Canaccord Genuity Wealth Management

Update

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Can the Markets Continue to Climb?

Baseball Hall of Famer Yogi Berra was known not just for being a legendary player, but also for his straight-talking witticisms. He is perhaps best remembered for his phrase: "it ain't over till it's over." Even if you're not a baseball fan, his wit may offer good perspective when looking at the state of the equity markets today.

In the midst of the greatest economic and public health crisis of our time, the rapid market advances have surprised many. To start 2021, the S&P/TSX Composite and S&P 500 indices posted record highs and many stock valuations appeared stretched.

Of course, equity markets are forward looking in nature: economies will eventually reopen and pent-up demand is expected to be released. Yet, other factors have helped push markets higher. With central banks pledging to keep interest rates low for the near term, investors have turned to equity markets as there is no alternative. Stimulus measures have also inflated asset prices. A rise in low- and no-commission trading platforms has enticed new investors to enter the markets, often trading on the momentum.

Can the markets continue to climb? As Berra once said: "It's tough to make predictions, especially about the future." For many investors, there is often little value in trying to predict the direction of the markets — after all, the success of your overall wealth plan isn't dependent on calling the top of any cycle.

As Berra most famously suggested, consider, too, that markets can sometimes advance much further than many believe. In 1996, during the dot-com boom, then-Federal Reserve Chairman Alan Greenspan delivered his infamous "irrational exuberance" speech, yet markets continued to advance for over three years that followed.

Today, while there is a considerable amount of excess, some suggest that there isn't yet the same magnitude of financial leverage that accompanied previous exuberance. And, certain areas of the markets are still expected to benefit from continued economic recovery as things return to normal.

Regardless of the direction of the markets, seasoned investing often requires maintaining mental fortitude. As Berra aptly said, "baseball is 90 percent mental; the other half is physical." Questionable math aside, investing involves similar focus. Our challenge is to avoid the noise. When times are difficult, it can hinder positive action: "it's not a good time to buy now because…" Or, when the market progresses, it may evoke worry: "how high can it go?" And, when there is temptation to chase the markets, Berra reminds us: "Don't always follow the crowd, because nobody goes there anymore. It's too crowded."

For most investors, the investing journey is a long one. Yet, with a sound wealth plan to guide us, and a portfolio based on quality, diversification, and focused over the longer run, it should serve us well, no matter what pitches may be thrown.

ESTATE PLANNING

What We Want at End of Life

In the end, what is important to people may depend on where they live. A study by *The Economist* magazine showed that what we consider to be important when thinking about our own mortality changes based on the country in which we live.[1] Closer to home, a major concern is to ensure that family is not burdened financially. In Italy, the leading priority is having loved ones around. In Brazil, it is being at peace spiritually.

Yet, many common themes transcend nationality. Most people have given thought to their wishes in the event of grave illness, but are likely to not have had serious conversations with loved ones. There is an even greater likelihood that these wishes have not been documented. Perhaps most surprising, there is a discrepancy between what people want and what they expect to happen at the end. This would seem fixable, and having a conversation about preferences may be a good first step.

Difficult Conversations: End-Of-Life Planning

It is understandable that many of us may prefer to defer the subject of end-of-life planning until the last moment. Yet, the pandemic should remind us that unexpected losses can happen. This is why a discussion is important — not only to provide comfort to loved ones that the right decisions will be made, but also to help avoid potential complications such as family disputes or, worse, the need for court intervention. If you haven't had a conversation, these questions may serve as a starting point:

Who do you wish to make decisions on your behalf if you are unable? It is important to identify trusted individual(s) to make decisions the way you wish and on your behalf if you are unable. The person(s) should be made aware of their role, as well as the preferences for your care.

In a medical crisis, what type of treatment do you want, or not want? Some people may have strong feelings about different types of medical treatment. Have you considered how invasive you want medical care to be, such as being kept alive on a respirator? If you are in pain and can't make clear decisions, are you comfortable with high doses of pain-killers? Your preferences may depend on the amount of time that passes for treatment, such as if it is temporary or should the situation persist over the longer term.

What are your preferences for quality of life and types of care? Quality of life preferences are very personal. Some may be fine with having help getting dressed or bathed, but not with being tube-fed to stay alive. It may be important for individuals to live independently within their own home. Others may be comfortable in assisted care, such as in a hospice or palliative care facility.

Perhaps one of the more positive outcomes of the pandemic will be that it helps to facilitate discussions between loved ones. Having a conversation is the first step. Documenting these wishes as part of a broader estate plan is also important. If you are looking for resources to help support these conversations with adult children or elderly parents, please call.

1. economist.com/blogs/graphicdetail/2017/04/daily-chart-20

Be Aware: The Rise of the Do-It Yourself Investor

Many of us have seen the ads by discount brokerages offering low-cost fees that suggest the potential to retire wealthier. A significant number of first-time investors have flocked to these platforms, with millions of accounts opened last year alone in the U.S. and Canada. It's difficult not to pay attention: the headlines continue to sell stories of do-it-yourself investors making small fortunes through trades executed on these platforms.

However, the data may suggest otherwise. A variety of studies have consistently shown that do-it-yourself investors often have difficulty making money over anything more than short periods of time. One study revealed that almost 80 percent of day-traders lose money.[1]

A more recent study looked at the trading activity of do-it-yourself investors on a popular U.S. commission-free platform over the past two years. It showed that the top 0.5 percent of stocks bought each day experienced return reversals, or losses, of approximately five percent, on average, over the following month.[2]

Why did this happen? According to the study, most of these do-it-yourself investors were inexperienced, so they tended to chase performance. Furthermore, the commission-free nature of the platform encouraged trading, which led to speculative behavior.

An older study tracked investors over a longer period of time and showed that self-directed investors significantly underperformed the markets over time. This was attributed to trading too frequently. These investors also had a tendency to sell winning investments more quickly and hold on to losing investments. The study's conclusion? For do-it-yourself investors, "trading is hazardous to your wealth."[3]

Why Professional Advice Matters

As markets go up, as they especially have done over the past year, many stocks will invariably be winners. This has driven confidence in many do-it-yourself investors. While it may appear to be a winning strategy in bull market times, we mustn't forget that markets are cyclical in nature.

Seasoned investing involves a variety of elements that may easily be overlooked during stronger market times. Most important, investors should understand what they are investing in. In many cases, do-it-yourself investors have found success in simply trading on momentum and noise, without understanding the fundamentals of their investments. In bull market times, prices of securities can often become stretched, but over the long run the markets will generally adjust and reflect the underlying value of the companies traded.

Seasoned portfolio management also requires managing risk. This involves using asset allocation and diversification and takes into account an investor's risk tolerance and time horizon, to help protect investments through the inevitable market cycles. What will happen during a market downturn, a time in which do-it-yourself investors often panic or make rash decisions? Professional advice can help to manage emotions during these critical times. And, advice often goes well beyond just investing, including tax minimization opportunities, planning for retirement, and using insurance or estate planning to help maximize wealth.

History often repeats itself. We saw similar amounts of self-directed investing euphoria during the dot-com bubble, and the ensuing consequences when it burst. The new do-it-yourself-trading mania is not likely to result in a happier outcome than the last. As Benjamin Graham once said: "The investor's chief problem — and even his worst enemy — is likely to be himself."[4]

1. curiousgnu.com/day-trading; 2. papers.ssrn.com/sol3/papers.cfm?abstract_id=3715077; 3. https://faculty.haas.berkeley.edu/odean/Papers%20current%20versions/Individual_Investor_Performance_Final.pdf; 4. The Intelligent Investor, Benjamin Graham, Harper Collins (4th Ed.), 2003, pg. 8.

MACROECONOMIC PERSPECTIVES

Interest Rates, Inflation and the Risk of Doing Nothing

For those old enough to remember, the late 1970s and early 1980s were periods rife with high inflation and interest rates. In 1981, inflation rates reached over 12 percent and the now defunct Canada Savings Bond returned 19.5 percent interest.[1] While high interest rates meant great returns on low-risk assets like guaranteed investment certificates, it also meant unaffordable mortgages!

For many years, the Bank of Canada and U.S. Federal Reserve (Fed) have targeted a two percent core inflation rate. Over the last decade, inflation has generally hovered close to this target, due to monetary policy actions as well as low price and wage increases. It should be noted that the measure of core inflation doesn't include some of the more volatile components of goods and services, such as food and gas. Many would argue that food costs have largely outpaced core inflation rates!

Today's Realities: Low Interest Rates, Low Inflation

Of course, it is unlikely we will see the return of the inflation rates of the 1970s and early 80s, but even moderate inflation can have a significant impact over time. The chart shows the erosion of purchasing power of $100 with just moderate inflation rates.

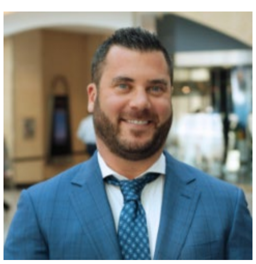
Table: Erosion of Purchasing Power of $100 with Moderate Inflation

	Inflation Rate		
Year	1%	2%	3%
0	$100	$100	$100
10	$90.53	$82.03	$74.41
20	$81.95	$67.30	$55.37
30	$74.19	$55.21	$41.20

This should also remind us of the value of investing funds for the future. With interest rates at near-zero levels, many savings accounts yield paltry returns. Add in the subtle effects of inflation and doing nothing with your money can have its own risks.

There are differing views on the longer-term path for inflation. With central banks pledging to keep interest rates low for the near future, there is the potential for rising inflation — traditional economics suggests that when rates are low and the economy grows, inflation generally increases. Last year, the Fed also signaled a major shift in its approach to managing inflation, allowing it to run above the previous two percent target to stimulate growth and tackle unemployment.[2]

1. bankofcanada.ca/wp-content/uploads/2010/09/selected_historical_v122497.pdf; 2. federalreserve.gov/newsevents/speech/powell20200827a.htm



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