



A DIVISION OF FIRST WEST CREDIT UNION

A photograph of a man and a woman sitting together, looking at a document. The man is on the left, wearing a denim shirt, and the woman is on the right, wearing a dark blue jacket. They are both smiling and appear to be in a professional or collaborative setting.

# 3 WAYS TO MAKE YOUR INVESTMENTS THRIVE DURING CHALLENGING TIMES

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# Introduction

Everyone has personal reasons for investing. For many people, investments are a way to fund a comfortable retirement and leave a legacy for family and charitable causes.

However, the global pandemic has led to increased household debt and unemployment, resulting in people contributing less to investment plans. It's forced 1.5 million Canadians to move back in with their parents,<sup>1</sup> whose retirement years may look very different now. The coronavirus has also contributed to a pension shortfall, leaving a gap between existing retirement savings and future retirement needs.

The good news: even if your financial plans have changed, you can still reach your future goals — perhaps with a few adjustments to your portfolio.

This white paper looks at some of the current challenges that are impacting Canadians' financial goals. It then outlines three ways to make your investments thrive — even in uncertain times.



# Challenging times, difficult investment decisions

When we think of challenges in 2020, the first thing that comes to mind is COVID-19. This global health crisis has changed everything — from how we work and interact with family to how we spend and invest.

At the onset of the pandemic, the Canadian stock market plummeted. The S&P/TSX Composite index dropped by 37 per cent between February 19 and March 23,<sup>2</sup> as panicked global investors sold their stocks.<sup>3</sup> In October 2020, Canada's main stock index sank to a more than three-month low amidst a global increase in COVID-19 infections.<sup>4</sup>

That said, the U.S. stock market is at an all-time high.<sup>5</sup> While many experts are forecasting that Canada's TSX will hit a record high in 2021,<sup>6</sup> there's still so much uncertainty around how the pandemic will affect investments.

Working with a financial planner who understands global stock markets and having a well-diversified portfolio to ride out market ups and downs will be key in 2021 and beyond.

## INCREASED UNEMPLOYMENT AND DEBT

As the pandemic continues, household debt and unemployment rates keep climbing. A whopping 1.3 million Canadian workers just passed their sixth month unemployed.<sup>7</sup> According to Equifax Canada, total consumer debt increased 2.8 per cent to \$1.99 trillion in the second quarter of 2020.<sup>8</sup>

Many people are deferring payments and struggling to pay bills. Half of Canadians who have been financially impacted by COVID-19 have reduced the amount of money they save to invest.<sup>9</sup>

However, if you're not contributing enough towards your retirement, savings and emergency funds, you may not achieve your financial goals. By re-examining your investments now, you'll find out if you'll have enough to retire the way you want to. You may also discover better ways to grow the money you do put aside.

## PENSION TENSION

Canada is facing a US\$2.5-trillion pension shortfall,<sup>10</sup> which is the gap between existing retirement savings and future retirement needs. It's linked to a number of factors, including the economic recession caused by COVID-19 and limited access to corporate pension plans.

Will you have enough retirement income to last your lifetime? Will you have to work longer to retire comfortably? Are you effectively utilizing pension-related tax-saving strategies? Getting a second opinion on your investments can give you answers to these and other important retirement and pension questions.

# 3 ways to make your investments thrive during challenging times

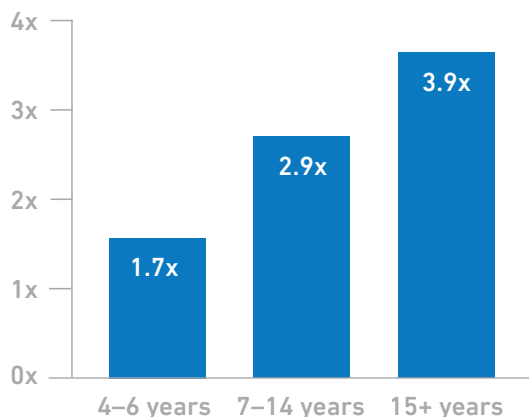
## 1. MAKE SURE YOU'RE ON TRACK TO REACH YOUR GOALS

Especially during times of uncertainty or unprecedented global events, priorities can shift and so can your financial planning needs. If you've been with an advisor for a long time, or are investing on your own, it's beneficial to have someone else check that your strategy is sound.

A second opinion allows you to re-evaluate the products you're invested in, along with the timelines and goals you may have set for yourself years ago. Retirement timelines can shift, children may decide to pursue extra educational degrees or move back home — like the 1.5 million Canadians we mentioned in the intro.

By seeking a second opinion, you'll feel confident that you're maximizing the most effective investment strategies — today and tomorrow.

### GROWTH IN FINANCIAL ASSETS OVER TIME OF HOUSEHOLDS THAT RECEIVED ADVICE COMPARED TO THOSE THAT DID NOT RECEIVE ADVICE



Source: The Investment Funds Institute of Canada, Advisor Insights, 2018

## 2. DIVERSIFY TO RIDE OUT MARKET UPS AND DOWNS

Market volatility can be unnerving for even the most seasoned investors. Diversification is one of the most common techniques that can help you improve returns, balance your asset allocation and weather any storms.

Diversification is used to reduce the impact of low performance of any one security on your entire portfolio by combining a variety of investment types within a portfolio. You don't want to rely on gambles, but rational planning across a mix of products, with balance being the key.

Your own insights play a role here, and your advisor should listen to your preferences and guide you in building a well-diversified portfolio accordingly.

# 4 types of investments that can be used for diversification

## 1 ASSET CLASS

An asset class is a group of securities that share similar return profiles. These assets typically include cash, fixed income, stocks, real estate, commodities, futures, ETFs and even cryptocurrency. These assets can be used to balance each other out in bear and bull markets and provide some money both inside and outside of the market.

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## 2 COUNTRY

Foreign stocks are just one way to diversify your stock portfolio. Stocks from other countries tend to perform differently and typically balance out a domestic-heavy stock portfolio. Canada represents less than five per cent of the global market, and its market is mostly concentrated in energy, finance and materials.

By going global, you gain a greater opportunity to diversify into other markets and sectors. You may look at adding stocks from international stock markets for greater stability in global markets.

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## 3 COMPANY

Individual stocks can give investors a sense of connection to a specific industry or company, but these stocks are more prone to volatility. However, there are stocks that tend to perform well over time, so you can work with your advisor to figure out what might be best suited to your needs.

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## 4 INDUSTRY SECTOR

In addition to investing in different assets, countries and companies, it's a best practice to invest in multiple industry sectors too. Generally, there are 11 sectors within the Global Industry Classification Standard (GICS), which can be broken down into 24 industry groups, 68 industries and 157 sub-industries.

Some of these industries include tech, financial services, healthcare and precious metals, among others. Diversifying by industry sector helps protect you from factors affecting a specific industry or companies within an industry.

### 3. INVEST WITH CONFIDENCE AND PEACE OF MIND

Whether you've made financial resolutions or want to maximize tax savings in 2021, the new year is the perfect time to get a second opinion on your portfolio. A different advisor may ask you other questions you hadn't considered and share a fresh perspective on your investments and financial goals.

Educating yourself by talking to another professional will increase the level of trust you have in your financial plan. You'll either feel confident in moving forward with the plan and advisor you have, or you'll realize you need to make some changes.

If you feel like you don't have a clear understanding of how your investments relate to your financial goals, or that you don't have a clear investment strategy, it's definitely time to get a second opinion.

## 6

### Important Questions

#### TO ASK YOURSELF ABOUT YOUR ADVISOR

- 1 DOES YOUR ADVISOR OFFER SERVICES BEYOND INVESTMENT ADVICE?
- 2 DOES THE RISK IN YOUR PORTFOLIO REFLECT YOUR APPETITE?
- 3 DO YOU HAVE A TAX STRATEGY IN PLACE?
- 4 IS IT CLEAR HOW YOUR ADVISOR IS GETTING PAID?
- 5 DOES YOUR ADVISOR COMMUNICATE WITH YOU OFTEN?
- 6 DOES YOUR ADVISOR HAVE A FIDUCIARY DUTY?

# Building a stronger financial pyramid with a second opinion

**BY GETTING A SECOND OPINION ON YOUR INVESTMENTS, YOU CAN BETTER UNDERSTAND IF YOU'RE BUILDING YOUR FINANCIAL PYRAMID OR BREAKING IT DOWN**

Some of the oldest structures in the world are the pyramids in Egypt, dating back to around 2630 B.C. The reason that the pyramids are still around today is largely due to their shape. Their strong bases have supported them through the centuries. A strong base is the foundation for long-term success, especially when it comes to financial planning.

## UNDERSTANDING YOUR FINANCIAL PYRAMID

The hierarchy of financial needs is based on a motivational theory model<sup>11</sup> that psychologist Abraham Harold Maslow created in 1943. Maslow's hierarchy of needs has five tiers that explain human needs and the behaviour used to fulfill those needs:

1. Physiological: food, water, rest
2. Security and safety: health, wellness, strength
3. Social: sense of family, friendship, romance, community
4. Esteem: feelings of accomplishment and value, respect from others
5. Self-actualization: achieving one's full potential, personal growth

Each level of Maslow's hierarchy requires certain levels of satisfaction before a person can move to pursuing the next, higher level of the pyramid. This is also true when it comes to building a financial pyramid.

## HOW TO BUILD YOUR FINANCIAL PYRAMID





## 1. MANAGING YOUR MONEY

When building your pyramid, the base is all about financial protection. This means taking care of your daily expenses, housing and transportation, with a focus on survival through stable cash flow and debt management (such as paying off credit card debt). Once you've built a secure foundation you can begin moving through all the other levels of the pyramid.

## 2. PROTECTING YOUR MONEY

The next step is to build upon your financial protection. Most Canadians live in this level of the pyramid. A 2019 IPSOS Reid study<sup>12</sup> revealed that nearly half of Canadians only have about \$500 left after paying bills and debts at the end of each month.

You can create a financial safety net by putting any extra dollars into savings and an emergency fund, and buying insurance in case the unexpected happens.

## 3. ACCUMULATING WEALTH

Once you've mastered day-to-day money management and safety and sustainability, you can shift your focus to accumulating and growing your wealth. You can work with a financial advisor to build your investment portfolio, save for retirement, minimize taxes and pay down debt such as mortgages. Overall, this level is all about planning for your future to accelerate your move to the next level of the pyramid.

## 4. PRESERVING WEALTH

This is where financial independence begins. You're managing your daily expenses and regularly contributing to emergency funds and savings accounts such as your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA).

Savings at this level relate to your children's education, long-term care (should you need it) and maybe even that brand new car you've always wanted.

Your investments and long-term savings accounts are growing, you've got a solid retirement plan in place and you're confident that your wealth will be preserved for years to come.

## 5. LEAVING A LEGACY

Once you have accumulated your wealth and are confident in your ability to preserve it for your future, you have reached the top of the pyramid! You can enjoy your financial freedom and consider estate planning, taking care of loved ones and leaving a philanthropic legacy.

### Where are you on the financial pyramid?

Like constructing the great Egyptian pyramids, finances take a long time to build. Financial independence, preserving our wealth and leaving a legacy are what we are all striving for, but we get there by working our way up the pyramid. We need to remember that everyone is on the same journey, but at different stages, so don't feel discouraged if you're not where you want to be yet.

# Key takeaways

While life is uncertain and we face new challenges each year, having a solid investment strategy can help protect you against some of the unknowns. Getting a second opinion is the best way to:

- Align your current portfolio with your future financial goals
- Feel confident that you're maximizing the most effective investment strategies for optimal returns
- Understand if you're set up to weather market ups and downs
- Find out how to strengthen your financial pyramid to accumulate and preserve wealth

We can offer you a no-obligation second opinion. We'll take the time to listen, and once we know more about you, we'll review your portfolio and investment plan options. We'll help you fully understand your current plan and future opportunities.

If you're on the right track, we'll let you know. If we think you could benefit from some adjustments, we'll make our recommendations and ensure you understand them.

Book your second opinion today [valleyfirst.com/GetASecondOpinion](https://valleyfirst.com/GetASecondOpinion)

## ABOUT VALLEY FIRST

Valley First is a premier provider of banking and investment services for residents and businesses in the Okanagan, Similkameen and Thompson valleys. As a division of First West Credit Union, B.C.'s third-largest credit union with 46 branches throughout the province, Valley First brings innovative products, an extensive branch network and local decision making to the banking experience. For more information on Valley First, visit [valleyfirst.com](http://valleyfirst.com)

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