Manulife Securities

HOLISTIC WEALTH®

Wealth DIRECTIONS

SUMMER 2020

We hope you find this latest newsletter informative. Our office personally writes these and these are not the typical generic industry newsletters.

Our goal is to be technical enough to provide confidence without being too technical and overwhelming to the average reader. We hope that you understand what we are thinking and feeling currently of the economy and capital markets. It is the foundation of our positioning and recommendations for your portfolio.

We feel the need to offer an apology for the somber tone. There is a positive optimism worldwide, however it would not be prudent to ignore or disregard the gravity of the economic effects from COVID-19.

Markets appear to have substantially rebounded from the correction in February and March. In my career, I have seen at least four corrections of greater than 30% - but none that occurred in 33 days!

As a whole, markets are not doing well with the exception of a handful of stocks. Amazon, Alphabet (Google), Apple, Microsoft and Facebook are the five largest of the 500 largest stocks in the USA and they account for over 20% of the market.

Add on Tesla & Netflix and it is the equivalent of the influence that Nortel had on the Canadian market back in 1999. It is true, these technology stocks have not seen their revenue impacted much from the COVID crisis. However, they are now more like a utility stock generating routine income from subscribers and their earnings are not expected to continue to grow so rapidly going forward.

$343,200,000,000

The Canadian Federal government recently provided an estimate of the fiscal deficit for 2020 to be around $343.2 billion! That is over $9,000 per Canadian. This does not include the various provincial deficits. This is equal to 50% of all previous cumulative deficits bringing our Federal debt to over $1 trillion.

Ontario is expecting a fiscal deficit of $20.5 billion which is around an additional $1,400 per person. British Columbia is expecting a deficit of $12.5 billion which is close to $2,500 per person.

The US Federal 2020 deficit is now expected to be around $4 trillion which is $12,000 per person.

Wondering what this means? A major consequence of this will be higher taxes, for Canada and the rest of the world.

Zombie Companies

Recently, an article referred to companies that are only alive due to government financial support and, once this stops, they will be facing bankruptcy. It called them called Zombie companies.

Financial support (EI) is scheduled to stop the end of July in the USA and the 'CERB' payments to cease at the end of August in Canada.

If businesses are not in a position to employ all of their workforce massive severance payments may be required which could put further financial strain on them.

Debt Repayment Resumes

In Canada, about 15% of mortgages applied for the six month payment deferral (interest is still compounded during this time). Shortly, people will be required to resume their mortgage and loan payments.

With the massive increase in personal debt during the last few months, personal defaults, as well as corporate bankruptcies, are expected to rise.

COVID cases are on the rise (particularly in a few states in the USA) causing a reversal of the opening of the economies, which will put further viability pressures on companies. Indeed, it is possible that a second pandemic wave is coming.

Our Investment Discipline

Many stocks are well below their high valuations. Earnings have been impacted and many dividends have been reduced or suspended as companies hunker down and preserve cash to survive this recession. We have a five-step filter in our stock selection process. We are looking for companies that:

1. Have barriers to entry by 'would be competitors', regulatory or geographic restrictions or by virtue of unique products or services
2. Are dominant in their sector
3. Are profitable (return on investments, return on assets)
4. Share their profits with their investors and pay a dividend
5. Make or provide a product or service that will likely still be needed in 5 years.

As a result, we have had very little direct exposure to companies in the cruise, hotel, airline, car rental, restaurant, retail, and concert or movie theatre industries. Those sectors have been especially impacted with the social restrictions. Many of this may turn out as Zombies. In our client portfolios, we have successfully avoided any company that has gone bankrupt.

In the last few years, we have also been gradually increasing exposure to cash and lower risk investments in line with our expectation of a recession. Our challenge in the next year will be to redeploy these liquid assets into medium risk equities at attractive prices.

We expect the next correction to be more gradual over 4-9 months. Anticipate increased volatility once again. Please be ready for my call.

Vaccine Treatment for COVID-19

The markets are anxiously awaiting news of significant progress for proven treatment and/or a vaccine for COVID-19.

The challenge is that the virus can mutate. From past history, there are many viruses for which a vaccine has never been discovered. For example, there is still no vaccine or cure for AIDS. Fortunately there have been improvements in treatment.

Should a proven treatment or vaccine be discovered, this would significantly reduce time for economic recovery.

Our Current Allocation Outlook

Below is a chart of different asset classes and sector exposure with our current outlook compared to the normal weighting. Based on the economic outlook, we may 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			●		
	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				●		
Telecommunications				●		
Healthcare					●	
Industrials			●			
Information Technology				●		

Who is HOLISTIC WEALTH® ?

This is the trade name under which the Summerland office of Manulife Securities Incorporated operates. This differentiates us from most traditional stockbrokers and investment advisors who do not take the same holistic wealth approach in working with clients. We take a financial planning approach when advising clients, taking their debt, insurance and investment portfolios into consideration. We use solutions that people understand and avoid 'synthetic' investment products (such as hedge funds).

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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.

We currently advise clients throughout BC, Alberta and Ontario.