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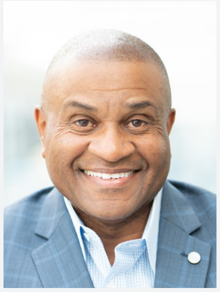
PLANNING BY DESIGN

FALL 2021



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Autumn has arrived – a time for giving thanks. We hope that you have many things to be thankful for, most importantly your family's good health. We are thankful for your continued faith in our work to help you prosper. Let's reconnect soon to discuss your investments, goals, and any opportunities that need to be attended to before the year's end.

▶ **MUTUAL FUNDS**

Did you "stash the cash" during the pandemic? These funds offer more options

Canadians amassed $212 billion in savings last year, versus $18 billion in 2019, according to Statistics Canada.[1] So far, most of us have simply been sitting on the savings or paying down consumer debt. If you stashed your cash in a bank savings account, you'll likely have been disappointed at how little you earned on those savings.

Depending on your goals for that money, it could be working much harder. Consider these mutual funds based on investing goals with a 3- to 5-year time horizon:

Mortgage funds. These funds hold Canadian residential and commercial mortgages and are designed to provide a steady stream of income. They're considered close to money market funds in terms of security of capital.

Monthly income funds. A monthly income fund targets current income, usually on a monthly basis, as opposed to capital appreciation. Some are managed to achieve a fixed percentage payout. Monthly income funds usually hold a variety of government and corporate debt instruments, preferred stock, money market instruments, and dividend-paying stocks.

Bond funds. These funds focus on providing a steady stream of income, often along with some possibility of capital gains. Some of the best choices for stability and short-term investing include short-term bond funds and government bond funds.

Balanced funds. Because these funds invest in both stocks and fixed-income investments, holdings in one asset class can offset volatility in the other. The result can be steadier performance than that of funds holding just one type. Balanced income funds typically hold more fixed income than equities while balanced growth funds target a greater equity component. Individual balanced funds can differ greatly in their mandates and risk profiles so professional advice is useful here.

Your pandemic savings could also provide a once-in-a-lifetime boost towards key long-term financial goals, such as higher education, a recreational property or early retirement.

Talk to us if you'd like to explore the potential of investing those pandemic savings wisely, regardless of your investing objectives. ◀

[1] CBC. *After a year of pandemic prudence, Canadians likely eager to spend the billions saved.* June 21, 2021. https://www.cbc.ca/news/business/bakx-record-savings-pandemic-spend-1.6071493

Value funds or growth funds? Who shines in a booming economy?

As the major Western economies throw off the shackles of the pandemic, economic growth is accelerating, with Gross Domestic Product (GDP) predictions upgraded several times already this year for many countries. Will this rising tide lift all boats, or will certain styles of mutual funds offer the potential for better returns this year?

Ideal conditions

As economists and market watchers have noted, economic growth seems set to expand considerably thanks to several positive trends: vaccinations are well underway; reopening is proceeding across North America; pent-up demand is strong; and household savings are high. But it is these very circumstances that may allow some companies and sectors to outperform over others. Inevitably, there will be winners and relative losers as the economy shifts from lockdown mode to more typical conditions.

Value or growth?

Many mutual fund managers are characterized as having an investment style, often using a "value" or a "growth" filter to assess potential stocks. Depending on the approach, the opportunities in the post-lockdown economy may look very different.

Value-focussed fund managers seek out quality firms whose market price does not accurately reflect their intrinsic value. Essentially, the value style means buying stocks that are regarded as being "on sale."

They pay close attention to a company's financial information, such as debt levels, price/earnings (p/e) ratio, price/book value ratio and dividend yields to determine whether its stock is overpriced, underpriced, or fairly valued.

Value stocks tend to do well at the beginning of an economic cycle, which many market watchers believe is where we are now, and value managers will be looking for those relative underperformers that are ready to excel. Indeed, in the U.S., earnings sectors that often lead in value stocks, such as financial services, energy and materials, have seen large increases in the first half of this year.[1] The flow of money into growth funds has followed.[2]

Growth fund managers, on the other hand, seek out companies whose earnings they think will grow faster than others in their industry or the overall market. They look for firms that have high earnings growth rates, a high return on equity, high profit margins and low dividend yields.

As the economy accelerates, growth managers will continue to see opportunities in companies that are riding a wave of growth and can expect continued high levels of profitability as consumers and businesses begin spending with gusto. Technology stocks, for instance, are classic growth stocks. Many of these have done well during the pandemic. The big question for money managers is this: is that outperformance set to go on or is a pull back likely?

Portfolio basics

For the individual investor, considering the approaches that professional fund managers use offers a way to understand equity markets and investment performance better. But the most important approach is to adhere to the foundations of a diversified portfolio matched with your individual risk profile and investment goals. If you'd like to better understand the role of value and growth fund styles in your investments, a portfolio review may be in order. ◀

[1] MarketWatch. *Value stocks are so in favor they've become momentum stocks.* March 27, 2021. https://www.marketwatch.com/story/value-stocks-are-so-in-favor-theyve-become-momentum-stocks-11616084864

[2] MarketWatch. *Value stocks are making a comeback. Don't get left behind, these analysts say.* March 22, 2021. https://www.marketwatch.com/story/value-stocks-are-making-a-comeback-dont-get-left-behind-these-analysts-say-11615828690

FUND TIME

Tips and lessons in mutual fund investing

Investment Objective

What is it? The investment objective of a mutual fund defines how that fund will invest the money entrusted to it in the pursuit of a set of investing and performance goals. A detailed statement of investment objectives may also include how the fund expects to achieve its objectives, including the type of securities it will invest in, the risk profile it expects to have and benchmarks against which it will measure its performance.

How does it work? A fund's investment objective is set out in the fund's simplified prospectus. You may also find it stated on the Fund Facts sheet and the Fund's annual report and financial statements. For illustration purposes, an investment objective could read like this: "The investment objective of the XYZ Canadian Equity Fund is to provide long-term capital appreciation by investing primarily in equity securities of large capitalization Canadian companies to provide broad exposure to major sectors of the Canadian economy."

Why does it matter? The investment objective of a mutual fund is fundamental to understanding the suitability of the fund for the investor, including whether the fund is right for the investor's goals; whether it entails a level of risk that's appropriate; the time horizon that the investor should expect to be invested; and the role the fund may play in overall portfolio construction, such as the diversification it helps to achieve. ◀

Navigating the expanding world of socially responsible mutual fund investing

Do you know your SRI from your ESG? Or is "impact investing" a better fit for you? According to a survey conducted for the Investment Funds Institute of Canada (IFIC), just 50% of mutual fund investors say they are either "very knowledgeable" or "somewhat knowledgeable" about responsible investing.[1] As more and more of us become interested in how our money is invested, not just for personal gain but for the good of society and the environment, the world of ethical fund investing has expanded. So has the terminology. Here's an introduction.

No official definitions

It's important to note that the definitions, terminology and marketing surrounding socially responsible or ethical investing in Canada are not regulated or prescribed by law. The onus is on the investor and their advisors to sift through the jargon and the approaches to ensure that the funds they are investing in match their intentions. Nevertheless, there is some consensus around the key terms below:

Ethical investing is a broad term that means any kind of approach that takes ethical values, as well as investment objectives, into account.

Socially responsible investing (SRI) is a similarly general term that encompasses a number of different approaches.

Environment, Social and Governance (ESG) investing, an increasingly common term, refers to ethical screens used to identify companies by their performance in each of the three areas. Environmental screens refer to how they enhance or harm the natural world. Social criteria include policies towards employees, customers, and the communities that the company operates in. Finally, governance refers to corporate issues such as a company's leadership, executive pay, internal policies, and shareholder rights.

Impact investing takes a more proactive approach, with a desire to promote specific outcomes in such areas as health care, education, or green energy. Often this approach is achieved through schemes outside of the public investment markets – such as microfinance initiatives – and it may be difficult to find mutual funds that invest in this way.

How to decide

There is no one answer for all investors as each of us has different ethical objectives and investment goals. Deciding on the right approach for you starts with examining your own attitudes and goals about social responsibility.

For example, if you are adamant that you don't want to put your money into certain industries such as tobacco, armaments or fossil fuels, then you may want an SRI fund that uses "negative screens" to filter out such companies. You could also simply examine the holdings of any good quality equity fund to ensure they don't invest in such companies. This approach would require constant monitoring, however, as fund holdings change over time and the fund's mandate may not include such prohibitions.

Some funds use a "best in class" approach that will invest in such companies if they lead their industry in improving their practices. In fact, some fund companies work with the companies they invest in as shareholder activists to drive positive change and monitor their performance against key ethical measures. Perhaps this activist approach is a fit for you.

Keep in mind that ethical investing doesn't have to be an "all or nothing" scenario. If you're new to this idea or unsure, you can devote a certain percentage of your portfolio to SRI funds to have some of your money working specifically towards these goals. It's worth noting as well that most large Canadian corporations that you would find in more traditional mutual funds have policies in place already guiding their environmental stewardship, employment equity and diversity, community investment and corporate governance.

If doing good with your money is as important as doing well, let's review your mutual funds to ensure that your investments are in lock step with your values. ◀

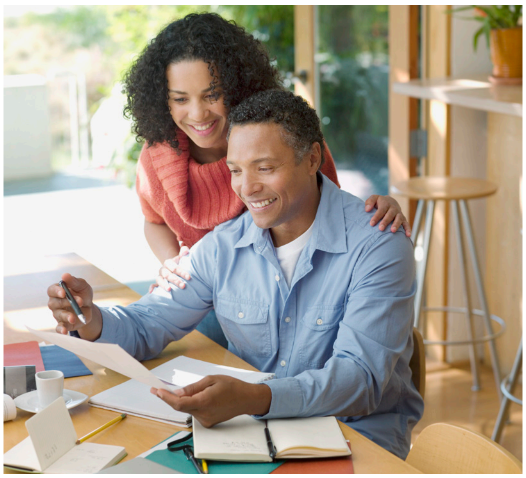
[1] Investment Funds Institute of Canada. *2020 Canadian Mutual and Exchange Traded Fund Survey.* Conducted May-July 2020.

Check out this financial year end checklist

December has some important deadlines that could affect your 2021 taxes. Here are some of the key ones:

RRSP conversion. If you turned or are turning 71 this year, December 31 is the deadline for collapsing your Registered Retirement Savings Plan (RRSP). However, planning for this important financial change should be done well in advance of the deadline.

Tax-loss selling. You have until late December to sell a security that settles in 2020. December 24 is the expected last buy or sell date for Canadian securities to settle in calendar year 2021, based on trade date plus two business days.



However, it is advisable to review your non-registered portfolio earlier to consider the sale of securities with accrued losses before the end of the year to offset capital gains realized in the year, or in the three previous taxation years, if a net capital loss was created in the current year.

Charitable donations. December 31 is the deadline for making a charitable donation that can be claimed for the 2021 tax year.

Tax deductions and credits. December 31 is also the final payment date in order to receive a 2021 tax deduction or credit for expenses such as childcare and medical and tuition tax credits. ◄

Cannabis and green energy driving the growth of “theme funds” in Canada

Theme-based mutual funds offer a way for investors to take part in a specific investment idea or trend in society, such as adoption of Artificial Intelligence into a broad array of industries or the aging of the population in advanced economies. More popular in Europe, they have been growing in Canada, according to a new report from Morningstar Research.[1]

According to the report, there are now 36 such funds in Canada holding $2.5 billion in assets. Perhaps not surprisingly, key themes in this country attracting investors have been cannabis and energy transition. The transition to green energy is also the most popular theme globally.

As the report notes, because of their narrower exposure and higher risk

profile, thematic funds are best used to complement rather than replace existing core holdings. With these very specialized funds, professional knowledge and advice are key. Talk to us first if you’d like to explore the potential of investing in theme-based funds. ◄

[1] Morningstar Research. *Global Funds Thematic Funds Landscape*. May 2021. https://www.morningstar.com/lp/global-thematic-fund-landscape

Fund changes should trigger a review, not panic

Has a fund in your portfolio parted ways with its manager, advisor or sub-advisor? Has it merged with another fund in its family? These changes are common in the world of fund management. If you’ve received notice of such changes, keep the following in mind.

Most changes are made to improve the investors’ position not to harm it. In some instances, a fund’s manager or advisor may not have followed the fund’s mandate or style sufficiently or may have underperformed over a period and is being replaced to get the fund back on track. Sometimes fund mergers take place when a particular fund has not attracted enough interest to be able to be managed according to its mandate. When this happens, the fund is usually merged with a fund of a similar nature, style or objective.

In short, there’s no reason for investors to panic. A quick review with us may be called for, however, to ensure you understand what’s happening and are confident your portfolio is aligned with your needs. ◄