

Fourth Quarter 2020

**BOYCHUK KNOBLAUCH**  
FINANCIAL GROUP



**NAVIGATING THROUGH UNCERTAINTY**

In August, Crew Dragon made history as the first crewed orbital flight using a commercial spaceship. It was a true lesson in navigating through uncertainty. The landing was highly automated compared to previous missions, slicing through the atmosphere at 27,000km/hour in 1,900°C temperatures before slowing to 30km/hour for touchdown in the Gulf of Mexico.

Today, as a result of Covid-19, we find ourselves similarly navigating through uncharted territory. We have entered a new era of digitization, deglobalization and debt.

Technology continues to drive the speed of change. While it has helped to keep economies from completely shutting down during the pandemic, it has also changed the way many of us live, adapting work and play to the confines of home.

The pandemic has also accelerated the trend towards deglobalization, exposing nations' overdependence on global supply chains. Over the summer, the U.S. continued to take actions to protect its national interests, reimposing tariffs on Canadian aluminum (which were then reversed in September) and instigating further trade tensions with China.

In order to support economies, the world has become substantially levered. Debt can be helpful when it is used to finance productive assets and generate new wealth to help economies grow. But, problems can happen when debt becomes overextended. While stimulus efforts have helped to support economies and asset prices, many questions remain. How will the economy acclimate to significant levels of debt? What will drive economic recovery going forward?

For many investors, today's concerns are likely different than those of the spring. The quick rebound of equity markets since the March lows has created a disconnection between equity market performance and what is happening on the ground. Can equity markets continue their climb?

Given the continuing uncertainty, over the summer gold hit all-time highs. South of the border, the value of the U.S. dollar has been falling. U.S. containment efforts have been slower than expected, hampered by social and civil unrest. With just weeks until the presidential election, all eyes will be on the U.S. as a change in leadership may be imminent.

During periods of extreme change, it is more important than ever to take advantage of professional advice in managing financial assets. Investing requires shifting gears on a continuous basis, particularly in assessing new situations. Fast-moving markets can mean additional risks, so careful review and monitoring of investments is vital. Balancing portfolio exposure to account for the many risk factors and potential economic outcomes can ensure that investing for the long term remains a profitable strategy.

As the successful return of Crew Dragon should remind us, overcoming uncertainty is often necessary for us to advance and progress. We continue to harness the inevitable changes so that your investments continue to work for you.

**To Our Clients:**

The return of cooler and shorter days reminds us that the end of year is fast approaching. Before year end, there may be actions to take to support your 2020 tax position, including RESP contributions, tax-loss selling or charitable donations. Think about them now and call if you require support.

Of the many challenges, Covid-19 has created an environment of rapid change. We continue to work hard to support your investments in these changing times. During this Thanksgiving season, we extend our thanks for having confidence in our services.

— Tyson and Dean

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# WHAT HAVE YOU TOLD YOUR ADULT CHILDREN?

In our work with clients, it isn't uncommon for us to find parents who haven't had any discussions with their adult children about their estate plans. Estate planning may be a difficult topic to approach: not many people like to talk about death, and the intensely private subject of finances can further complicate matters.

However, excessive secrecy can make a potentially difficult situation even worse. How will anyone know how to deal with your assets in the case of death? Or, in the situation where you are alive but unable to act for yourself, how can those appointed to act on your behalf ensure your wishes are carried out as intended?

The health-related consequences of the pandemic have been a stark reminder of the value in having end-of-life planning discussions with family members. It isn't necessary to divulge any detailed information about your finances or your will in advance, but it may make sense to inform family members of your intentions.

In some cases, parents have appointed adult children as executors but haven't made them aware. Others may be aware, but have not been provided with information on where power of attorney (POA), will and other important documentation is stored. It is important for an attorney (the person appointed under a POA document\*) or next-of-kin to know where to find these documents in an emergency situation. This can help prevent a needless search or avoid other complications, such as incorrectly assuming a will does not exist.

Communicating what is important to you, how you would like to be



remembered and your desired legacy may also be important to family members. Without any instruction, survivors may struggle with doubt about whether they made the right decisions. This can be especially difficult during a time of grief. Some individuals plan their funeral arrangements in advance; others may wish to make loved ones aware of causes or charities important to them. Having a dialogue with adult children may also provide an opportunity to pass along family values.

If you own a business and wish to see it continue within the family, it is important to have discussions with family members in advance. Planning today can not only provide clarity over your intention for the business' succession, but it can also help provide tax and other financial benefits down the road.

While these discussions can be difficult, having them while you are alive and well may provide comfort to you and your adult children that you continue to support them, even after you are gone.

\*The name, terms and conditions of the POA vary by province (e.g. known as a mandatary in QC).

# SOFTENING THE COSTS OF HIGHER EDUCATION

If you have a student in the family attending post-secondary school, no doubt this may be a unique fall. While some students have left town to attend school in person, many are staying home for a semester of online learning. For parents or grandparents, here are some reminders of the tax benefits available for students to help soften the ever-increasing cost of higher education.

Consider the benefits of a **Registered Education Savings Plan (RESP)**. We often mention the RESP because we feel it is important for families. From a tax perspective, the RESP provides the opportunity for compounded growth over time while deferring taxes. There are other meaningful benefits. If certain conditions are met, the federal government's Canada Education Savings Grant (CESG) is worth up to \$500 per year per student beneficiary to a lifetime maximum of \$7,200. The RESP also encourages disciplined saving. Please get in touch if you do not have an RESP set up for family members.

Beyond the importance of saving to support a student's education, you should keep good records to take advantage of the potential tax benefits. As a result of the pandemic, students who received the **Canada Emergency Student Benefit (CESB)** from May to August should note that the CESB is considered taxable income. As such, they will be sent a T4A tax slip for the amount that was received.

However there are ways to offset potential income. The federal government provides the **Tuition Tax Credit**, a non-refundable credit

## CANADA: EDUCATION BY THE NUMBERS

**\$26,000** – Estimated average student debt amount<sup>1</sup>

**\$19,499** – Average annual cost of post-secondary education (including tuition, books and other costs)<sup>2</sup>

**348%** – Increase in average tuition over 30 years<sup>3</sup>

**48%** – Parents with kids under age 18 who expect to postpone retirement due to post-secondary education costs<sup>4</sup>

**#3** – Canada's rank for most educated nation globally.<sup>5</sup>

Sources: 1. [cbc.ca/news/canada/ottawa/university-student-debt-photo-essay-14305589#?text=According%20to%20Statistics%20Canada%2C%20the%20it%20affecting%20their%20lives](http://cbc.ca/news/canada/ottawa/university-student-debt-photo-essay-14305589#?text=According%20to%20Statistics%20Canada%2C%20the%20it%20affecting%20their%20lives); 2. [macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/](http://macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/); 3. Statistics Canada Table 37-10-0003-01; 4. FP Canada, Student Debt Study, May 2019; 5. [data.oecd.org/eduatt/population-with-tertiary-education.htm](http://data.oecd.org/eduatt/population-with-tertiary-education.htm); based on population with tertiary education.

worth 15 percent of the amount of tuition fees, with no maximum. Provincial credits may also be available. If a student doesn't have sufficient income to use the credits in the year of attendance, a credit for up to \$5,000 of tuition fees can be transferred to a spouse or to parents or grandparents. Any remaining tuition amount can be carried forward for use by the student in a future year.

While perhaps not applicable this semester, **moving expenses** may also be deductible. For students attending post-secondary programs at least 40 km from home, these expenses may be deducted from scholarships or grants required to be included in income. Depending on the circumstances, certain moving expenses may be deductible against income from a summer job.

# YEAR-END FINANCIAL HOUSEKEEPING, BUFFETT STYLE

As we approach the final months of the year, why not derive inspiration from one of the greatest investors of our time? Here is some sage advice from Warren Buffett as it relates to your year-end financial housekeeping:

*"Predicting rain doesn't count, building the ark does."*

Don't allow current media commentary to dissuade you from continuing to build your portfolio for the future. Time in the market, not timing the market, can be key to investing success. Have you fully contributed to tax-advantaged accounts, such as the Tax-Free Savings Account (TFSA)? Or, consider making Registered Retirement Savings Plan (RRSP) contributions for 2020. You still have until 60 days after the calendar year to make RRSP contributions for the 2020 tax year.

*"Do not save what is left after spending; instead spend what is left after saving."*

Improve your savings by employing potential tax strategies. Depending on your circumstances, it may be possible to lower a couple's overall income taxes through income-splitting strategies with a spouse<sup>1</sup> in a lower marginal tax bracket. For example, if you are a business owner and a spouse assists with the business, paying a reasonable salary to a spouse could have tax benefits. If you receive pension income, explore whether it is beneficial to elect to split eligible pension income on your tax return. If you are 65 years old or older and not receiving eligible pension income, consider purchasing an annuity or opening a Registered Retirement Income Fund (RRIF); income from these sources may allow you to claim the federal pension income tax credit.

*"The most important thing to do if you find yourself in a hole is to stop digging."*

Where prudent from an investment perspective, consider realizing capital losses to offset capital gains realized in 2020, or make use of the loss carry-back rules to recover taxes paid on taxable capital gains

realized in three preceding taxation years.

*"I believe in giving my kids enough so they can do anything, but not so much that they can do nothing."*



Fund a Registered Education Savings Plan (RESP) to support a child's higher education.

Consider making a contribution before year end to potentially benefit from the Canada Education Savings Grant (CESG) in the current year.<sup>2</sup>

*"If you're in the luckiest one percent of humanity, you owe it to the rest of humanity to think about the other 99 percent."*

Charitable donations made before Dec. 31 may be eligible for deductions for your 2020 taxes. Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax.

*"The most important quality for an investor is temperament... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."*

Being a disciplined investor often means resisting the temptation to act on emotion: during bull market times, it may be greed; during bear market times, it is often fear. Markets will always have ups and downs; your plan has been put in place to meet your goals throughout the inevitable cycles. Look forward with confidence.

Please call for assistance. For tax-loss selling or gifting publicly-traded securities, let's discuss taking action well before year end.

Thank you to Warren Buffett for permission to use his quotations. 1. Or common-law partner; 2. Unused amounts can be carried forward.

## THE IMPORTANCE OF DIVERSIFICATION

Uncertainty has always played a common role in the financial markets, but as a result of Covid-19 the path forward may feel particularly unknown. In these times, diversification remains an important element of portfolio construction. The chart shows the performance of select asset classes/geographies over the past decade (in C\$). Here are some thoughts that provide a case for diversification:

- No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- As we have seen with Covid-19, industries, sectors and even entire asset classes can fall out of favour, and sometimes with little warning. Diversification can help to protect from the downturns that may affect asset classes at different times.
- There is often a large gap in performance between the best and worst performing asset class. Diversification helps to smooth out performance returns within a portfolio.

- Markets change, and so does your portfolio. This is why rebalancing on a periodic basis is important, to ensure your portfolio maintains its appropriate strategic asset allocation.

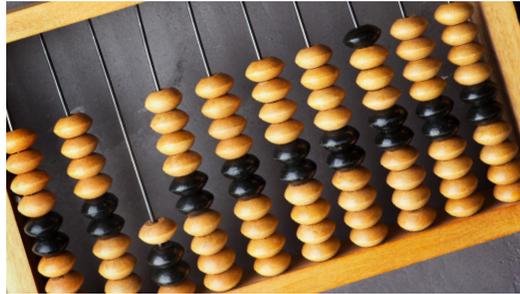
### Annual Returns of Key Asset Classes, Best to Worst: 2010 to 2019

| 2010                     | 2011                     | 2012                    | 2013                     | 2014                     | 2015                     | 2016                     | 2017                    | 2018                     | 2019                     |
|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| Canadian Equities 17.61% | U.S. Bonds 10.59%        | EM Equities 15.61%      | U.S. Equities 41.27%     | U.S. Equities 23.93%     | U.S. Equities 21.59%     | Canadian Equities 21.08% | EM Equities 28.26%      | U.S. Bonds 8.92%         | U.S. Equities 24.84%     |
| EM Equities 12.67%       | Canadian Bonds 9.67%     | Int'l Equities 14.72%   | Int'l Equities 31.02%    | U.S. Bonds 15.39%        | U.S. Bonds 20.46%        | U.S. Equities 8.09%      | Int'l Equities 16.82%   | Global Bonds 7.70%       | Canadian Equities 22.88% |
| U.S. Equities 9.06%      | Global Bonds 8.26%       | U.S. Equities 13.43%    | Canadian Equities 12.99% | Canadian Equities 10.55% | Int'l Equities 18.95%    | EM Equities 7.34%        | U.S. Equities 13.83%    | U.S. Equities 4.23%      | Int'l Equities 15.85%    |
| Canadian Bonds 6.74%     | U.S. Equities 4.64%      | Canadian Equities 7.19% | U.S. Bonds 4.60%         | Global Bonds 9.65%       | Global Bonds 16.15%      | Canadian Bonds 1.66%     | Canadian Equities 9.10% | Canadian Bonds 1.41%     | EM Equities 12.43%       |
| Int'l Equities 2.13%     | Canadian Equities -8.71% | Canadian Bonds 3.60%    | Global Bonds 3.94%       | Canadian Bonds 8.79%     | Canadian Bonds 3.52%     | U.S. Bonds -0.80%        | Canadian Bonds 2.52%    | Int'l Equities -6.03%    | U.S. Bonds 3.37%         |
| U.S. Bonds 1.24%         | Int'l Equities -9.97%    | Global Bonds 2.01%      | EM Equities 3.93%        | EM Equities 6.63%        | EM Equities 2.04%        | Global Bonds -1.45%      | Global Bonds 0.34%      | EM Equities -6.87%       | Canadian Bonds 2.81%     |
| Global Bonds 0.04%       | EM Equities -16.40%      | U.S. Bonds 2.01%        | Canadian Bonds -1.19%    | Int'l Equities 3.67%     | Canadian Equities -8.32% | Int'l Equities -2.00%    | U.S. Bonds -3.18%       | Canadian Equities -8.89% | Global Bonds 1.44%       |

Past performance isn't indicative of future performance. Emerging Markets Equities: MSCI EM GR; Canadian Equities: S&P/TSX Composite TR; International Equities: MSCI EAFE; Canadian Bonds: FTSE TMC Canada Universe Bond Index; U.S. Equities: S&P 500 TR; Global Bonds: Barclays Global Aggregate Bond TRI; U.S. Bonds: Barclays US Aggregate Bond TRI. In Canadian dollars, unhedged.

# CANADA'S FISCAL UPDATE: WHAT COMES AFTER A TRILLION?

In the effort to combat the pandemic, the sheer amount of stimulus pledged by governments globally has been staggering. In July, then Finance Minister Bill Morneau delivered Canada's economic update, which replaced the regular spring budget. It was an economic tally of the measures taken to date. The 2020-21 deficit is expected to be \$343.2 billion, largely attributed to pandemic relief programs.<sup>1</sup>



At latest count, \$212 billion will have funded the government's four major initiatives: the Canada Emergency Business Account and Canada Emergency Wage Subsidy, supporting businesses; the Canada Emergency Response Benefit, supporting workers; and the Canada Emergency Student Benefit, supporting students.

## What is a Trillion?

The crisis is expected to increase Canada's national debt by over 30 percent. Prior to the pandemic, Canada held \$1.083 trillion of debt on its balance sheet.<sup>2</sup> In 2020-21, this will rise in excess of \$1.4 trillion. However, this pales in comparison to the U.S., which had national debt of over US\$23 trillion at the start of the year,<sup>3</sup> and is expected to add trillions of dollars in fiscal stimulus to combat the crisis.<sup>4</sup>

Just how much is a trillion? To put the magnitude of the jump from one billion to one trillion into context, if we were to travel back in time by a billion seconds, we would be in 1989. However, to go back a trillion seconds would take us to around 30,000 B.C. What comes after a trillion? A "quadrillion." At the start of 2020, it was estimated that global debt totalled \$257,600 trillion, or \$0.26 quadrillion.<sup>5</sup>

## Is There Need to Worry?

Current national debt levels do not indicate any risk of imminent default, so long as economies and fiscal institutions continue to function and taxation continues. Canada also entered the crisis with one of the lowest government debt-to-GDP ratios of the major developed countries.<sup>6</sup> With interest rates at historical lows, the cost of borrowing has gone down, so it's not a terrible time to be adding debt. According to Morneau, "the government will save over \$4 billion in public debt charges in 2020-21 compared to the forecast presented in 2019" due to lower interest rates.<sup>2</sup>

## How Will We Pay for This Stimulus?

Given these daunting figures, how we will pay for these efforts? Even prior to the pandemic, there were concerns about our high debt levels. Governments can reduce national debt in three main ways: cut spending, raise taxes, or grow the economy faster than debt — faster growth can produce more revenue and also increases the economy's capacity to carry debt.

Few would dispute the need for stimulus — crisis times are precisely when government spending should occur. However, down the road there may be a significant economic cost for the generations to come who will likely shoulder our continuing debt.

1. [cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115](https://www.cbc.ca/news/politics/fiscal-snapshot-morneau-highlights-2020-1.5642115); 2. [canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html](https://www.canada.ca/en/department-finance/services/publications/fiscal-monitor/2020/03.html); 3. [cbc.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html](https://www.cbc.com/2020/01/14/the-us-is-23-trillion-in-debt-why-that-might-help-your-wallet.html); 4. [ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3](https://www.ft.com/content/d211f044-ecf9-4531-91aa-b6f7815a98e3); 5. [reuters.com/article/us-global-debt-iff/global-debt-shattering-records-iff-idUSKBN1ZC1VQ#:~:text=%E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion](https://www.reuters.com/article/us-global-debt-iff/global-debt-shattering-records-iff-idUSKBN1ZC1VQ#:~:text=%E2%80%9CSpurred%20by%20low%20interest%20rates,to%20break%20above%20%2470%20trillion;); 6. [investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/](https://www.investmentexecutive.com/news/research-and-markets/how-will-canada-pay-for-its-covid-19-response/)

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