October 2019

Money Wise Magazine

Market Watch

... and what happened with Cannabis Stocks?

Is the Trade War Really About Trade?

Foreign trade might not have the impact you think it does

Why You Should Rethink Mortgage Insurance

Being covered is better than not, but what is it costing you?

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2019 Summer Debt Survey

38% of Canadians living with debt admit it was because they *lived beyond* their means

1 in 4 indebted Canadians admit to making *poor progress* on paying down their debt

19% *not able* to break the debt habit

9% *have no clue* how much they spend, on average, every month

A little can do a lot

Trying to stay instaworthy but hitting instadebt? You're not alone.

No matter which generation you belong to, it's never too late to change bad habits into good ones. Knowing little steps can add up to big changes feels good when it comes to your debt.

Manulife Bank

In this Issue…

The election results are in! Canadians are in for another (minority) term for Trudeau despite a decrease in his popularity. Regardless of which party is in power, we're here for you and your future. If you have any concerns about how the platforms could now affect you, let us know.

Now that we can turn our attention away from politics for a while, let's look at your investment portfolios, shall we? Following the climate strikes and other events like the "Bridge Out" earlier this month, many of our clients are turning to their investments to help take some action. We had emailed many of you about Socially Responsible Investing (SRI) a few weeks ago but if you missed it (*are you on our email list?*), let us know if you'd like to incorporate SRI funds into your portfolio.

Another emerging industry we've had clients ask about pretty frequently is cannabis, especially since legalization a year ago. Patricia discusses what opportunities investors are seeking, and what risks are still on the table in this very new industry.

Many industries are in a state of flux, this is not news to us. Industry disruption is happening around the globe, and in the wake of changes in the way we consume goods and services, economic maps are being redrawn.

There has been a lot of talk of the "trade war" between the USA and China as China gains ground as an economic superpower. Despite all this talk, not much seems to be actually *happening*. Rick discusses what this rivalry has meant for the economy in his article, and where we might be going from here.

If where you're going is into a new house (like me!) then you've probably had your mortgage provider offer you mortgage (or "creditor") insurance to pay off your mortgage if you were to pass away. Lorna compares bank-bought mortgage insurance with a term life insurance policy in her article to give you a better idea of what you're actually purchasing, and how there might be a better, more flexible, option for you.

Keep an eye on your spending in the next couple of months as we get closer to Christmas. If you find it difficult to keep track, or feel like you don't have control of your ins and outs, we have some tools that can help you curve your habits.

Natalie LeBlanc
Marketing Assistant

Market Watch

The third quarter of 2019 has seen an increase in volatility after a strong first half of the year as investors are assessing the mixed background of once-again accommodative Central Banks worldwide, slowing economic growth as we move into the late stages of this economic cycle and the ongoing headwinds caused by the US-China trade dispute.

Since the beginning of 2017, the Central Banks of both China and the US, the two largest economies in the world, have maintained policies to restrict growth and these policies were successful in slowing their respective economies down. Now that signs of economic weakness are showing, the conversation has begun to shift from how to normalize interest rates from emergency levels brought about by the global financial crisis of 2008 to once again stimulating the economy in order to extend the current cycle.

Rick Irwin, CFP, CLU
Financial Planner,
Investment Representative

Unlike in past cycles, when the Fed often overshot and raised rates too much, tripping the economy into recession, this time they seem to have engineered a more "goldilocks" environment where growth has slowed but not stopped altogether and now, hopefully with a nudge in the right direction from what are likely to be modest rate increases, growth will again tick back up.

By the late summer, most major world markets reached all time highs. Despite this milestone, Canadian, US and global markets have actually been treading water since late January 2018. This "sideways" market reflects the economic slowdown brought about by Central Banks, as well as anxiety over the ongoing trade tensions globally. Now that Central Banks are gently tapping the accelerator, with a still-healthy growth environment globally, it's quite possible that we could another period of positive returns provided there are no material missteps with the "trade war" (more on this later!).

As of this July, the US economic expansion officially became the longest in history, surpassing the 120-month run in the 1990s. It's said that "stock markets don't die of old age" but rather when there is a build up of excesses or when the Central Banks tighten rates too much and tip send the economy into recession. The current US cycle is the longest in duration, but perhaps not surprising seeing as it comes on the other side of the worst period since the Great Depression. The magnitude of the gain is not out of line with prior expansions either. Stock market cycles do not come with expiry dates. In fact, Australia hasn't experienced a recession in over 28 years and the Economic Cycle Research Institute has identified many major world economies that have experienced positive economic cycles lasting 15 years or more since Word War II.

Given the backdrop of high levels of employment (a 50-

year high in the US), low inflation, and generally accommodative Central Banks, there are reasons for optimism. That said, we are quite likely in the late cycle stages of this global economic expansion, and trade tensions are a concern. Our recommendation is that you ensure that your investments are well diversified and, unless you have a long runway until retirement, you should look to having a neutral/balanced mix between the level of stock market exposure and your allocation to bonds and other defensive asset classes at this point in the cycle.

Will Cannabis Investments go the way of Yahoo?

Do you Yahoo? Are you (like me) old enough to remember this slogan from the mid 90's? It was the catch phrase for searching the "world wide web," a database with a searchable index of pages supplemented with its directory of websites.

Since its legalization in Canada about a year ago, one of the questions clients regularly ask about is whether their portfolios include mutual funds with investments in cannabis-based companies. Grandmas and grandpas are experimenting with something that what used to be criminal and even subversive. Edibles are soon to be legal, as is vaping. Liquor producers are exploring how to incorporate recreational cannabis into your favorite beer or cider. With so many options shouldn't our portfolio managers be taking advantage of this trend?

The reality in a new industry is often different than media hype would lead you to believe. In fact, in the first year of legalization, the shares of what were the 10 largest Canadian cannabis producers by market capitalization have yielded an average negative return of more than 57% for investors. (Financial Post) Companies couldn't handle consumer demand. A lack of inventory meant massive delays even while companies explored aggressive expansion plans. Ever-changing laws and regulations continue to raise more concerns. Cannabis producers are where tech companies were when they first emerged. So, while they may represent an amazing growth opportunity, they're attended by the same inherent risks and challenges. Fund managers are, understandably, reluctant to invest in such a volatile product.

Think back to the landscape of internet-based companies back in 1999-2000; how many of those companies are still operating today? The current state of the cannabis industry is in a similar state of "figuring itself out," as laws and distribution channels are perfected. Opportunities exist, but risk is abundant.

So, do you Yahoo? Or ask Alexa?

Patricia Bell, PFP
Financial Planner,
Investment Representative

Is the "Trade War" Really About Trade?

China's rise as a global economic superpower has undoubtedly ruffled the feathers of major producers in other parts of the world, including the USA. The role that foreign trade has in terms of GDP isn't small, but may be smaller than the media would lead you to believe.

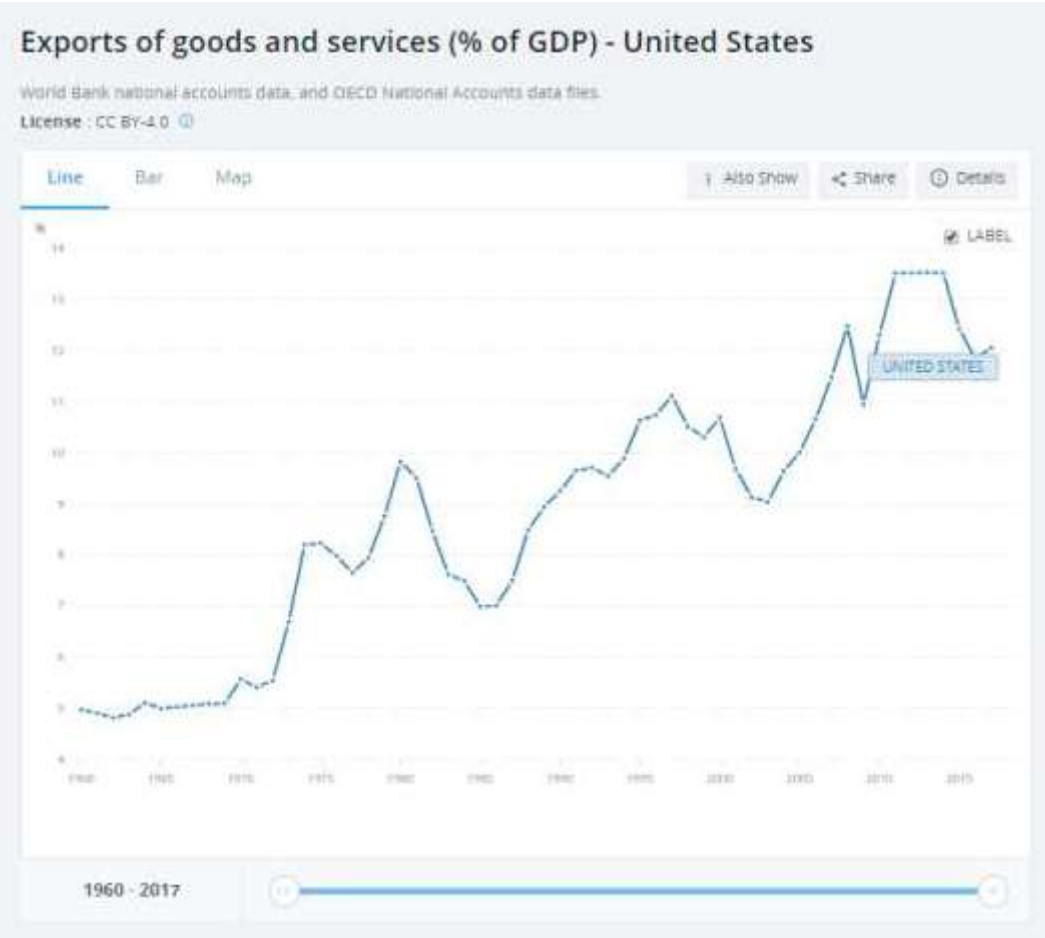
It's no secret that one of the main reasons for investors' increasing jitters over the past year has been the escalation of US-China trade tensions, and what impact this will have on the global economy. Tariffs are indeed negative for the global economy as they represent a tax on imported goods and that tax burden is ultimately passed onto the consumer through higher prices and/or investors with lower stock market returns from corporations affected by these tariffs.

However, in some ways the impact of trade barriers on the world's two largest economies may be overstated. The US, for example, is somewhat of an economic island unto itself with exports only representing 14% of their economic output as measured by GDP (Gross Domestic Output), and exports to China (with whom they have a trade surplus not deficit) are only about 1% of GDP. Perhaps more surprisingly, China has been able to grow its economy to the point where exports have shrunk to just 18%, and trade with the US is less than a quarter of that amount. In other words, tariffs would only impact a portion of these enormous economies' overall import/export framework.

Tariffs would have a larger impact on countries like Canada and Germany where trade represents between 30-40% of GDP, though Canada may be somewhat insulated due to the Free Trade agreement with the US.

Another factor to consider is that the US and Chinese economies have been hugely shifting towards services, especially technology-based services, and tariffs have much less on an impact of service companies than they do on, say, manufacturing. And China has been very much focused on the Belt and Road initiative, a 21st Century new Silk Road throughout Africa, Asia and Europe, to increase trade between these nations outside of the Americas. China plans to spend trillions of dollars to develop and improve maritime and land trade routes, especially in the developing world, in a modern-day nation building version of the US's Marshall plan to rebuild Europe after the devastation of WWII.

In many ways, the "trade war" is only marginally about trade. It has much to do with the rise



of China as a global economic superpower and some of the ways they have had advantages along the way (theft of intellectual property, artificially pegging their currency to the US dollar etc.) I recently returned from the annual forum of Capital Group in Los Angeles. Capital Group is one of the oldest, largest and most respected investment management firms in the US and they gave a lot of insights into the current US- China trade spat. While there may indeed be reprieves in the trade tensions between the two countries, they view this as what will likely be a long lasting economic "cold war" between the two nations. They made the point that this is the first time in history that the US has faced an economic rival. Russia, while and ideological and military foe, never posed a credible threat to the US economy. China, as it evolves into quite likely the largest economy in the world, poses a real threat to the US and for that reason they expect some version of the current trade disputes to continue for many years to come.

The impact of trade tensions will be felt the most by those global multinational corporations that had benefitted the most from the decades-long trends of globalization and outsourcing. Globally-entwined supply chains will adjust as tariffs make it less productive to outsource manufacturing, trade patterns will change, but the world economy will survive as we come to grips with ongoing trade tensions between the two economic superpowers as the "new normal."

Rick Irwin, CFP, CLU
Financial Planner,
Investment Representative

Why You Should Rethink

Insuring your debts in case something happens to you is generally a good idea. You don't want your loved ones on the hook for thousands of dollars you owe on your passing. But your coverage options are varied, and going with a policy outside of your bank's typical creditor insurance tends to pay off.

For a lot of us the first mention of any type of insurance could be when we sit down to organize our first mortgage. This type of insurance is called either "mortgage insurance" or "creditor insurance". The "big banks" generally advise all their debtors to have insurance coverage so if the borrower were to die, the outstanding loan would be paid off.

Is your representative even licensed?

Unfortunately for many Canadians, banking officers at many banks providing this advice to you are not licenced by the province to sell insurance. I would like to think they are certainly trained on their own banks range of creditor insurance products, but they are not allowed to advise or discuss any other types of insurance. This could, and often does, lead to an incomplete insurance needs analysis.

Your coverage is decreasing over time

With mortgage insurance, while the premium remains level throughout the term of

Mortgage Insurance

your policy, the amount being covered is decreasing in line with the reducing mortgage amount. This may sound good on paper but there are other types of insurance that have a level premium and a level amount of insurance. This would mean that if a claim was made, the beneficiary would have full control over what the money was used for, including the likely possibility that there would be more insurance proceeds than outstanding debts. Therefore, there is more money in their pocket that could be used to cover other final expenses or living costs. Premiums on this alternative type of insurance (Term Insurance) are very competitive and, in my experience, they are sometimes even lower due to way the risk is calculated and assessed.

Changing lenders? Your insurance won't change with you.

What happens at renewal if you decide to change lenders? If you were solely relying on the mortgage insurance to cover this debt, then when you change to a different lender or bank you would have to reply apply for new insurance. This would mean new health questions (albeit very limited) and undoubtedly a new premium which would be subject to the rates at that time. Mortgage insurance is not portable and is tied to each lender. A separate term policy, in comparison, would not be affected by any changes to your lender.

Chances of claim refusal are higher

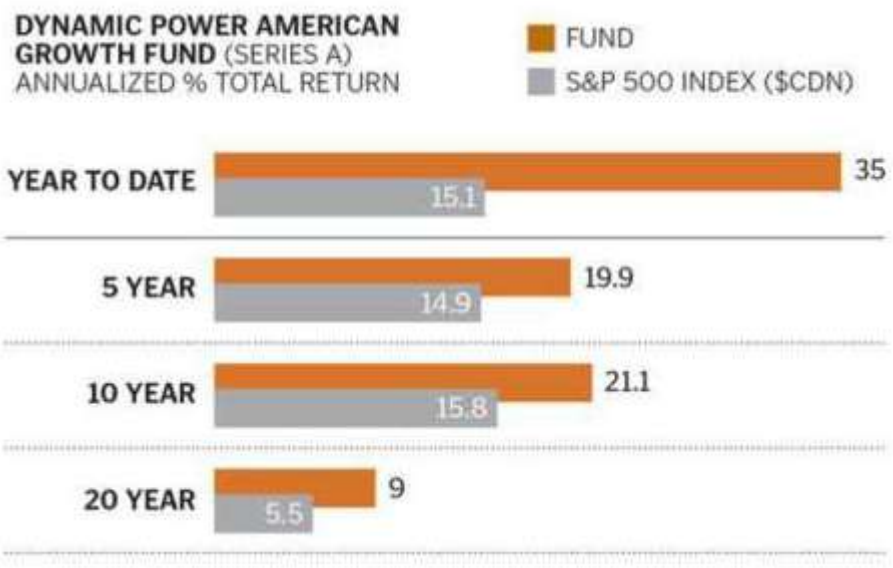
How would you feel if, after years of paying your premiums, the insurance didn't actually pay out when you made a claim? This concern comes from the way the mortgage insurance is underwritten: you are only asked to answer about 4 or 5 questions regarding your health. No detailed information is collected about your health or lifestyle. This means that the real underwriting is done at the time of any claim and this could mean that the insurance is not accepted just at the time when you need it most.

This differs from the way an independent insurance policy is applied for. You are fully underwritten at the time of the application; you would be asked questions about your health and lifestyle and an underwriting decision is made when you apply, not at the time of a claim. No surprises. Providing you gave full disclosure, you can be rest assured that if a claim is made the insurance will be paid out to your beneficiaries just as you intended and paid for.

Having insurance to cover any debts in the event of your death is important and creditor insurance may be your only option, however, its worth seeking advice from a qualified and licenced insurance advisor to see what other options are available. It is not advisable to cancel any existing insurance policies until the replacement policy has been accepted and is in force.

Lorna Maughan
Investment Representative

How this $5-billion fund manager
the past two decades



It's very rare for a money manager to beat the index by a wide margin over two decades. But Noah Blackstein, who oversees more than $5 billion in U.S. and global portfolios for Scotiabank's Dynamic Funds, has done it with his flagship Dynamic American Power Growth Fund (Series A). We asked the 49-year-old growth manager how he navigates through U.S. President Donald Trump's tweets and why he finds yoga-inspired apparel retailer Lululemon Athletica a compelling investment.

How have you outpaced the Standard & Poor's 500 over the long haul?

If you gave me $1 million in July 1998, that's worth almost $7.9 million today. The same million in the S&P 500 is worth $3.5 million in Canadian dollars.

We have more than doubled the S&P 500 return over 21 years. We tend to own 20 to 25 stocks. Consumer discretionary, retail, technology and health care are historically good areas where you find companies that can go from a few hundred million in revenues to tens of billions. The key to the success of the strategy is to stick to the discipline and

not waver when you have a difficult year—no matter what people say.

How do you deal with President Trump's tweets on U.S.-China trade that can

has trounced the S&P 500 over

roil markets?

I have gone through Presidents Clinton, Bush, Obama and now Trump. I take geopolitics and the macro situation as cards dealt to me. Until something macro impacts an individual company, I try not to be overly influenced. Volatility is not a measure of risk. For me, risk is the probability of a company going under. Reducing the China exposure in my global portfolio to 4% from over 30% last year was not a trade-war call. There was an unbelievable Chinese crackdown and a tremendous amount of regulation put on everything from video games to pharmaceuticals, social media and after-school education institutions. That made it very difficult for a lot of companies.

Where are you seeing opportunities?

We are in the midst of a digital transformation. Companies are shifting to the cloud for everything from human resources to supply-chain software. In this space, we own names like cloud-service provider ServiceNow and Paycom Software, whose products focus on payroll and employee recruitment.

Retailers are struggling. Why do you own Lululemon?

Lululemon has embraced digital in its stores and Web shopping. It has the right merchandising. And its new CEO, Calvin McDonald, has a pedigree from running U.S. cosmetic chain Sephora. Lululemon's men's business is also a huge opportunity— and yes, I am a customer. Their men's pants are unbelievably comfortable.

Do this year's hot initial public offerings or cannabis stocks interest you?

The way IPOs are done today, a very small float is put out. The stock goes crazy for a short time, but then the lock-up period [for insiders] ends, and their shares can trade freely. That puts downward pressure on valuations and can provide a buying opportunity. We find a few interesting. As for cannabis, this phase is like internet stocks in the late 1990s—huge market caps but not a lot of earnings. There will be a big shakeout. If a company can grow rapidly over time and is profitable, maybe we'll look at it.

What are your best and worst investments?

From 2000 to 2011, we had winners like Apple and Google, and more recently, Salesforce.com. I think of my mistakes as companies I thought had fully played out. Adobe Systems is a digital-media software company that we owned for short periods.

I felt it was a mature, slower-growing company and didn't anticipate the acceleration in its business when it shifted to a cloud subscription-based model. I missed it.

What is your favourite investment book?

I read Common Stocks and Uncommon Profits by Philip Fisher in my early 20s. I had heard that [value investor] Warren Buffett's approach was influenced by Benjamin Graham and Fisher. Fisher was one of the few investors to write down his system of finding great growth companies. That book is still relevant today.

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