IN FOCUS

October 2020

IAIC
Independent Accountants' Investment Counsel Inc.™

IAIC Quarterly Commentary

We are living through a year like no other. The Covid pandemic has caused social and economic upheaval, massive government stimulus programs, widely varied impacts on different industry sectors and an unabating feeling of uncertainty and stress. All that, in addition to the illness and mortality caused by the devastating virus.

How have we at IAIC been aggregating and making sense of all of these events and uncertainties? How have we been using our experience and expertise to manage our clients' investments through these difficult times?

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Our job as investment managers is to keep ourselves above the "noise", out of the fray, and make clear-headed decisions for our clients. Many important decisions we faced were actually made before the pandemic struck. It has always been our philosophy to select a diversified portfolio of securities that are suitable for our clients that we believe will weather through the unpredictable highs and lows we know the markets will experience over time. In any given set of circumstances – through a particular high or low – our security selections, by design, will rarely perform among the "very best." Instead, we believe they have the best chance of performing well through all the different types of market highs and lows that might occur. We choose to invest in companies that have proven they have staying power through thick and thin.

Although many experts warned that another pandemic of some type was inevitable, no one could have predicted the timing and nature of the Covid-19 pandemic and the impact it would have on markets. No one could have predicted the unique set of conditions and results that would characterize this virus epidemic:

* Tech stocks would flourish given the "work, shop, socialize and entertain yourself from home" environment the virus response measures created
* Government stimulus packages would buoy economies and consumer spending in the short term, and would increase government debt to dangerously high levels
* Interest rates would fall to all-time lows, providing further stimulus to business investment and causing stocks to be relatively more attractive to investors than bonds, despite the prevailing economic uncertainties
* Certain industries, such as the travel and hospitality industry, would be devastated, while others, including tech stocks, health care and ground transportation, would flourish
* A "second wave" of the virus seems to be gaining strength throughout the world, coincidentally leading up to an historic U.S. presidential election

Although the markets seem to be looking beyond 2020 to a vision of a mostly tamed virus in 2021, we continue to maintain a cautious view. Just as we believed at the time that the steepness of the market decline in March was overdone, we feel a general return to pre-Covid levels today reflects excessive optimism. We believe that low interest rates, government stimulus and the rush to tech and other favourably-impacted sectors have caused a boost to stock valuations that may not be sustainable. Price to earnings ("P/E") ratios, one of the measures that is used to evaluate the relative value of stocks, are generally high. Low interest rates and government subsidies have no doubt helped create higher P/Es, but investors may also be looking past current earnings and anticipating a resumption of higher profits in 2021 and beyond. Meanwhile, many good names in sustainable sectors, such as banking, have been discounted and still reflect the broader uncertainties of the economy as it struggles to recover.

Our investment management team has been working hard behind the scenes assessing security valuations and appropriate sector weightings for our clients. We have also been searching for new opportunities, adding several securities to our "core pick" list this year.

> ***We continue to stay diversified, investing in larger, proven, usually well-known dividend-paying companies that can withstand future economic shocks.***

We continue to stay diversified, investing in larger, proven, usually well-known dividend-paying companies that can withstand future economic shocks. Due to the strong performance of technology stocks, namely the "Big 5", some U.S. stock indices have performed better than most international markets. In fact, the technology sector outperformed other economic sectors by a wide margin. Despite the high valuations in this sector, we currently remain bullish on specific tech stocks and so in many client equity-based portfolios have increased the existing weighting in this sector while lightening holdings in resources and financials.

Investing in fixed-income securities continues to be a challenge. In this historically low interest rate environment, interest rates on quality corporate bonds (which typically pay higher interest rates than government bonds) are not high enough to compensate investors for inflation. Canadian investors find they are having to venture into riskier asset classes to achieve their income and growth objectives. Investors with longer investment horizons will typically be more inclined to assume more risk than those with shorter time horizons. For many of our clients with longer time horizons, we favour dividend-paying stocks and hybrid asset classes that offer attractive returns, but these investments involve the assumption of additional risk. We have also seen valuations in some of our income-producing investments decline during 2020. Nevertheless, these securities continue to pay dividends to our clients and we expect valuations to rebound slowly over time.

Mike Williams, CFA, MBA

Advising Representative

Most importantly, we have been meeting with our clients (mostly by phone or video, unfortunately, but our conversations have been insightful and effective nevertheless) to discuss their portfolios and strategies going forward. Extreme events such as the Covid pandemic help us gauge a client's tolerance for risk. In this type of environment some clients want to move to cash while others want to invest more money into the markets. It is our job to help the client make wise decisions given their own particular circumstances.

While we believe that markets are generally overpriced today and anticipate weak market performance in the coming quarters, we do not advocate market timing and instead invest in securities that are suitable for our clients. We have been working actively behind the scenes to help ensure we make the best decisions for our clients and will continue to meet and discuss their portfolios with them as we make our way together through this global pandemic.

An Estate Plan Will Give You Peace of Mind and Reduce Taxes

Estate planning is a key part of an overall financial plan. It is an ongoing process that will change as you progress through life. In basic terms, an effective estate plan allows you to distribute your assets to your beneficiaries in a manner that best represents your wishes and that will minimize income tax and probate costs.

Some of the steps in developing a well-prepared estate plan:

* Create (or update) your general financial plan in order to understand your current financial situation and to identify potential estate needs.
* Ensure you have a valid will that meets your current requirements in the context of your general financial plan.
* Select an executor best suited to be the representative to manage your estate on behalf of your beneficiaries. Ensure the Executor is aware of being so named and is willing to accept this responsibility.
* Review the beneficiary designations on all registered investment plans and insurance policies to ensure they align with the estate distribution intentions outlined in your will.
* Review your life insurance needs with a qualified advisor.
* Consider the tax implications that will arise on death and develop a plan to manage accordingly.
* Ensure that the needs of your beneficiaries are addressed, especially for any beneficiaries with unique circumstances.
* Review your will every 5 years, or upon a major life change, and make changes as needed.
* Ensure you have powers of attorney in place to address your personal care needs and the management of your assets while you are still living but unable to manage on your own.

With an effective estate plan in place you will:

* Gain the peace of mind knowing you have taken care of your family and addressed any goals for other beneficiaries, such as charities;
* Ensure your last wishes have been expressed formally and in writing to avoid any ambiguity that could lead to potential family conflicts;
* Reduce income taxes and probate fees, which leaves more for your beneficiaries; and
* Ensure that any special provisions, such as the use of testamentary trusts, are not in conflict with any of your beneficiary designations or with any joint ownership structures.

Contact your financial advisor now to ensure you have an effective estate plan in place.

Gord Hardie, CFP, CIM, FCSI

Vice President,

Financial Planning

Do You Have the Right Disability Insurance for You?

Oliver Lee, B.Math

Vice President, IALIA

Life & Living Benefits

Independent Accountants' Life Insurance Agency Inc.™

Disability insurance is designed to help you and your family cope financially in the event that you become disabled and are unable to work. The purpose of this type of insurance is to protect your earning potential, therefore protecting your savings and lifestyle. Not all disability policies are created equal and it's important to understand the differences between group and individual disability policies.

How Does Disability Insurance Work?

Disability insurance works as an income replacement tool. In the event you become disabled, your disability insurance will pay you an agreed upon monthly amount. This payment lasts for either the duration of your disability or the period agreed upon in the contract at underwriting; whichever comes first.

Benefits of Individual Disability Insurance

Many employers offer short and long-term disability coverage to their employees through group benefits. This is an inexpensive option that provides you with a portion of your income if you are unable to work at your job due to a disability. The downside to this insurance is that is can be limited and is dependent on you working for a specific employer.

Individual disability insurance is offered by most major life insurance companies in Canada. The benefit to individual disability insurance is that you own it and its effectiveness does not depend on being with a specific employer. This gives you the flexibility to create the type of coverage you want and take it with you wherever you go.

Features of Private Disability Insurance

<u>Occupation Class</u>
Every occupation is given a rating based on the company's claim history for that occupation. Your occupation class affects your premium as jobs considered to be high risk are more expensive to insure than jobs that are considered low risk. For example: an accountant would be considered to be low risk so they may have a higher occupation class than a forestry worker, who would be more likely to suffer a serious injury while working.

<u>Elimination Period</u>
Individual policies give the option to choose your elimination period, which is the amount of time you must be disabled before a claim will be paid. Typically, this is either 30 days, 60 days, 90 days, or 120 days. The elimination period you choose affects your premium. The shorter the elimination period, the more expensive your policy will be. Conversely, the longer your elimination period the lower your premium.

<u>Benefit Period</u>
The benefit period is how long you will get paid a disability

benefit if you become disabled. Typically, you can choose 2 years, 5 years, or until age 65. The longer the benefit period, the more your premium will be.

Definition of Disability

The definition of "disability" in a policy is something that is often misunderstood. Not every policy is made equal and it is essential to understand what constitutes "disabled" in your insurance contract.

There are 3 different definitions of disability:

1. Own Occupation: You are considered totally disabled if you cannot perform the duties of your regular occupation. Your benefit continues even if you engage in a new occupation.
2. Regular Occupation: You are considered disabled if you cannot perform the important duties of your regular occupation. The benefit stops if you engage in a new occupation. This is often the default for group insurance policies for 2 years, after which it defaults to the "any occupation" definition.
3. Any Occupation: You are considered to be disabled if you cannot perform any occupation that you would be reasonably qualified for based on your training and education. This is the most limiting definition.

The Bottom Line

Individual disability insurance offers comprehensive coverage that is not often found in group plans. Contact us to help tailor a plan to your needs so that your income is protected in the event you become disabled. Even if you are fortunate enough to have disability coverage through work, it can be a good financial move to top up your insurance privately to make sure you are fully protected.

Keeping Our Record of Your Personal Information Up To Date

In order for our investment management team at IAIC to make appropriate investment decisions for you, we must always be up to date on your personal circumstances that are relevant to your financial situation and objectives.

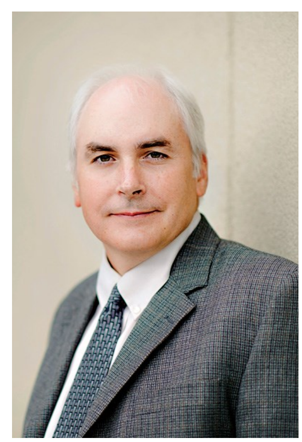
For example, a material change in any of the following could impact our decision-making:

- Marital status
- Job / business
- Income / net worth
- Health
- Personal residence (especially a move to outside of Ontario)
- Investment time horizon (when do you need cash in the future)
- Appetite and capacity for investment risk
- Investment objectives

If you experience any of these types of changes in your life, please inform us directly, either by phone:1-877-291- 3040 or by email: ClientServices@iaic.ca.

We are required to keep your personal information up to date. It is our practice that if we have not had a meaningful conversation with you in the past year about your personal circumstances such as those listed above, we will reach out to you directly in order to update our records and determine if any investment strategy changes are needed. We may reach out to you by phone, letter or electronically. In these times of identity theft, if you are uncertain at all about the legitimacy of our request for information, please contact us to verify that the request is indeed legitimate and originating from IAIC.

We look forward to hearing from you!



Joel Baker, CIM, MBA

Chief Investment Officer

How The Markets Performed

Jordan Carter, CIM

Advising Representative

Markets continued to climb during the summer months as all three equity markets posted positive returns during the third quarter. The negative performance in September was more than offset by gains seen in July and August. The US market, with its allocation to large technology companies, has outperformed the other regions, and now has a twelve month return of 16.2%. While there was little movement upwards in interest rates, the preferred share index continued its recovery with a quarterly return of over 11%.

Key Indicators		Sep–20
90 Day Tbill		0.12%
CPI (Y/Y) (Aug)		0.1%
$U/$C		$0.75
Major Market Returns	**3 Month Total Return**	**12 Month Total Return**
S&P/TSX Composite	4.7%	0.0%
S&P/TSX Preferred Share	11.4%	2.8%
S&P 500 Composite (C$)	6.8%	16.2%
MSCI EAFE (C$)	2.9%	1.8%
IAIC Equity Sector Benchmarks		
Consumer	5.9%	-5.4%
Financial	2.8%	-15.7%
Utilities	5.4%	-1.8%
Industrial	8.9%	45.9%
Resource	1.3%	5.5%

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