2020 Year in Review

January 2021

Many of us are relieved to see that 2020 is now in the rear-view mirror. A year ago, we were oblivious to the fact that a pandemic was brewing, and now, it is shaping our lives in many ways – possibly permanently.

We discovered that Canada (and most countries in the world) were not prepared and scrambled for personal protective equipment and medical supplies in reaction to something we knew little about. Economies around the world shut down in fear of the virus.

Borrowing on a scale never seen before became the norm for every government in an effort to protect their citizens and businesses. The saving grace in Canada was that our country was in the best financial position out of all the G-7 nations to be able to borrow what we needed.

In the short run, market panic ensued but government action (pouring liquidity into the economy) turned sentiment around and markets recovered quickly. Interest rates dropped to all-time lows with 10yr Canadian bonds yielding .677%. Mortgage rates followed with some 5-year terms around 1.8%. People seem to forget that even when rates are low, you still must pay back the principal.

The other troubling issue that the pandemic has highlighted is income and wealth inequality. During the pandemic, most of those who could work from home did well financially, even in the lockdown. However, those that had no option to work from home if they wanted to keep their jobs, such as those working in factories, shipping, and service industries, have been negatively affected in a serious way.

Investors have benefitted and are richer than a year ago, but most people are poorer. Without government programs, many would not be able to pay rent, utilities or buy food. People worry that the programs were mishandled, too generous and rife with abuse. Those complaints generally come from people who have not been affected financially from Covid-19.

Will taxes have to increase to pay for the new borrowings? Absolutely – at some point. When I came into this business 39 years ago, the marginal tax rate on income over $30,000 was 40%. You now need an income of over $150,000 to have a marginal rate of 40%. We are in a very low-income tax regime, resulting in program cuts, poor elder care, and huge defaults in infrastructure. Our expectations, however, remain very high. Maybe at some point we will figure out that we simply cannot have it both ways.

Our dollar finished the year up slightly against the US dollar. This fact didn't help or hurt portfolios. The US election and Brexit are now history (I think!), and hopefully a new era in US politics will begin.

Vaccines are being administered and optimistically within 6-9 months the world will be more stable. Hopefully this will bode well for markets, but we still have a lot of unemployed workers and businesses that are hurting.

Overall, it was a decent year with our balanced portfolios up about 8%. We certainly would never have guessed that in April.

	Market	Dec 31/19	Dec 31/20	YTD
Canada	TSX	17062	17433	2.17%
U.S.	DOW	28539	30606	7.24%
U.S.	S&P 500	3231	3756	16.25%
U.K.	FTSE	7442	6461	-13.18%
France	CAC	5978	5551	-7.14%
Germany	DAX	13249	13719	3.55%
Japan	NIKKEI	23837	27444	15.13%
Canadian $		77.96	78.57	0.78%
Oil (US$)	WTI	61.02	48.52	-20.49%
Western Canadian Select	WCS	38.57	33.17	-14.00%

***Source: CNN Money*

Inheritance Strategies

Clients contact us for advice about all things financial. We are often consulted when a change in one's financial status occurs, and receiving an inheritance is an example of one such change. A monetary inheritance can provide an opportunity to improve your financial well-being. An inheritance is a gift that needs to be treated with care and respect. If you find yourself the recipient of an inheritance, or even a substantial monetary gift, here are some ideas to consider.

TAKE TIME

Carefully think about your options and how they relate to **your** financial goals. Do not make any major decisions too quickly.

PAY OFF CONSUMER DEBT

Consumer debt (including credit cards, loans, and lines of credit) often comes with a higher interest rate than a mortgage, so this is a good place to start. Canadians were carrying an average of $23,496 in non-mortgage debt in early 2019, and it is highly unlikely that number has gone down in the last year.

Identify your highest-interest debt and consider applying a substantial amount of your extra money toward that balance. The key here, of course, is **not to go back** into consumer debt.

PAY DOWN YOUR MORTGAGE

The biggest debt for many is often a mortgage. If your mortgage allows lump-sum payments, consider allocating the extra funds toward the principal. Be sure to check what lump sum amount is permitted to be paid down without penalty.

BOOST YOUR RETIREMENT SAVINGS OR CONTRIBUTE TO A TAX-FREE SAVINGS ACCOUNT

These are both good options, but the choice depends on your specific financial situation. The higher your marginal tax rate the more you can lean toward the RRSP option. If your taxable income is lower, then the TFSA may make more sense.

SAVE FOR EDUCATION

If you are saving for a child's post secondary education, you can contribute to that in a Registered Education Savings Plan. RESPs offer an incentive to save in the form of Canada Education Savings Grants, which will match 20% of up to $2,500 in contributions per year. The CESG has a maximum lifetime limit of $7,200 per child.

ENSURE THAT YOUR OWN ESTATE PLAN IS UP TO DATE

Creating an estate plan is important. It is equally important to revisit that plan periodically. This is especially true if you experience significant changes in your financial situation – including a large inheritance. Be sure to review your own estate plan to make certain that it aligns with your intentions.

By considering the above tips and working closely with your financial advisor at Maude Financial, you can ensure that your inheritance or gift is used effectively.

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