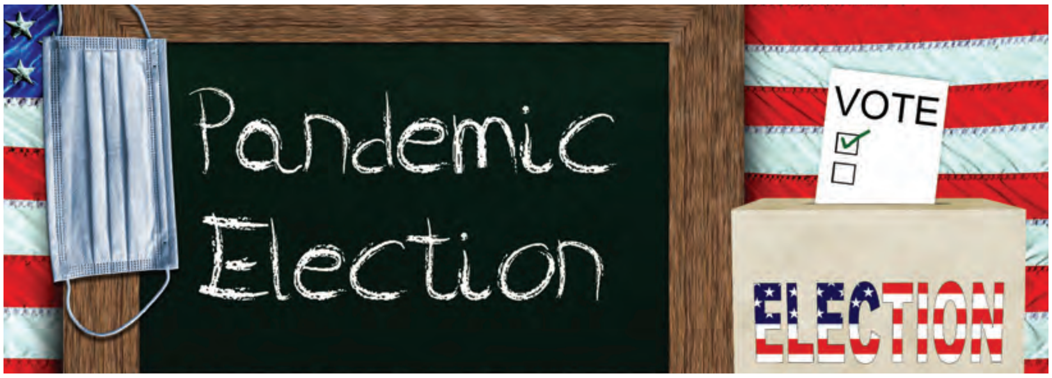
AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

# Nakamun ADVISOR

WINTER 2020/2021

## *2020...A MEMORABLE YEAR...IN REVIEW*

2020 will be remembered for the COVID-19 pandemic and the US election. Who could have predicted that the US election would not be the biggest news story of the year?




### Global Equity Markets

**During the first quarter of 2020, as news that COVID-19 was spreading worldwide, equity markets dropped at a pace and magnitude not seen since the sub-prime mortgage crisis of 2008. Similar to October 2008, the market correction due to the pandemic also triggered an over-reaction caused by automated trade orders and panic selling, in some cases.**

The swift and significant market correction triggered a swift reaction by the Government of Canada, which reduced the minimum RIF withdrawal rate by 25 percent to protect retirees from being forced to withdraw from their equity while markets were down by such a large measure.

Similar to the recovery in 2008, the 2020 market overreaction reversed relatively quickly and market recovery continued during the ensuing months, surpassing the February highs, despite the outlook for a slower economy for the next couple of years.

The current equity market has been supported by low interest rates, spending and income support programs, and an inflow of capital as institutional and retail investors rebalanced portfolios by reinvesting fixed income gains into the equity market while valuations were low, and in some cases, keeping portfolios overweight in equities.

This combination has contributed to a market recovery that seems to defy negative economic news. The growth in the market concurrent with lower corporate earnings has caused equity valuations to be high.

The nature of the pandemic created some clear 2020 market winners and losers. The winners were those sectors that benefitted from the stay-at-home requirements, such as IT and home improvement; while the losers were travel and energy.

The equity market returns by sector were atypical of a cyclical correction and recovery. Some of the sectors with the worst performance were those associated with safety, such as utilities, real estate, and financials, which historically outperform the market as a whole during a downturn in the economy. This was not the case in 2020. Quite the opposite.

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Portfolio managers with a growth mandate continued to outperform value-style managers throughout the 2020 downturn. The value-style underperformance is expected to reverse in the short term as investors increasingly seek dividend income from equity in the absence of income from fixed income investments.

The US equity market returns were dominated by information technology, consumer discretionary, consumer services, health care, and materials which were all over 10 percent at the time of writing, just prior to yearend. The Canadian equity market was similar to the US market, with the highest year-to-date returns, just prior to yearend, coming from information technology, materials, and industrials.

## Fixed Income Markets

The role of the Federal Government is to smooth out the peaks and troughs of an economic cycle, particularly if either is too high or too low. Indeed the government did support the economy throughout 2020, using the tools of both fiscal policy and monetary policy. The quick and dramatic interest rate decrease lowered the cost of borrowing to support Canadian corporations and individuals. Lower interest rates result in capital gains on fixed income investments and interest-rate-sensitive equities. This was a good reminder of the value of bonds and/or term deposits in reducing overall portfolio risk — the ballast of the boat.

## Looking Ahead

The economy is expected to take two to three years to absorb the excess capacity in the economy created in 2020. The Federal Government is not expected to raise interest rates for at least two years. As a result, GICs renewing in the next two years will likely renew at lower interest rates. Fixed income returns are likely to be lower, given the combination of lower yields and the potential for capital losses once interest rates start to go back up.

Portfolio managers are cautiously optimistic. Future GDP growth will be slower and markets will react with greater volatility to both positive and negative news. Many corporations have been forced to make operational changes that have increased productivity, and those savings will persist.

As investors reject fixed income investments, given the lower return outlook and higher risk, equity markets will continue to be supported by an influx of capital from these investors seeking higher return.

The early vaccine results are very promising and will take time to roll out. Markets are forward looking and suggest much greater optimism than what you read in today's newspapers.

This pandemic has been another test of risk tolerance and is likely to reward resilient investors yet again. The market correction was not the first and will not be the last. Resilience will be required going forward as GDP growth works against higher taxes, the end of stimulus, and pressure to raise interest rates.

# *UNDERSTANDING YOUR INVESTMENT ACCOUNT SUMMARIES*

Most people don't fully understand account statements sent by financial companies that manage their investments of hard-earned, diligently saved money. The inclination is to look at the number that is perceived to represent the money invested and compare that with the current market value. We smile when our invested funds have increased in value and scowl when the values have gone down. The extent of our smile or scowl is directly proportional to the increase or decrease in values.

The numbers, though, might not represent exactly what we think they might. For example, "book value" or "book cost" is not the original amount invested. The "book value" consists of the original amount invested plus any additional dollars that have been earned as a result of income or gains distributed to each of the investments. These additional dollars are converted to increase the original amount invested. The original amount invested is the "net invested capital" and at Nakamun, we refer to the amount that includes distributed earnings as "adjusted cost base". However, most financial firms label the combined total as the "book value" or "book cost".

### An example:

| | |
|---|---|
| Amount invested on January 2, 2019 | $100.00 |
| Dividends paid during 2019 | $10.00 |
| **Total (book value or adjusted cost base)** | $110.00 |

*$10.00 would be reported on a T3 slip for the 2019 tax year

If the investment were to be sold on January 2, 2020:

| | |
|---|---|
| Selling price | $115.00 |
| Original amount invested | $100.00 |
| **Total Gain** | $15.00 |

Gain for income tax purposes for the 2020 tax year:

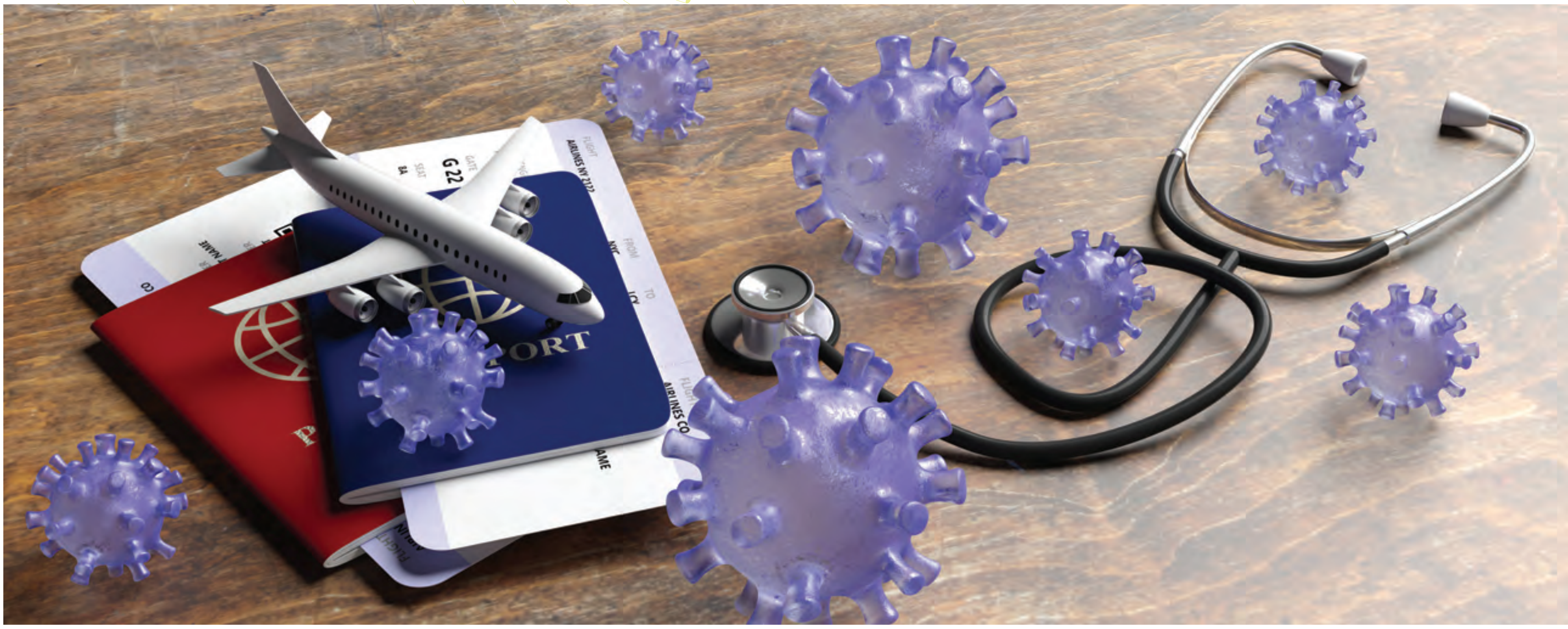
| | |
|---|---|
| Proceeds | $115.00 |
| Book Value/Adjusted Cost Base | $110.00 |
| Amount to be reported on 2020 tax return | $5.00 |

**The actual rate of return for the investment is 15%.**

Your Nakamun Advisor keeps track of all these numbers and can help you understand whatever you wish to know about the investments in your accounts. Please call if you have any questions.

# COVID-19 COVERAGE IN TRAVEL MEDICAL INSURANCE

**While most of us are not travelling during the COVID-19 pandemic, if you do travel outside of your province, please carefully check the wording of your provincial health and any other travel medical insurance to ensure you understand your coverage, limitations, conditions, and exclusions of the plan or policy. Please keep in mind that updates and changes to the wording in travel policies are constantly changing.**



## Group Plans

If you are fortunate enough to have a Group Plan that includes emergency travel medical insurance, you might be covered for COVID-19 in the same way that you would be for other illnesses that meet the definition of an unexpected medical emergency. Please check the terms and conditions of your contract.

As always, you, your trip, and the medical emergency must meet all your group plan insurance's qualifications to ensure your claim will be accepted. You must still be actively employed for at least the minimum hours required to be eligible for your group benefits and you must have provincial health insurance. Your trip must be within the maximum trip duration and must not be to a country where the Government of Canada has issued a Level 3 or Level 4 travel advisory. If you are quarantined for longer than your maximum trip duration, your coverage is unlikely to be extended.

## Individual Plans

If you must travel, many individual travel medical insurance policies offer you the option to purchase a stand-alone COVID-19 policy, which is an additional policy and works in conjunction with the standard travel medical policy you purchase. However, please be sure that you are fully aware of the limitations and exclusions of the policy. The COVID-19 coverage is very specific and covers losses arising from sudden and unforeseeable circumstances related to COVID-19 only. If you test positive for COVID-19 while you are on a trip, the policy will cover expenses related solely to COVID-19 up to the maximum insured amount detailed on your Confirmation of Coverage. You must meet all the eligibility criteria of your policy.

If you travel and have the appropriate insurance coverage, you must still follow the safety restrictions and requirements of your provincial health officials, Canadian health officials, the Government of Canada's official travel advisory notices, the destination to which you are travelling, and the travel carrier you will be using.

## Provincial Health Care Coverage

Historically, provinces have helped to pay for unexpected medical services for residents while they are travelling, to the maximum paid for the same services at home. That used to apply whether you travel outside your province or outside the country. However, Ontario, as of January 2020, no longer pays out-of-country health care claims, and while other provinces have not yet followed suit, be aware that could happen in the future. As well, all provinces do not have the same health care coverage. For example, BC MSP pays only a small portion of hospital costs in Alberta, and coverage for COVID-19 might be very limited or excluded completely.

More important now than ever, you need travel insurance to travel outside your province. Also, be sure to purchase your travel insurance in the province where you reside. For example, if you live in Alberta and travel to BC, you must buy your travel medical coverage in Alberta.

**CONTACT YOUR NAKAMUN ADVISOR BEFORE TRAVELLING.**
To ensure you are adequately covered for unexpected medical expenses while you travel, please check with your Nakamun Advisor before leaving.

# *ESTATE PLANNING IS FOR YOUR SURVIVORS*

**Well-organized and documented estate information helps to ensure your assets are smoothly and efficiently identified and distributed as you intended, after your death. The executor/trustee of your will, as well as your immediate family and beneficiaries will appreciate the efforts you make in advance. Now is a good time to ensure your estate is in order and current. Below is our suggested four-step process to organize/document your estate — once you've completed the first two, contact your Nakamun Advisor for assistance with the final two steps.**

### Step 1 — Identify Your Assets

Gather together the documents for all of your personal assets, including pension plans, registered savings plans, non-registered savings, life insurance, group insurance, bank accounts, savings bonds, stock certificates, and valuables. Make lists of possessions that have emotional or monetary value, especially if you want somebody in particular to inherit them.

### Step 2 — Confirm Beneficiaries

There are basically three categories of beneficiaries to whom you might wish to leave assets — family members, non-family individuals, and charities. Decide which beneficiary you would like to inherit each of your assets, either specifically or generally as a percentage of the whole.

### Step 3 – Determine Transfer Method

There are several ways to transfer assets to beneficiaries, and each has advantages and disadvantages:

- **Gift** — if you don't need the asset, consider giving it as a gift while you're still living and can enjoy your beneficiary enjoying your gift. These gifts can include possessions when you're downsizing to a smaller home, funds you're confident you won't need in the future, or valuables such as jewellery you no longer need. The advantage of gifts given while you're still alive is that neither you nor the recipient is required to pay probate fees on the gift.
- **Beneficiary** – some financial assets allow you to name the beneficiary to whom the asset will be transferred when you die, without delay and without probate fees.
- **Joint Ownership** – if you own an asset jointly with someone else, when you die, the asset simply transfers to the joint owner.
- **Trust** – sometimes called alter-ego trust. Assets held in a trust do not go through your will and are not part of your estate when you die and therefore do not need to be probated. However, this is a complex option that you should discuss with your Nakamun Advisor.
- **Will** – all other assets that you do not transfer to your survivors through other methods can be distributed through your will. However, you must ensure that what is written in your will does not conflict with any other arrangements you have made.

### Step 4 – Select The Person You Want to Oversee The Transfer of Your Assets

The executor implements your wishes as stated in your will and may not necessarily know or be able to find all your assets. You need to select one individual, who is typically one of your professional advisors such as your accountant, lawyer, or financial advisor, to assist in organizing your estate plan while you are alive. When you pass away, ideally, that same individual would be available to help execute your estate plan, because he or she will have a clear understanding of your assets and beneficiaries .

In future editions of this newsletter, we will provide more detailed information about estate planning. In the meantime, if you'd like to create, update, or complete your estate plan, please contact your Nakamun Advisor.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*Good Advice | Well Given*