Nexus Notes

December 2020

Vol. 25, No. 4

Featuring:

Invest *Thoughtfully*™

NEXUS

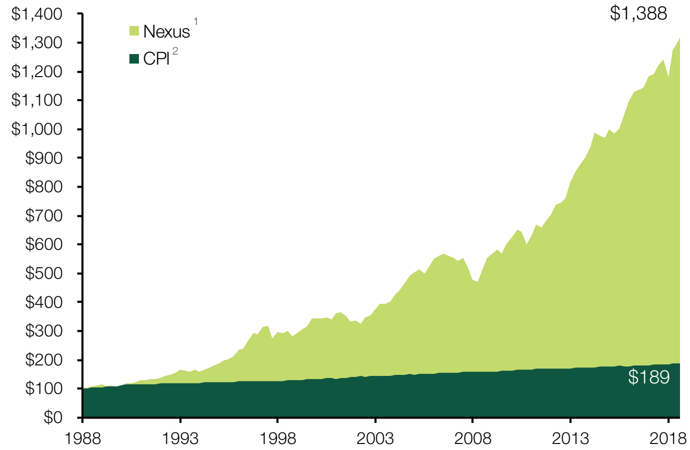
Our market-resilient investment strategy focuses on long-term results, providing investors with peace of mind through all stages of life.

Building Value for Clients

Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term.

The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,388 at September 30, 2020.

$100 Investment with Nexus in 1989



NEXUS

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1 "Nexus" reflects the performance of a composite of Nexus accounts managed to a balanced mandate (until September 30,1997) and the Nexus North American Balanced Fund (thereafter). Returns shown prior to the deduction of investment management fees.

2 CPI is the "all-items" Consumer Price Index for Canada, not seasonally adjusted.

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"Never Let a Good Crisis Go to Waste[1]"

Reflecting on the year 2020 is not for the faint of heart. It has been one crisis after another. In addition to the onset of the worst pandemic in more than a century, 2020 also saw the killing of George Floyd – another catalyst for recognizing racial inequality around the world; one of the most acrimonious and deeply divided U.S. presidential campaigns in history; and wildfires in Australia and the U.S. that caused destruction on a massive scale.

Moments of crisis also present opportunity, and perhaps no company took advantage better than Zoom, which has become both a household name and a verb. But even more amazing than Zoom's meteoric rise was the development of a vaccine less than 12 months after COVID was first reported. Traditionally vaccines take 10-15 years to develop. The fastest it ever happened before was the four years it took to develop the mumps vaccine, which was first approved in 1967.

A crisis also highlights what is truly necessary versus what is nice to have. Not to mention, life goes on, crisis or not. In our business investment decisions need to be made, financial plans need updating and employees need to be hired. We couldn't be more proud of our employees for their efforts since the start of the pandemic. Everyone rolled up their sleeves and dug in. We added two new members to our team this year, despite the challenges presented by Zoom-based hiring. Preethi Khatri Chetri joined us this summer as our pooled fund administrator. She has extensive experience in this field, having worked with a large global competitor. Now Nexus is fortunate to have her talents and positive attitude – she will be managing the operations of our growing pooled funds. More recently Tom Wilson joined us. No, not the hockey player. Our Tom has research, as well as client service, experience. He's been hired to deepen our bench in the client-facing aspect of our business. While we introduced Preethi in our last edition of Nexus Notes, you can read more about Tom in this edition's Inside Nexus article. Also in this edition of Nexus Notes, we have an article that takes a deeper dive into investing during the time of COVID and a recap of the Q&A from our fireside chat on estate planning.

We recently held our annual client event, this year conducted by way of… you guessed it… a webinar. "2020 Vision: From Abnormal to the New Normal" revisits some of the shocking facts about the COVID pandemic, the surprising human resilience and ingenuity that have enabled us all to cope with the challenges, and what the new normal may look like for investors. If you missed the presentation, it is available on-line, including the client questions about the impact of the Biden presidency, Bitcoin and the future of office space in Toronto.

This edition will be my last as Editor. I have been at it for 20 years and it is time to pass the baton on to another member of our Nexus team – Brad Weber. He, like me, provides wealth planning services to our clients. He's also an excellent writer. As editor, he is looking forward to sharing his insights with you, starting with the Q1 2021 edition.

Finally, 'tis the season to be grateful. We are grateful for our health and the ongoing support of our clients. On behalf of the partners and staff here at Nexus, we wish you a healthy and peaceful holiday season.

Dianne White
CPA, CA, CFP, TEP

1) The article title is a classic quote from Winston Churchill.

INVESTMENTS

It's a Topsy-Turvy Year: *Investing* During COVID

Fergus W. Gould
CFA

This year has been plenty weird. For starters, it feels like January was about five years ago… if you can remember it at all. Putting aside the health aspects of COVID,[1] it has also been an odd year for investors. The year started on a good footing. Then, as COVID-driven lockdowns occurred, we had the quickest surge in unemployment ever and a recession that turned out to be the steepest decline and most abrupt recovery ever. In a predictable fashion (ironically, as the market is rarely predictable), the equity market had its most abrupt plunge ever,[2] followed by the most rapid recovery ever. One might say, it was quite a topsy-turvy year.

"Topsy-Turvy" was a musical drama, released in 1999. It was a dramatisation of the famous partnership between playwright William Gilbert and composer Arthur Sullivan. Set in the Victorian 1880's, this duo collaborated with good-natured opposing views and creative conflict to produce several operas, including "*The Mikado*". But the origin of the term goes back centuries before that:

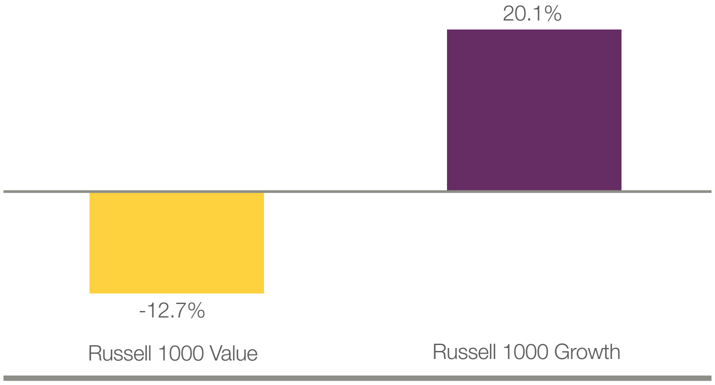
"*They say that... they see the houses turne topsy turuye, and men to walke with theyr heelesvpwarde.*"

Richard Eden's The decades of the newe worlde, written in 1555 and itself a translation of an earlier work written in Latin by Peter Martyr d'Anghiera (1457–1526), about the then "new world" of Asia and the Americas.

Well, that kind of captures 2020 as well, it seems! Even behind the headline GDP and market moves, the topsy-turvy aspects of 2020 go deeper still. Who would ever have thought, that in a recession with elevated unemployment and huge uncertainty, we would see personal incomes *increase* (due to generous government handouts), home prices *increase*, consumers *pay down* debt, bankruptcy filings *fall*, interest rate plumb their *lowest levels* and all the principal U.S. equity indices reach record *highs*?

As an investment manager, the above is weird. But when it comes to individual companies and sectors of the market, it has been even stranger. There are some stocks that typically perform better than the market average in a difficult economic environment. One such group is dividend-oriented equities. This is because these stocks are typically larger, profitable companies with well-established competitive positions, so they can survive a recession. Also, they typically trade at reasonable valuations, which provides superior downside protection in uncertain times. Not so in 2020. As an example, the S&P Dividend Aristocrats, which are the stocks in the S&P 500 that have an unbroken track record of paying dividends without a cut for at least a quarter-century, have, as a group, trailed the overall S&P 500 this year by the widest margin since 2007 – by about 11 percentage points to the end of September.[3] Another category of good quality, but staid, stocks is the U.S. utility sector. These companies generate electricity, and distribute electricity and natural gas, in the most uneventful way in good times and bad. Well in Q2 of this year, they lived up to their reputation. The utilities sector was the *only* one (of 11) in the U.S. stock market that actually increased the sector's corporate earnings year-over-year. So, how about the Utility sector's stock market return? They walked with their heels upwards… with a -11% return for June 30th year-to-date, the Utility sector's return was well below the overall S&P 500's -3% return. Only 3 sectors, Energy, Financials and Industrials, had returns that were worse than Utilities. Who would have expected that?

For an explanation, let's go back to COVID. Investors were cooped up at home, many working remotely. All were concerned about the economy and all were keen for good news stories. Cue the growth stocks – everybody uses Zoom, everybody loves their Peloton bike, eCommerce is going to the moon (Amazon, Shopify), I need a Tesla, and so on. These, and many other growth stocks, are doing superbly well in the stock market. The entire group of growth stocks has beaten the value stocks this year and, at October 31st for the year-to-date, was ahead by 32.8 percentage points.[4]



2020 Year-to-Date Value vs. Growth Return (in US$)

For investors, these are the COVID winners and losers. Looking back at the longer track record, growth stocks and value stocks have taken turns outperforming each other for periods of time. As is usually the case with equity markets, these periods and the leader are clear in retrospect, but looking forward it's largely unpredictable. Which one leads, when, for how long and by how much? It may seem a slam dunk that growth stocks will win over the long term. After all, they tend to be new economy stocks with the advantage of better growth. The complication is that, ultimately, for a stock to have a good long-term return, the company needs to generate a reliable profit stream and investors shouldn't pay more today than that future profit stream is worth. The reality is that optimistic investors frequently overestimate and overpay for this future profit stream. For these growth darlings, with high growth comes more competition. With more competition comes less-than-hoped-for profitability. The valuation of a stock – what the investor pays relative to what he gets – matters. Not all the time and not now, but eventually. Over the long term, it's actually the value stocks that have performed better. The value investor is still 4.3 times as wealthy as the growth investor over the period from July 1963 through June 2020.[5] This outperformance by value is simply the flip side of the coin – if there tends to be too much investor optimism with growth stocks, so, too, is there typically too much pessimism for value stocks. Investors, in general, assess these slow, established economy stocks and their outlooks pessimistically, such that the stock may well be "good value" and many deliver a better profit stream than expected.

Returning for a moment to Gilbert & Sullivan's Topsy-Turvy travails with the creation of "The Mikado". It turned out that The Mikado was the start of Gilbert & Sullivan's long road to fame and riches. Let's hope that the topsy-turvy world of 2020 is the start of a more profitable streak for investment strategies with a quality and value orientation.

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1) This is not to in any way to ignore the real health consequences and personal difficulties that many have experienced in COVID, but this article is focused on the investment aspects of COVID.
2) But not the deepest market decline – the global financial crisis was deeper and various prior deeper bear markets occurred, such as in wars around the world.
3) As measured by the ProShares S&P 500 Dividend Aristocrats ETF. As the S&P 500 *includes* the 65 Dividend Aristocrats, this means that the Aristocrats' performance lagged behind the other 435 stocks in the S&P 500 even more.
4) As measured by the Russell 1000 Growth Index and the Russell 1000 Value Index. Each is a sub-set of the 1,000 largest public companies in the United States, with the Growth stocks sub-set selected for their higher growth characteristics and the Value stocks sub-set selected for their relatively lower valuations. As at October 31, 2020.
5) *Reports of Value's Death May Be Greatly Exaggerated*, by Rob Arnott, Campbell Harvey, Vitali Kalesnik, Juhani Linnainmaa; August 2020.

ESTATE PLANNING

Dianne C. White
CPA, CA, CFP, TEP

Estate Planning: Questions from our *Virtual Chat*

Helping clients with their estate planning is something we do here at Nexus. However, we are often involved in identifying the best tools for the implementation of a client's estate plan – such as the use of a trust.

In November, we hosted a fireside chat with Laura Ross, from Laura Ross Estate Consulting, that went beyond the tools and legal documents required for an effective estate plan and focused on the importance of communicating your plan to avoid family conflict. You can watch a video replay on our website.

To quote Laura "Death is the Elephant in the Room. It happens to all of us, but no-one likes to talk about it".

Many great questions were asked during the event – with some common themes. We have summarized some of these questions and answers in this article.

How do you choose an executor? Should there be more than one, should it be your kids or perhaps a corporate executor?

The work of an executor can be complex and is often time consuming. Most people will name a spouse as their primary executor and then, as a back-up, a close family friend or perhaps a child, depending on their age and capability. Ultimately, you should consider who would be best suited for the job. A few of the traits that make a good executor include good organizational skills, detail oriented,

Continued on page 4

comfortable with numbers, business savvy and likely to be alive longer than you!

There is a misconception that if you have 3 children and you only name one of them as your executor you are not being fair to the others. This is not true. If you are considering one or more of your children, have a conversation with them and see how they feel about being executor or co-executor, and explain what will be involved. They do not need to do it all on their own. Accountants, lawyers and someone like Laura Ross can help navigate the process.

There are circumstances when multiple executors make a lot of sense. This is often the case with a second marriage, so that both the second spouse and children from the first marriage have representation on the estate. In situations with multiple executors, your will should include guidelines on how executors can be replaced and how a majority will be determined in order to avoid a stalemate.

There are situations where you need to turn to a corporate executor because there are no suitable family members or close friends, or because of the complexity of the estate – perhaps it includes business assets. Whatever the case may be, appointing a professional trust company as an executor could turn out to be the most sensible option.

Executors, whether corporate or personal, can collect an executor's fee as compensation for the work performed. This fee is generally 5% of the value of the estate.

Are there any issues with adding my two children as joint owners on my non-registered account to avoid probate and ensure the account passes easily to them?

Many clients have success passing assets outside their will to their beneficiaries using joint accounts with a right of survivorship. This is especially true for passing assets to a spouse. But it can also work with adult children. Everyone's circumstances are different. So proceed with caution when it comes to joint accounts with the next generation, as there are a few serious pitfalls that could prevent you from achieving the desired outcome. First of all, joint means joint. Your kids have access to your funds and could make withdrawals at any time. If your child has credit issues, creditors could have a claim on your joint account. In addition, if your child has marital issues, your account could become part of their net family property. If there is a potential for problems, then don't use a joint account. It's better to pay probate and have assets pass through your will, as it absolutely provides a layer of legal protection.

If you are concerned about your accounts being frozen, it makes more sense to add your children to a joint bank account with only enough money in there to pay bills, funeral costs and any other expenses, rather than make them a joint holder of a large investment account.

There are other, more complex, ways to avoid probate that are outside the scope of this article.

Are there downsides to showing your family members your will, especially if some family members are treated differently?

Preparing your family members for what is included in your will in advance of your death could result in either understanding or bad feelings. But if there are bad feelings, at least you are alive to explain why you are doing what you are doing. The goal of communicating beforehand is to prevent conflict later on, after you are gone. Also, you don't have to actually show the will document, but it's a good idea to explain to them what is in the will and why. The ultimate goal is to avoid conflict later on when your family is grieving.

Can you comment on living wills?

Living wills fall under the category of advanced care planning, which is the process of planning for your future personal and medical care and includes such items as do not resuscitate ("DNR") orders. They are an important component of documenting and communicating your wishes with your family and your power of attorney for personal care.

There are a few different ways your wishes can be expressed. You can use a detailed power of attorney for personal care, or you can have a separate document often referred to as a "letter of wishes" or "living will". The document you use should include more than just end of life care. It should also include your wishes if you are no longer capable of making personal care decisions on your own. One major consideration is whether you prefer to stay in your own home for as long as reasonably possible, if you can afford it, versus a retirement home or other long-term care facility.

Estate planning is more than just dealing with finances. There should also be an emphasis on personal care issues.

How do you provide for children with special needs?

Providing support and care for children with special needs is complex as there are various available resources that provide assistance and specific planning tools that can used. Some of these include the Ontario Disability Support Program "ODSP", Registered Disability Savings Plans "RDSPs", disability tax credits and Henson trusts. It is important to understand how these different tools work and how they fit together, because if there is no coordination between them, there could be dire unintended consequences. Speaking to a lawyer or an accountant that specializes in planning for special needs is a good first step.

Does it make sense to use something like Everplan to organize your documents?

As luck would have it, Denys Calvin wrote a blog about Everplan back in 2017. You can read about it on our website.

Does the domicile of the "next generation" affect planning for transfer of Canadian assets?

It can and it will depend on how you plan to transfer those assets to the next generation. You need to consider the applicable tax laws in the country where your beneficiaries are resident. For example, if you leave assets in a trust through your will for the benefit of a U.S. person, depending on how the trust is structured, there can be adverse tax consequences for the U.S. beneficiary.

In addition, it is a good idea for your executor to live in the same province as you do. Not only is this practical from an administrative perspective, but there are also several issues to consider including: the impact on tax residency of your estate, foreign reporting requirements for a non-resident executor and bonding issues for the executor, just to name a few. If you have limited options for an executor, this is not insurmountable. But it adds even more complexity and you will want to get good legal advice.

Building the Business: Another Virtual *Nexus Welcome!*

Nicole Weiss

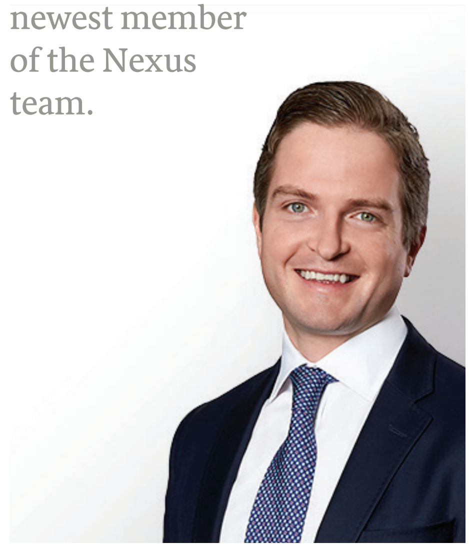
We are delighted to welcome Tom Wilson as the newest member of the Nexus team. As a Vice President on the client service team, Tom will focus on providing excellent client service to our existing clients on their portfolios and work closely with our wealth planners. He will also be an integral part of our business development team which introduces the firm's capabilities to new relationships.

Tom joins us from CI Investments, where he was an analyst responsible for fixed income, alternative investment and foreign exchange research. He also worked on the sales and marketing team, collaborating with their Canadian financial advisors. Tom holds the CFA designation, and has a Masters of Finance (MFin) from the Smith School of Business at Queen's University.

In his spare time, Tom can be found at the rink playing hockey (much like the NHL right winger of the same name!) and skiing. His love of travel led him to spend a month in Thailand, and he is looking forward to the day when he can get back to exploring the globe.

To introduce clients as best we can in this virtual environment, Tom will be joining client meetings with our relationship managers. While we remain optimistic that we can get together in person in the near future, for now, we hope that you will get to know Tom virtually.

We are delighted to welcome Tom Wilson as the newest member of the Nexus team.



Pearls of Wisdom

Brad Weber

CPA, CA, CFP

Reading is one of the principal occupations in our profession. As we digest a wide range of material, interesting ideas and surprising facts – some serious and some light-hearted – rise to the surface. We attempt to share a few of those with you in each of our issues of Nexus Notes.

A table for none, please

The COVID-19 pandemic has brought many changes to our lives and has left us wondering what the new normal might be. We have seen our dining options go mobile with limited opportunity for either indoor or outdoor dining. While eating in restaurants will return one day, people's appetite for increased take-out options could be here to stay. In its recent earnings call, fast-food chain Wendy's announced they are exploring a drive-thru-only restaurant model. They join a long list of their peers that include Burger King, Taco Bell, Chipotle, and even IHOP that are all looking at variations to their store formats. These alterations include more drive-thru options, curbside delivery, and pickup lockers for mobile orders. While the pandemic has driven the shift in consumer habits, there are signs that some of these changes will become permanent. ("Wendy's Teases The Idea Of A Drive-Thru-Only Model", Forbes, Nov 6, 2020)

Working from home on the rise

A recent report from the U.S. Bureau of Labor Statistics highlights how U.S. businesses have adapted during the pandemic. The report shows that 31% of private-sector companies increased working from home for their employees, and those businesses employ 68.6 million workers. Overall, 52% of private-sector companies did not offer work from home options, and these businesses employ a combined 46.6 million workers. Industries that did increase work from home include education, finance and insurance, and holding companies. Those not offering this option include food services, agriculture, forestry, fishing, and retail. As expected, industries that could alter their operations to allow employees to work remotely did so. They also employ more workers than those sectors that required their employees to still come into work. What remains to be seen, is how many employees that started working from home during the pandemic will stay there. ("Business Response Survey to the Coronavirus Pandemic", U.S. Bureau of Labor Statistics, December 7, 2020)

Invest
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At Nexus, we offer thoughtful wealth planning and investment management with unparalleled personalized service to private clients and foundations.

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