INVESTMENT FOCUS

Mackie Research Capital Corporation

Personal Newsletter from Janice Honeyman

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Maintaining a Longer-Term View

As the saying goes, "there are decades where nothing seems to happen and then there are weeks where decades happen." This spring was no exception. For many, it felt as though the events of a decade occurred within just weeks. Unprecedented change, including physical distancing, isolation at home and the voluntary shut down of economies, led to equally unprecedented reactions: oil futures prices reaching negative levels and then rebounding, entire industries being shut down and record unemployment levels.

Similarly, equity markets caught many off guard as they fell and then rallied so quickly. Typical bear market cycles last between 18 to 36 months. Yet, this past spring, we saw one that was compressed into a matter of weeks.[1]

As economies globally have begun to reopen and the world moves towards some semblance of "normal," perhaps we can reflect on certain experiences from the spring:

Setbacks can happen too quickly to ignore. Yet, consider that progress often happens too slowly to notice. Since 1928, we have endured the Great Depression, a world war, recessions, market busts and lengthy bear markets. Despite many bumps along the way, the S&P 500 Index grew from around 13.4 to a level of around 3,000,[2,3] a compounded annual growth rate of over 6 percent, not including reinvested dividends. Time — if you can stick with it — has been a powerful force in investing as it compounds growth.

The world can be surprising. Sometimes the biggest risks cannot be foreseen. As advisors, this is why one of the most important roles we serve is to act as risk managers. With a focus on preserving hard-earned capital, the goal is to maintain a disciplined approach to controlling risk within a portfolio, while constantly monitoring investments and navigating the changing landscape.

Policy responses have been faster and deeper than ever. We must not overlook the support of today's policy makers in trying to minimize the implications of the crisis. While certain media voices suggested the potential for depressionary times when contemplating unemployment levels and economic declines, our historic troubles were likely compounded by a series of poor policy decisions, unlike today.[4]

In the near term, equity markets are likely to experience volatility as economic data and earnings reflect the impact of the spring economic shutdowns. Despite the challenges ahead, better times will prevail. Maintain a longer-term view. In preparation, a disciplined approach emphasizing quality, diversification and a solid plan is expected to serve investors well for the longer term.

Janice

1. bloomberg.com/news/articles/2020-04-06/no-one-wants-to-call-canada-s-21-stock-surge-a-bull-market; 2. macrotrends.net/2324/sp-500-historical-chart-data; 3. At June 1, 2020; 4. hbr.org/2020/05/the-u-s-is-not-headed-toward-a-new-great-depression?ab=hero-main-text

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Retirement Planning

Changes to the RRIF Withdrawal Factors for 2020

Back in March, the Federal Government reduced the 2020 minimum withdrawal amounts for Registered Retirement Income Funds (RRIFs) by 25 percent "in recognition of volatile market conditions and their impact on many seniors' retirement savings."[1]

Should Retirees Withdraw Less from the RRIF?

While the lower withdrawal requirement allows investments within a RRIF more time to potentially recover from a market downturn, there may be other opportunities for seniors who don't require RRIF income.

Consider, instead, transferring investments "in kind" from a RRIF to a Tax-Free Savings Account (TFSA), subject to available TFSA contribution room. While the withdrawal from the RRIF will be taxable in the year of withdrawal, should investments recover, the TFSA will generate no taxable income on future withdrawals or investment income, unlike the RRIF.

There may be an additional tax opportunity. For seniors who have a lower marginal tax rate today than they expect to have in the future (including at death), drawing RRIF income above the minimum levels may be a way to potentially lower an overall lifetime tax bill. RRIF withdrawals will be taxed at the current, lower tax rate, instead of at a higher anticipated future marginal tax rate. If these funds are invested in a TFSA, any future gains will not be subject to the higher future marginal tax rates. Note that withholding taxes will apply to RRIF withdrawals in excess of the minimum amount. Also keep in mind that the effect on any income-tested government benefits should be considered when contemplating this strategy.

Note that the reduction in the minimum withdrawal factors for the 2020 year also applies to Life Income Funds (LIFs) and other locked-in RRIFs. If you have already withdrawn more than the lower minimum amount in 2020, you are not permitted to re-contribute any excess to your RRIF.

Please call for assistance with this or any other RRIF matters.

1. https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-benefits-credits-support-payments.html

During Uncertain Times: The Benefits of Dollar-Cost Averaging

As we have seen with recent equity market reactions, short-term price movements are often unpredictable and nobody can be certain when the next upturn will begin. Such turns can occur when the outlook is bleak and the natural inclination may be to sell, not buy. In hindsight, all down markets look like buying opportunities. But in the moment, it's not always easy to commit money to an investment that has gone down in price, particularly in a bear market.

Those investors who use a dollar-cost averaging (DCA) program to build their long-term portfolios can have an advantage. A DCA program mandates regular, modest investments, rather than one major lump-sum commitment. As such, investors need not focus on predicting market movements.

DCA can fit nicely with personal cash flow, acting as a way of saving on a steady basis. Payments can be made at any regular intervals, such as monthly or quarterly. DCA can work particularly well with funds as you can buy exact dollar amounts of a fund, which may not always be possible with share purchases. However, there is no reason why DCA can't be used to build any security position, especially in these times in which broad declines have affected many securities.

The example (chart) uses S&P/TSX Composite Index returns to depict a DCA program through the extended bear market period we experienced from 2000 to 2002. Each quarter, $1,000 was invested. Despite poor market performance, the DCA program resulted in a modest gain of $1,130 ($17,130 less $16,000), plus the ownership of significantly more units which benefitted the portfolio as time went on. Had a lump sum investment of $16,000 been deployed at the beginning of 2000, it would have returned a small loss, with an overall value of $15,633 and 1,902 units owned (versus 2,084).

Profiting Through a Bear Market: DCA Using S&P/TSX Index During 2000 to 2003

Quarter	Index/1000	Units Purchased	Units Owned	Total Value
12-99	8.4138	118.85	118.85	$1,000
03-00	9.4624	105.68	224.53	$2,125
06-00	10.1995	98.04	322.58	$3,289
09-00	10.3779	96.36	418.94	$4,348
12-00	8.9337	111.94	530.87	$4,743
03-01	7.6080	131.44	662.31	$5,039
06-01	7.7364	129.26	791.57	$6,124
09-01	6.8386	146.23	937.80	$6,413
12-01	7.6884	130.07	1067.87	$8,210
03-02	7.8515	127.36	1195.23	$9,384
06-02	7.1456	139.95	1335.18	$9,541
09-02	6.1804	161.80	1496.98	$9,252
12-02	6.6145	151.18	1648.16	$10,902
03-03	6.3433	157.65	1805.81	$11,455
06-03	6.9831	143.20	1949.01	$13,610
09-03	7.4211	134.75	2083.76	$15,464
12-03	8.2209	--	2083.76	$17,130

Source: S&P/TSX Composite Index closing figures, 12-31-99 to 12-31-03. Past performance is never indicative of future performance.

During times of uncertainty, DCA can be a useful strategy. It allows you to take the emotions out of investing, while continuing to put money to work. Even during down or bear market times, DCA is a good reminder that a thoughtful investing plan can result in real progress toward achieving your wealth-building goals.

Estate Planning

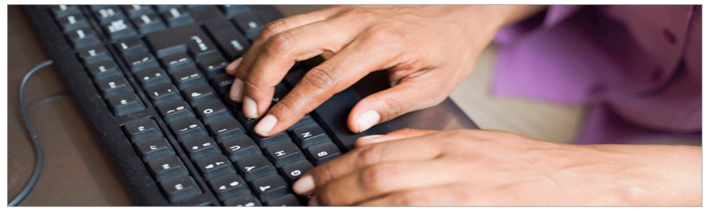
Creating a Will During COVID-19: Exercise Caution

In light of COVID-19, many people have turned their minds to their estate plans. One news report indicated some Canadians have flocked to online will-creation sites — one of which saw sales up by 700 percent from the same period last year.[1]

A will is the cornerstone of any estate plan and creating one on your own is not difficult these days using the support of a will kit or online tool. However, there may be good reasons why more thoughtful planning can be beneficial.

The will itself may not be valid. While you can create legal documents online, they may not be legally binding. Canadian law currently requires that will documents be physically printed and stored offline. In order to be valid, a will must also be signed in the presence of two witnesses who are required to sign the document. As a result of COVID-19, some provinces have issued emergency orders to permit virtual witnessing of legal documents including wills.[2] However, at the time of writing, there has been some confusion as to the procedures to be followed to ensure validation. There are also concerns about situations involving lack of capacity or undue influence.[3] In addition to this, there may be other nuances in provincial laws and/or language that may affect the validity of a will.

Legal does not mean "effective". Even if the document is valid, do you fully understand family law or succession regulations within your province, Canadian income tax and investment rules, or even the current U.S. estate tax law? These can change over time, and also create risks or potential future consequences to your estate plan. Today's families are more complex than ever, with divorces, remarriages and blended



family arrangements. In these cases especially, careful wording in a will can help to ensure that assets are distributed after death as intended. Equally important, a will that has been quickly drafted, such as one created in reaction to the current pandemic, may not thoughtfully consider all aspects of the estate.

Have You Updated Your Will?

If you do have a will in place, how old is it? Perhaps this may be a good time for a thorough review of the complete document, especially if circumstances have changed.

Seek Expert Advice

The support of a professional can not only ensure the validity of a will, but also its accuracy. Taking the time to do a deep discovery with an estate planning professional can help to ensure that your plan completely reflects your needs and desires. We can help provide a financial perspective, if required.

Improper documentation or vague instruction can lead to misunderstanding, conflict or even court battles. Don't let this be your legacy.

1. https://www.ctvnews.ca/health/coronavirus/should-you-create-or-update-your-will-in-light-of-covid-19-1.4879831; 2. https://www.investmentexecutive.com/news/industry-news/ontario-quebec-allow-legal-documents-to-be-signed-virtually/; 3. https://www.torkinmanes.com/our-resources/publications-presentations/publication/virtual-witnessing-of-wills-and-powers-of-attorney-permitted-in-ontario-during-covid-19

Working From Home? Consider the Potential Tax Benefits

Working from home became the "new normal" for many office workers this past spring. A common question arising from this new experience is: "Can I claim a deduction on my tax return for home office expenses?"

The Canada Revenue Agency (CRA) may allow for certain deductions in instances in which one of the following conditions is met: i) The workspace is where you mainly do your work (more than 50 percent of the time); or ii) You use the workspace only to earn employment income, and it is used on a regular and continuous basis for meeting clients, customers, or others in the course of your employment duties.

Deductible costs are based on the type of worker claiming the deduction: employees, commissioned salespeople or self-employed workers. Each of these groups is entitled to deduct different expenses. Expenses generally include electricity, heating, maintenance and supplies. Property taxes and home insurance are allowable expenses for commissioned salespeople or self-employed individuals, and mortgage interest and capital cost allowance may be claimed if you are self-employed. The portion that can be claimed is based on the area attributed to the home office, as a proportion of the total finished area of the home.

If individuals are not self-employed, in order to potentially deduct certain expenses, your employer must complete CRA Form ***T2200: Declaration of Conditions of Employment***. Any expenses reimbursed by an employer cannot be claimed.

While the current CRA rules require that you spend more than 50 percent of total work time in the home office during the tax year in order to claim deductions, some accounting professionals have indicated that there may be exceptions given the unprecedented circumstances. The CRA may consider cases on an individual basis.[1] However, over the foreseeable future, the threshold is likely to be met by more workers if fewer return to traditional office spaces.

For detailed information, please consult the CRA or seek advice from an accounting professional.

https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-pandemic-led-flight-to-home-offices-brings-tax-perks/?fbclid=IwAR24-wttdbsJ4SfloK1d5gRR77hoUEYUyeBa0GshEy5s9oi23TXpheggZQc

Perspectives on the Rate of Change

Since the end of February, the speed at which things have changed in response to COVID-19 has felt extreme: from rapid economic shutdowns globally, to equally swift responses by governments and central banks in providing fiscal and monetary stimulus. Even the speed and magnitude at which equity markets have declined and bounced back has been dizzying.

Consider this three-week snapshot of the daily fluctuations in price of the S&P/TSX Composite Index (open to close) in March:

S&P/TSX Composite Index Daily Change, March 9 to 27, 2020[1]

March 9	-4.6%	March 16	-2.3%	March 23	-4.9%
March 10	-0.4%	March 17	+1.3%	March 24	+5.6%
March 11	-2.5%	March 18	-3.9%	March 25	+4.4%
March 12	-8.1%	March 19	+4.4%	March 26	+1.7%
March 13	+4.2%	March 20	-3.9%	March 27	-2.0%

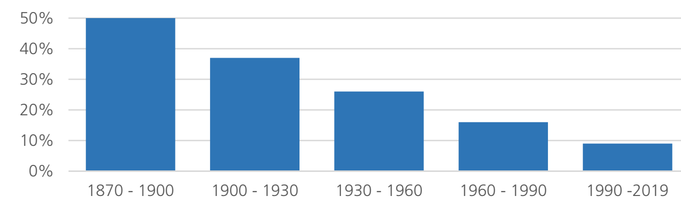
The world seems to move faster than ever. This may be attributed to the fact that we are more connected than in the past, both through technology and the media. In this digital age, the speed at which things can change has increased due to the power of network effects, instantaneous communication and the nature of digital goods. The chart (bottom, right) shows how the rate of change has increased with technology, using customer acquisition as a metric. Today, companies can attract millions of users at unprecedented rates.

Even Recessions Are More Accelerated

The speed at which economies recover from downturns has also increased. Economies go through cycles, with peaks and troughs being a natural part of the business cycle, and recessions occur when economic output declines after a period of growth. However, improvements in technology and our advancements in becoming a service-based economy, as well as the successes of central bank intervention in implementing monetary and fiscal policies, have all helped to increase the speed of economic recovery.[1,2]

A century ago, the economy was in recession nearly 40 percent of the time; today this rate has dropped to less than 10 percent (see graph for U.S. below[3] — the rate since 1930 is similar in Canada but economic data prior to 1930 isn't readily available[2]).

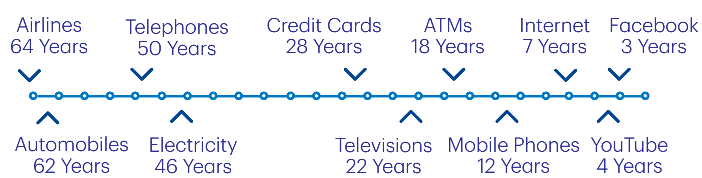
U.S. Economy — Percentage of Time in Recession[3]



This may be good food-for-thought as we ponder the path forward. Prior to COVID-19, we experienced the longest economic expansion on record. As economies begin to reopen, perhaps some of the factors that have increased the rate of economic recovery will help to prevent a long and drawn out economic downturn. While we face plenty of challenges in the short-term, this may be reason to maintain a more optimistic perspective.

1. TMX source data; 2. https://www.cdhowe.org/council/business-cycle-council; 3. https://www.nber.org/cycles.html; 4. visualcapitalist.com

Number of Years for Select Products to Reach 50 Million Users[4]



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