



**UPPER CANADA CAPITAL**  
PRIVATE WEALTH MANAGEMENT

# **Navigating Financial Waters in 2021 and Beyond**

By Kurt Rosentreter, CPA, CA, CFP, CLU, CIMA, TEP, FMA, CIM, FCSI

## **2020 and the Impact of a Pandemic on our Finances**

Before the pandemic, e-commerce, home delivery and ordering online were growing at a steady pace. Global lockdowns accelerated these trends and businesses will need to adapt or die. We may be seeing the slow death of shopping malls.

Before the pandemic, online learning, education and business communication were slowly changing as technology allowed us to connect with one another from afar. Being moved into work-from-home and remote schooling have now proved these technologies work and changed business travel forever. Education has become more global and reachable for more people overnight.

Before the pandemic, manufacturing of essential health care supplies, drugs, semi-conductors and food had largely left Canada, preferring to operate in lower cost countries like China and India. We are already seeing the federal government bring back some of these essential industries to Canada permanently.

Before the pandemic, the stability and growth of commercial real estate in Canada was solid for 30+ years. The industry is now facing a year of low or no rent from tenants and a longer-term consequence of work from home employees.

As a result of the pandemic, businesses in ravaged industries (e.g., restaurants, stores in underground walkways in cities) may never recover their value, knowing another pandemic could happen.

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Death in retirement homes from the virus will have people with means staying in their homes a lot longer than they planned.

Record spending on new pets, cross country skis, paint, gardening supplies and other items, of a world stuck at home for a year, used up some of our money previously spent on travel. At the same time, contributions to vital charities and causes to support the needy have shrunk significantly.

Governments globally who provided billions of dollars (and still are) to help people survive the crisis face never seen before government debt levels as an aftermath. How do we afford it?

And, as a result of the pandemic, the stock market crashed and recovered while interest rates fell and may never rise again.

So, what does it all mean for 2021 and your future financial planning?  
Here is the opinion of our team as of January 2021.

### **2021 Headwinds**

Many people think (including our team) that 2021 will be a great year for the global economy and stock market because the virus will finally be reduced and there will be a surge of spending as we return to normalized lifestyles, lifting many markets.

But there could be headwinds that could also make these a turbulent few years:

- If the vaccine doesn't work, hang onto your seat. We think we will have a sense of this by the end of March 2021 and we remain cautious until we see virus infection numbers declining. Now is not the time to go "all in" on investment equities or real estate investments in our opinion.

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- Employers are doing their fiscal 2021 budgeting right now and with revenue down, a lot more layoffs and terminations may be ahead for white collar workers.
- Record government debt levels on top of existing high government debt will come to light in 2021 and surely higher taxes and fewer government services lay ahead.
- No one wants to get on a subway or work in an office tower until the virus is gone. It could be 2022 before office towers nationally are full of people again.
- Interest rates at 1% or less for the first time ever in Canada means bonds and GICs are no longer as viable an option for retirement income.
- Costs of goods and services have gone up / will go up more as businesses look to pass along “COVID-19 costs” to consumers. From meat and Lysol wipes to dental services, the costs of basics have risen and likely won’t come down.
- The wealth gap between the haves and the have nots in Canada has grown wider. Many Canadians have no investments at all and many of these people didn’t work through much of 2020. The challenge and cost to help these folks survive can only grow.

Let’s acknowledge one thing upfront:

The sheer scope of the impact of the pandemic has redefined everyone’s “worst case scenario”. No one had something like this on their radar screen. Everyone was totally unprepared.

Knowing this, we will now plan to be ready for the next pandemic. The goal for everyone should be to build a moat around your finances that can survive a two year pandemic as the new worst case scenario. Looking at all everything that happened in 2020, along with some trends that were already in play, here is a partial list of thinking points to consider as you revisit all of your financial strategies in this new world:

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## **Plan for a Greater Level of Independence In Your Life**

Some of the greatest challenges we have seen during the pandemic were in areas that various levels of governments controlled: public school systems, hospitals and healthcare and nursing homes. They have a lot of people to deal with, not enough money and disagreements on process. Ask yourself, what can you do to insulate yourself from needing these institutions in the future? From private schools to private healthcare options, working into your 60s and not being overly reliant on CPP or OAS in retirement, this is what I mean about building a moat around your financial strength so you are less impacted by government shortages or lineups. If you have the financial where-with-all to put your own financial safety net in place, the time has come to explore this for the future. I do think this is one of the biggest messages coming out of 2020: rely on no one but yourself.

### **Defense Before Offense**

Keep a \$100,000 unused line of credit until you die. Get this in place before you retire when you can still get credit based on your pay cheque.

If you cannot easily pay the mortgage with one spouse losing their job then your mortgage is too big.

Keep three months of cash flow on hand for emergencies – kept the money in a savings account and held in a high interest savings product (HISA).

Save more in general. Very few people can retire on RRSPs alone. Bad signs are living pay cheque to pay cheque, not paying off monthly credit card bills and going years without adding to your savings.

Re-think being 100% in the stock market with savings.

Do you work in a stable industry that will be around in twenty years?

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Almost zero interest rates mean you get to pay down almost pure capital with each payment on your mortgage. Pay it faster! Break the mortgage if you have higher interest rate (>2%) and put down even more if you can. You can live a long time in a pandemic if you have no debt on your home.

Own a home – not a condo – it is fundamentally more stable.

Do not work in the same business or industry as your spouse.

If a pandemic didn't convince you to get your Will and Powers of Attorney prepared then I don't know what will. Remember, these documents are to protect your loved ones.

Everyone hates insurance. But for working Canadians with kids and debt, you need good life and disability insurance – and more than your employer provided coverage offers.

Stay in the workforce in some capacity perhaps until age 70. Besides being mentally healthy to do so, not having to rely on investments for your food money during a stock market decline will let you sleep better at night. Retiring at 55-60 was for past generations with pensions. That's not most of us today. You are more in charge of your financial destiny than ever before.

### **Be A Planner**

Work with us to write down your goals, quantify them, set deadlines and see if the pandemic has messed up your financial math towards your goals. Adjust accordingly (savings levels, debt paydown pace, assumptions) and re-assess every three years. Your financial life is a road and we as your financial advisor, are your guard rails. This applies to retirement savings, children's savings and when you will be mortgage free – the “big three” financial goals many of us have.

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If you are going to have to support your parents in their old age then plan for it now – hard conversations with siblings now allow you to put the money away when you are still employed (not retired).

A food pantry and huge freezer in your home in 2020 seems so 1960 but if it works for you...hey, who am I to judge after standing in line for food in 2020!

Should you look at private school for your kids or grandchildren? What about exploring access to non-government health care? Will you sacrifice to fit these costs into your budget if they matter enough to avoiding months of lineups for a new knee or when online learning through the public school system is just not enough?

Know the impact of 1% GICs and bonds on your retirement portfolio cash flow until age 100. Interest rates for investment products in fixed income are now at the lowest rates in Canadian history. We will talk to you about all the options to get the best guaranteed returns as possible, but you also may need to explore broader possibilities like working longer, living off less, annuities and more stock market exposure than you ever expected.

Know your financial limits on supporting kids. No one is a bottomless pit of money and you need to know if helping them with a lot of money today is going to hurt your quality of life in twenty years. There may need to be a financial limit to love.

If you were loving rental real estate for the last few years you may be questioning the value rental real estate now. Your Airbnb renters disappeared quickly, your international students left town for a year and your service industry tenants couldn't pay the rent. The only thing stopping the real estate market in Canada from being down -30% this year (in our opinion) was government support programs propping up cash flows for people who lost their jobs and couldn't pay rent or mortgages. Re-think your real estate goals long term – for many of us that will mean staying in our main home longer and tying up less money in investment

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properties that carry demand and supply risks we no longer want to suffer through.

### **Offense & Opportunity**

Unfortunately, turmoil often creates opportunity somewhere.

When you look at all the carnage in 2020 from the pandemic and ask yourself where the opportunities were among the turmoil, one answer is clear: the stock market. Not all of it though – only some countries and some industries recovered well from the March 2020 stock market lows. But if you stayed invested during the decline and possibly added new money to equities during the lows, you did very well during the rest of 2020. But let's be clear – you could have lost money too. No one knew markets would rise so quickly. At that time, this pandemic was still heating up. So, here's a pretty good general investing rule to follow: if the markets drop -25% for any reason, buy. Buy every time. Buy within your limits and tolerance, but buy. Have a plan and buy.

If the vaccine doesn't work, you may get another chance to "buy low" in the stock market in 2021...

### **Conclusion**

2020 was a year like no other and gave us all a renewed appreciation of loved ones and all the little things that perhaps we took for granted sometimes. 2021 looks to be a year of hope, positive energy and excitement for the future.

Regardless of what may come though, our team here at Manulife Securities will continue to guide you towards your financial goals, adjusting for whatever life or the economy throws your way. We will continue to think about your finances from every angle as the guardians of your financial best interests.

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We look forward to seeing you in person in 2021 – yes in person, and we'll be wearing the biggest smile and offering hugs.

Warm regards,

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