Manulife Securities

HOLISTIC WEALTH®

Wealth DIRECTIONS

MARCH 2020

Due to the current panic in the world over Covid-19 virus causing havoc to all the stock markets, I wanted to share this newsletter in a timely manner.

BEFORE COVID-19

My newsletters percolate for several months as my thoughts formulate. When I started writing this newsletter in January, I was going to explain that when the next recession arrives, it would be the most highly anticipated one in my lifetime! It seems everywhere people were expressing concern about a pending global recession (traditionally precipitated with a market correction). At the time, global growth continued at reduced levels, however global GDP (global gross domestic production) was still growing. Company earnings have not been growing as quickly as their stock prices and as a result, stock prices were slightly overpriced but not in a huge bubble. There are a number of countries that are already in a recession such as Japan and Germany. I was going to predict that the markets could continue to slowly chug along for 6-18 more months before the correction and recession would arrive. Donald Trump wants to get re-elected and he will do everything he can to avoid a recession including pressure to lower interest rates, resolve the USMCA (Nafta), impose tariffs with China, and quantitative easing (print money to inject into the system).

Executive Summary

- **For people who are taking out funds on a routine basis, we have already built up a reserve of safe investments to ensure we can continue to send you funds.**
- **For people who have a liquidity requirement in the next few years (need a slice of money for something), we have likely sliced off a portion of the funds to have this available.**
- **The last few years, we have been gradually shifting the accounts to be more conservative with lower risk investments such as fixed income.**
- **People are panicking. Some businesses may not survive quarantine measures. Stocks are overcorrecting and at some point, we will see the best buying opportunity I have seen in my 24 years in the business.**

In anticipation of this, for the last few years, we have continued to gradually increase the cash and fixed income positions as a defensive strategy and have available to invest in equities once the correction happens.

One of the mutual fund portfolio managers I respect, Steve DiGregorio (who manages the Canoe Premium Income fund) in Mid-January commented on the markets:

"Equity markets have been on a tear and broad U.S. index valuations are hitting 10-year highs – the forward P/E on the S&P 500 is now actually the highest it has been during the bull market that began in 2009. However, recent performance and extreme valuation expansion has not been evenly distributed – certain areas of the market, like Technology and Growth, have swelled, while more cyclical companies and value stocks have been nearly forgotten. After widening significantly in late 2019 and early 2020, the spread between the forward P/E of growth and value stocks is at an all-time high - the S&P Growth index now has a forward P/E of 23.4x vs 15.3x for S&P Value index.

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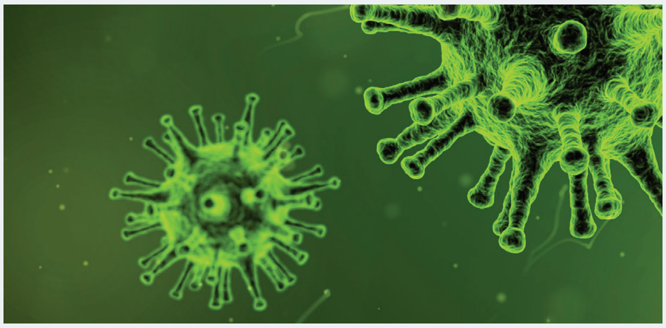
BEFORE COVID-19 *continued from pg. 1*



Mechanically, this trend cannot go on in perpetuity. At some point, extreme valuations must become a drag on future performance, making value more attractive. While it is difficult to pin-point exactly when that inflection will occur, we think we are getting there. In Premium Income, we are investing in and doing work on higher quality value stocks - areas of the market where valuations have not surged to historic levels."

CURRENT CONDITIONS WITH COVID-19

In the New Year, word of a highly contagious virus (later named Covid-19) started to spread in China. Despite dramatic quarantining (over 400 million people) it was only a matter of time before it started to spread around the world. This has caused fear in the stock markets with the markets blowing through the 10% correction and entering the 20% bear market zone in a two week period (and likely to continue). Canadian and US markets are now down 25% at time of writing this. This virus is creating a global recession as the economy takes a hit when massive numbers of people are quarantined for 2-4 weeks.

I predict the globe will have a V rather than U shaped correction. This means it comes quick, does not last long and it is followed with a quick recovery. Some industries will have significant, terminal damage (such as airlines, hotels & cruise companies). Many companies (such as Apple) are warning their next earnings will be reduced as they had to close their stores in China for a month. However, once this virus subsides globally (and the panic starts to diminish), there will be pent up demand for goods and the global economy should resume being productive. Keep in mind, we currently have the lowest unemployment in 20 years in Canada and the USA. For a prolonged recession, we will need to hear about more companies laying off employees or closing. So far, the only one I am aware of is Canopy Growth (Canada largest cannabis company). They are laying off 500 employees in the Vancouver area as their sales are below expectations. Recently, the US Federal Reserve and the Bank of Canada have reduced interest rates 0.5% to help keep the economy going. Further interest rate cuts are anticipated along with stimulus packages.

In addition, Canada has to try to find resolution with the First Nation people. Protests have blockaded railways which has reduced the ability of supplies to arrive to manufacturers and finished products to get out to end users. This is adding a further restrain on our domestic economy.

ADD OIL TO THE MIX

If that wasn't enough, in addition to the above, recently Saudi Arabia and Russia announced they would flood the oil markets, which reduced the price of oil (causing oil to drop 20% over night on March 8th) and this has caused energy stocks to plummet to ridiculous levels for fear that the companies will not survive.

WHAT NEXT?

We want to wait for the Covid-19 to start to settle down and see that it has not created a long term recession and then consider shifting some of the more conservative cash and fixed income into quality investments that are trading at (already) huge discounts.

TFSA LIMITS ANNOUNCED

The government has announced that the new TFSA contribution room for 2020 will be $6,000. Keep in mind, if you have not maximized the contributions over time, you can contribute more than this. It is important not to over contribute as the penalties are significant! We can help you to determine your contribution amount.

REGISTERED EDUCATION SAVINGS PLANS BC

Ask us about a program where you contribute to your child's (or grandchild's) RESP and the government contributes up to 20% grant. There are some conditions to qualify. Don't wait until he or she gets too old or they won't qualify. Some provinces (such as BC) also have a $1,200 one-time grant that you have a limited window of time to apply for.

Our Current Allocation Outlook

Below is a chart of different asset classes and sector exposure with our current outlook compared to the normal North American weighting. Based on the economic outlook, we will want more or less than our normal exposure to each category. Each individual investor will have a different investment portfolio depending on their personal circumstances considering their: Risk Tolerance, Income requirements (both current and anticipated), Time Horizon, Taxation, and of course Temperament (investor behavior). We then look for opportunities to tax optimize the holdings based on which plans hold which investments. You should consult us to determine the ideal asset mix and asset selection given your circumstances.

		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
FIXED INCOME						
Government	Long-term			●		
	Mid-term			●		
	Short-term			●		
Corporate	Investment Grade				●	
	High Yield				●	
	Floating Rate	●				
EQUITIES						
Canadian	Dividend Focused					●
	Large Cap				●	
	Small Cap	●				
US					●	
European				●		
Asia				●		
Emerging Markets			●			
	BRIC		●			

SECTOR		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary			●			
Consumer Staples					●	
Energy			●			
Financials	Banking			●		
	Insurance			●		
	Asset Managers		●			
	REITS		●			
Materials				●		
Utilities				●		
Telecommuni-cations				●		
Healthcare					●	
Industrials			●			
Information Technology			●			

Who is HOLISTIC WEALTH®?

This is the trade name that the Summerland office of Manulife Securities Incorporated operates under. We call ourselves this as most traditional stock brokers and investment advisors do not take the same holistic wealth approach in working with clients. We prefer to take a financial planning approach when advising clients incorporating their debt, insurance and investment portfolios into consideration. We use solutions that people understand and avoid 'synthetic' investment products (such as hedge funds).

We currently advise clients throughout BC, Alberta and Ontario. We are still growing our practice and welcome new clients. If you or someone you feel would benefit from a confidential and complementary consultation, please contact our office.

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THANK YOU

We thank you for your incredible loyalty as a client. We strive to provide our best advice and service. We also continue to grow our business and want to thank those who have encouraged their families and friends to work with us. We continue to appreciate your introduction of us to anyone you believe would be a good fit within our financial planning and investment practice.