it comes to learning about investments, economics, finance etc.

Some follow the markets closely and others don't.

However, there are questions that all my clients should ask themselves to get them thinking about their financial future.

Below are some financial questions to ask yourself going into 2020.

For those that want to know more about my thoughts on the markets going forward, I end off this commentary with some themes I'll be watching.

1. Are you comfortable with the type of investments in your portfolio?

Your money mindset is key to understanding how you may react in certain market environments. Knowing traits like whether you are optimistic or pessimistic about the future helps me address any underlying issues about the investments in your portfolio.

Maybe you should be more conservative or more aggressive depending on your views. I tell clients your portfolio should be positioned so you can sleep at night. This may mean you are invested in all GIC's paying 2.30% for 1 year. You may be willing to accept this return because of the amount of risk you want to take. Always keep in mind risk vs reward.

2. Is your will updated? Are your beneficiares correct on your RRSP and TFSA? Do you want to make non-registered accounts joint to avoid probate?

Every year I am involved with helping clients with loved ones estates. Many go smoothly because of the time that was taken by the deceased to set things up. Depending on your situation, it doesn't have to be a complicated scenario.

The first and easiest thing I do for clients is make sure their beneficiaries are updated. Marriages, separations, and deaths are all events that can cause a new beneficiary or beneficiaries.

To avoid probate fees on non-registered accounts, consider how you can make it joint with your husband/wife or child. Often when a husband or wife passes away, I'll discuss with the client if they have a child who could be made joint on their non-registered account to avoid probate fees when they pass. There are possible drawbacks that I explain to clients in this situation.

3. Are you utilizing a Registered Education Savings Plan to help save for your childrens post-secondary education?

The Canada Education Savings Grant (CESG) matches 20% on the first $2,500 of your eligible contributions each year. Receive up to $400 per year per beneficiary (child) under 18 to a maximum of $7,200.

Depending on your net family income, you could receive an additional CESG of 10% or 20% on the first $500 contributed each year, up to $100 per year per beneficiary under 18 towards the maximum lifetime CESG of $7,200

Children who were born on or after January 1, 2004 and depending on the adjusted income of their primary care giver, may receive the Canadian Learning Bond (CLB). The CLB offers a $500 initial deposit, then $100 per year until the eligible beneficiary reaches 15 years of age, to a maximum of $2,000. You do not have to contribute to your RESP to apply for or receive the CLB.

4. Do you have a systematic approach to save for retirement?

The words 'systematic approach' are very important. It is in human nature to say we will do something, then stray away from it if we don't really want to do it. Having clearly defined and repeatable steps creates a system.

I've found monthly contributions are the easiest for clients to commit to. It comes out of their bank account right when they get paid.

You may have heard the phrase or some variation "pay yourself first".

5. When will you want to withdraw from your portfolio?

This question refers to your investment time horizon. Most people think financial planning is about retirement, which for some of my clients it is now or a while down the road. I help clients financial well-being in the future, but now as well.

The more information that can be shared with me on clients thoughts about retirement, if you need funds for a large purchase etc help me plan what you are invested in.

For example, I have clients that are going to be fully retired in 2020 and are going to need to start withdrawing monthly from their portfolio. I have already started in the last couple years to develop a "cash-flow" portfolio for them.

6. Are you utilizing all investment accounts available to you?

The main four type of accounts I open for clients are....

- Registered Retirement Savings Plans (RRSP's)
- Tax Free Savings Accounts (TFSA's)
- Non-Registered Accounts
- Corporate Accounts

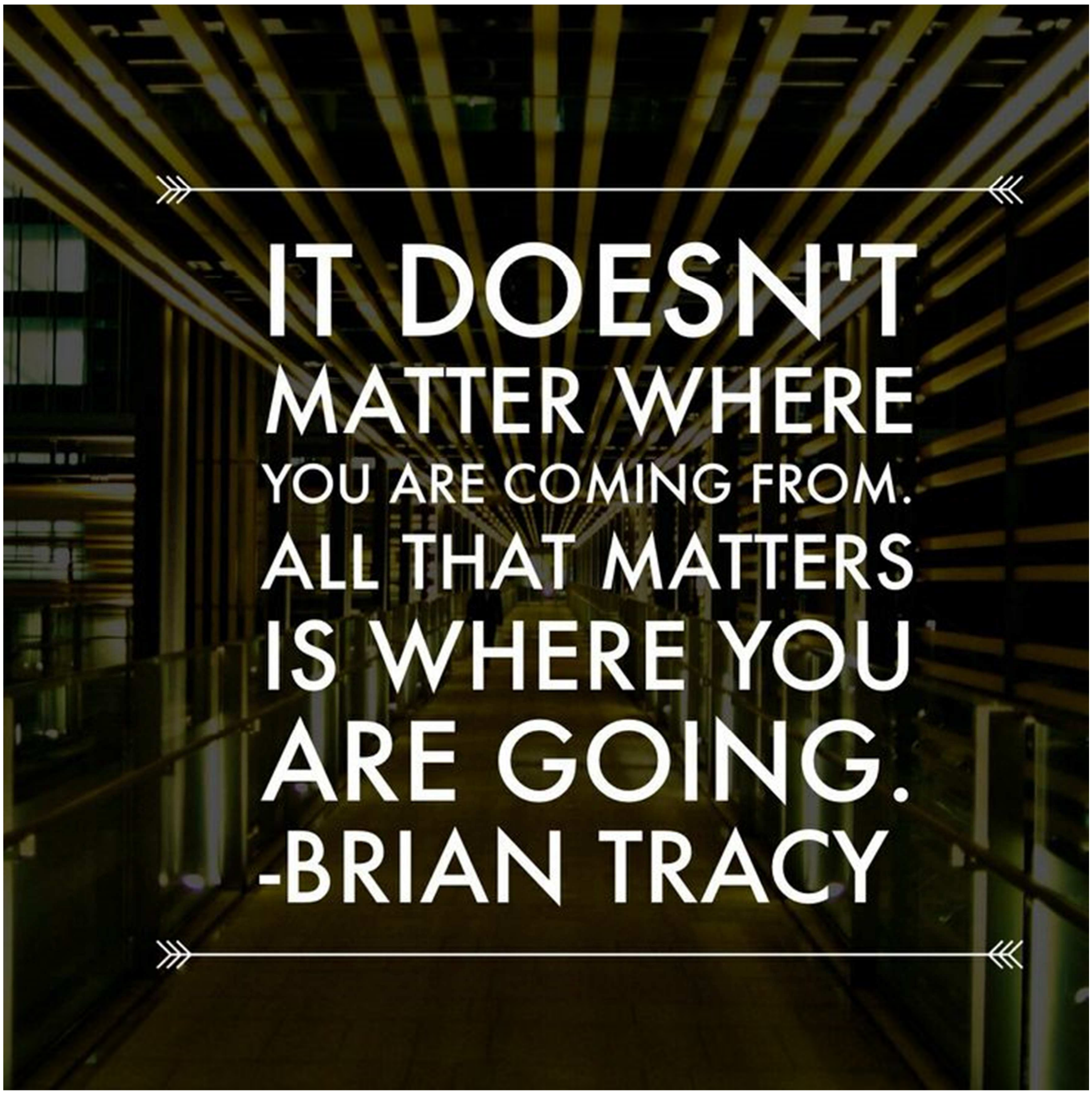
RRSP's - I've heard many times people say they don't want to contribute to their RRSP because they have to pay tax on withdrawals when it turns into a RIF at age 71. My comment is (in most cases) the amount of time of tax free growth outweighs the negatives of paying the tax. For example, if you invested $10,000 in the S&P/TSX Index at the beginning of 1999 to the end of 2018 it would be worth $36,050. Now imagine if you would have done regular contributions over the 20 years.

TFSA's - New clients often say to me "a Tax Free Savings Account is only paying

2%". What their previous large financial institution or credit union didn't tell them is mostly likely a GIC being bought WITHIN their TFSA. To review, a TFSA is a type of account that you can put various investments into just like your RRSP.

Non-Registered - I'm not going to go in depth about this type of account because most of my clients max out their RRSP and TFSA, then consider a non-registered account. It is important if you do have this type of an account to pay attention to the type of investments used because some have preferential tax treatment over others.

Corporate Accounts - Many of my clients are business owners. Farmers, medicals practitioners, lawyers etc. These occupations allow to be incorporated, which clients can use for investing purposes. Instead of withdrawing the funds and paying the tax personally, consider how you can open up a corporate investing account.


IT DOESN'T
MATTER WHERE
YOU ARE COMING FROM.
ALL THAT MATTERS
IS WHERE YOU
ARE GOING.
-BRIAN TRACY

What could be next for 2020?

In order of importance, the risks I'm going to be watching that could influence a downturn in 2020 are:

- A re-escalation in the trade war that delivers a fatal blow to global business confidence, investment spending and global supply chains.

- Central banks resume hiking if they believe the growth risks have passed and inflation pressures are building.

- The U.S. presidential election, where the victory of a progressive Democrat, such as either U.S. Senator Elizabeth Warren or Bernie Sanders, could trigger a policy shift that is negative for corporate profits.

- Other geopolitical risks such as an escalation of Hong Kong unrest, which triggers an aggressive China response and subsequent global sanctions on China, or actions by Iran that threaten global oil supply.

Regarding the trade war, I believe that both China and the U.S. have incentives to reach a “Phase 1” deal soon. U.S. President Donald Trump would like to declare victory in the trade war ahead of his 2020 reelection bid. He also needs to lift the economic threat that the trade war poses to the near-term outlook.

FIGURE I-4

Sources of policy uncertainty are likely to persist

2020 global risks	Vanguard assessment of risks: Downside scenario	Base case	Upside scenario
U.S./China trade tensions	**50%** The trade truce ends because of a lack of common ground, and the U.S. implements tariffs on remaining Chinese imports.	**40%** China and the U.S. sign a "phase one" deal but fail to agree on structural issues.	**10%** China and the U.S. sign a series of trade deals, roll back tariffs, and continue negotiations on structural issues.
Brexit	**30%** The U.K. Parliament fails to approve the Withdrawal Agreement Bill in early 2020. This is followed either by a disorderly exit or by a series of Brexit extensions.	**60%** The U.K. Parliament approves the Withdrawal Agreement Bill in early 2020 and enters a one- to two-year transition period of trade negotiations, but with little prospect of early clarity emerging.	**10%** The U.K. holds a new Brexit referendum in early 2020 and decides on a softer Brexit or even to remain in the European Union.
U.S./EU trade tensions	**35%** The U.S. imposes tariffs on EU products and continues to threaten further tariffs.	**50%** The U.S. continues to threaten tariffs on EU products (e.g., autos) but does not follow through in 2020.	**15%** The U.S. promises not to impose tariffs on EU products.

Note: The odds for each scenario are based on the judgment of members of Vanguard's Global Economics and Capital Markets Outlook Team.
Source: Vanguard.

Will the Canadian market stay resilient?

The interest rate environment in Canada that stifled growth over the past year is now shifting from a headwind to a tailwind and will support both the household and business sector.

Interest rates are likely to be maintained at current levels as it weighs the trade-offs between supporting short term growth and moderating high levels of household debt.

Though growth will remain stronger than most developed economies, household vulnerabilities and a high exposure to global conditions skew the balance of risks to the downside.

Changes in interest rates remain central to the Canadian economy due to the large housing sector and high levels of household debt.

As interest rates rise, it becomes more costly to finance new investments and service existing debt.

This was the prevailing regime for much of 2019, as higher interest rates caused a decline in the housing sector and a moderate reduction in household consumption.

Falling interest rates through much of 2019 will reverse this dynamic in the coming year, notably for households.

Canada’s trade-oriented economy remains vulnerable to developments in global trade as well as the growth of the US economy.

Ratification of the CUSMA (Canadian United States Mexico Agreement) removes the tail risk of NAFTA dissolution and may boost sentiment, but is not likely to have a materially larger effect on the economy than the current NAFTA.

Low commodity prices, another symptom of the global slowdown, will could pressure Alberta and other energy producing provinces.

The Bank of Canada has space to ease monetary policy, as it was one of the few economies to normalize interest rates.

Even with risks skewed towards more easing, interest rate and growth differentials remain supportive of the Canadian dollar, which will likely remain range bound against the US dollar.

January Effect

The January Effect is a perceived seasonal increase in stock prices during the month of January. Analysts generally attribute this rally to an increase in buying, which follows the drop in price that typically happens in December when investors, engaging in tax-loss harvesting to offset realized capital gains, prompt a sell-off. From 1928 through 2018, the S&P 500 rose 62% of the time in January (56 times out of 91).