Nexus Notes

September 2021
Vol. 26, No. 3

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

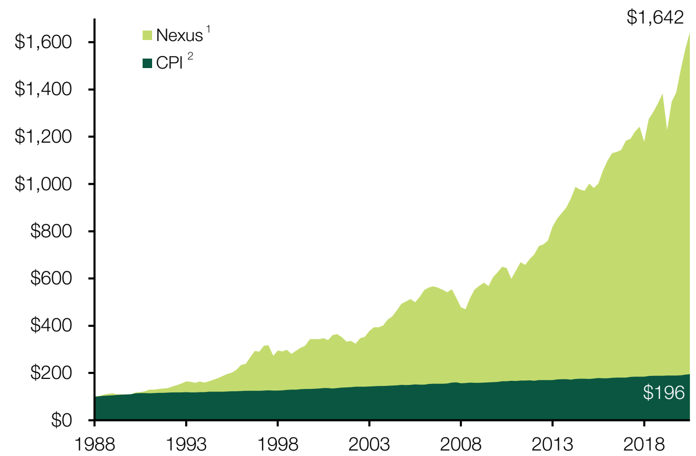
Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term.

The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,642 at June 30, 2021.

NEXUS

nexusinvestments.com

$100 Investment with Nexus in 1989



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.

Nexus Notes
September 2021
Vol. 26, No. 3

In this issue:

To download a copy of this issue, or to access more resources go to: nexusinvestments.com/insights/nexus-notes-quarterly/

The Nexus Notes newsletter is published and distributed by Nexus Investment Management for the purpose of providing relevant information to our clients and other interested parties. For additional copies, or to be removed from our mailing list, please contact our office.

Publication Mail Agreement 40033917

FROM THE EDITOR

The Changing Leaves

Another new season is upon us, and whether you call it fall or autumn, this is the season that most represents change. An obvious reason for this is the visual transformation we see around us as the leaves turn colour. As well, the shift from summer to fall feels more dramatic as we transition from vacations back into our regular routines.

As my colleague Dianne White has said before, autumn can seem more like the start of a new year than January. While January is the traditional month for setting new resolutions, for me, September seems the more natural fit to be planning for the future. During the summer, it's only natural that those slow times relaxing in the sun will lead you to think about "What if?" even if you're still enjoying your vacation and not yet eager to dig deeply into those thoughts. But as fall rolls around, there's more energy to start planning out those ideas, and the start of any good plan begins with your goals.

At Nexus, one of the ways we define risk is "not achieving your financial goals." It's one of the reasons clearly defined goals are so important: they are the framework through which you make your financial decisions. Without established goals to serve as guideposts, choosing a proper course of action becomes much more challenging. You may have experienced this in the past. You ask an advisor a question, perhaps what option you should consider, and the response back is "it depends." It depends because the answer for you will be based on your objectives and your circumstances. Without exploring the things important to you, you could end up making choices that run counter to what you are trying to achieve.

Setting goals isn't always easy, especially when it feels like you are trying to plan out the rest of your life. It's great if your goals are specific, measurable and tied to a clear timeline. Goals that are thought out and well articulated will make your advisor's job easier. But it's also okay if your objectives start vaguely, and then serve as a foundation to build on. It's better to resist the temptation of crafting the perfect goals if the alternative is not formulating any at all. Setting your goals, much like planning overall, is a process. Your goals will change over your lifetime. So there is no need to make them flawless.

Building flexibility into your goals is important, as your life will evolve in both expected and unexpected ways. The changing of the leaves marks the transition from summer to fall, and the transitions during your lifetime will be marked by a series of events as well. In her most recent blog post, *The Times They Are a-Changin'*, Alex Jemetz talks more about navigating through the transformations our lives will take.

Also in this issue, Alana Buckley talks about the future of money and the impact of digital currencies. Fergus Gould provides some thoughts around the economic recovery from the pandemic. And be sure to check out Inside Nexus to read about Ian Ligertwood, the newest member to join Nexus.

Brad Weber
CPA, CA, CFP

The Times They Are a-Changin'

by Alexandra Jemetz, CIM

My inaugural blog Time Poverty: Why Are We All So Busy? was excitedly penned and posted December 25th 2015. It was a human interest article, the first of its kind for Nexus. The gist was that we, as a society, are just too darned busy. "Time-scarcity" was a real thing, and on the topographical map of life, I was living on Mt. Everest.

Admittedly, I offered very little in terms of solutions for this problem.

Enter 2020. Time? That's all we've got. While pre-covid we were like little hamsters running all over the place, at least we made it places. All of a sudden, we were thrown into a spinning wheel, going nowhere fast.

Enter 2021. With vaccine rollouts meaningfully underway, now all our attention is turned to "getting back to normal". For some, this is exhilarating and a relief to not have to constantly look at our own aging faces on Zoom. For others, the prospect of re-entry to society is riddled with anxiety. And for a host of people, it's somewhere in between. "What am I going to talk about? I haven't really done anything in 15 months!" Maybe we feel a bit like writer Anna Russell as she described her experience in the New Yorker article The Age of Reopening Anxiety:

"Sometime during London's third lockdown, when everything was still closed, I began watching the squirrels in the tree outside my window intently. There were two of them, and all winter they chased each other around the branches flirtatiously. By early spring, they had built a nest in the crook of the tree and, whenever one of them left, the other would poke its head out, concerned. Recently, I noticed three smaller heads peeking out—squirrel babies!—and not long after that, I began relaying the whole tale as an anecdote to friends in outdoor beer gardens, which had just reopened. Three of them! Can you believe it? Amazingly, they could. They smiled politely, waiting for a punchline that never came. There weren't many follow-up questions."[(1)]

In a recent Nexus Women & Wealth online event, esteemed author and speaker Dr. Amy D'Aprix spoke to Nexus's female clients about how to navigate life's transitions. We talked about retirement, caregiving, relationships, aging and health. We were asked to reflect on our past transitions and examine how we handled them. But, the re-entry to "normal" life after a global pandemic had certainly not been on any of our lists of possible life's transitions, nor is it an experience that we can reflect on from our past. Although there are strategies for people re-introducing themselves into society from incarceration, sobriety, etc., there are elements in this one that are unique. We're basically creating a transition strategy from scratch.

"With pandemic re-entry, acknowledging what has happened is vital for deciding how to move on" says Nzinga Harrison, a psychiatrist and addiction medicine physician. "The world today is not the same as it was in February 2020. The rug was ripped out from us, our stability was stolen. We are traumatized, anxious, and overwhelmed… Asking yourself what's out of your control (circumstances, how other people behave), and what's in your control (how I respond) goes hand in hand with acceptance." [(2)]

Although some people may not have been as affected as others, according to a study by the American Psychological Association, "49 percent of surveyed adults anticipated being uncomfortable about returning to in-person interactions when the pandemic ends. It found that 48 percent of those who have received a COVID vaccine said they felt the same way."[(3)] But there is something very constructive that could be burgeoning beyond the fear. According to the British psychoanalyst Josh Cohen, the pandemic has sparked a re-evaluation of priorities and values. In fact, during the pandemic he noted a kind of "giddiness in some of his patients, an opening up of the possibilities of life within a narrow circuit. Some individuals' private lives had benefitted from the slowdown. Some people have let themselves discover empty time, and actually inhabit it, and not be pulled into the ever-present temptation to fill it."[(4)] Indeed, this phenomenon is antithetical to the essence of Nexus's 2015's "Busy" blog.

Coen has observed that his clients are now questioning what they want out of life, in a way that only a major catalyst for change could prompt. Questions like, "What kind of place do I want to live in? Where do I want to raise my children? What kind of daily life do I want for myself?" Many of us have been holed up with our families for a year, and wonder if we'll ever have time like that again with them. “I think they feel that they’re going to be bounced back into ordinary life before they’ve resolved the questions that have been raised,” he says.[5]

Cohen’s clients are not the only ones with these questions. Given the topic of our recent event, I naturally turned to Dr. Amy for some tips on how to manage both the emotional and practical aspects of the transition back to normal life. She advises to start out by pausing and evaluating what parts of pandemic life have been a positive change, and then figure out how to maintain at least some of those parts. “Like a fish not knowing it’s in water until it’s left the fishbowl, many of us aren’t aware of the existence or importance of our rhythms, routines and rituals until they get disrupted. Consider both the obvious and subtle rhythms and routines you have created or adapted over the past year. Which of these provide comfort for you? Are there some you gave up during the lockdowns that you want to have back in your life? What is your ideal rhythm?” Whether it be working from home part-time, or simply not overbooking your calendar so you have some time for head-clearing, or spending a little less time with people who zap your energy, “the key words are: Pause, Evaluate, Choose. Don't just let re-entry happen to you.”

As we learned in our Women & Wealth session with Dr. Amy, there are many more aspects to a life transition than finances. But as planning professionals, we have been advising clients for decades on not only the financial aspects, but also how to ask probing questions when you are faced with one of life’s transitions. Present day is no exception. On this Dr. Amy offers additional advice: “When we are faced with stress, turning to the people who support us most is a smart strategy. Ask yourself: Who are the people who make your life rich, bring wisdom, bring fun, or who simply have a listening ear when times are tough? Those are the ones you want to reach out to as we all go through this transition together.” If the pandemic has caused you to question any aspect of your future, do not hesitate to reach out to your relationship manager or talk to your wealth planner at Nexus. We are good listeners.

1) The New Yorker, “The Age of Reopening Anxiety”, Ann Russell, June 2, 2021.
2) https://www.washingtonpost.com/lifestyle/wellness/anxiety-reentry-sober-coping-skills-recovery/2021/05/26/a171bdbe-be47-11eb-9c90-731aff7d9a0d_story.html
3) https://www.scientificamerican.com/article/cave-syndrome-keeps-the-vaccinated-in-social-isolation1/
4) The New Yorker, “The Age of Reopening Anxiety”, Ann Russell, June 2, 2021.
5) The New Yorker, “The Age of Reopening Anxiety”, Ann Russell, June 2, 2021.

The Future of Money: A Digital Currency Primer

by Alana R. Buckley CPA, CA, CFA

As a bottom-up investment management firm, we spend a lot of time looking at specific companies. But keeping an eye on evolving industry trends can be just as important. The shift to digital currencies is one such trend, and in this instance it’s a trend that’s likely to have implications for all of us.

While the first Bitcoin was created in 2009, it is only in the last five years that crypto currencies have become a hot topic. With their promise of revolutionizing the way the world thinks of both currency and payments, individuals, corporations and central banks are working hard to map out the future of money. Just last month the country of El Salvador introduced Bitcoin as an official currency. Other efforts include Facebook’s failed, fully-backed digital currency Libra, as well as China’s recently launched digital Yuan.

The intention of this blog is to cover, at a very high level, some of the basics that are required to better understand digital currencies. Hopefully it will help you to make sense of the headlines and developments that we are sure will continue to come our way.

On the surface, a “digital currency” feels like a small jump from where we are today with digital banking. Transactions like automatic deposits, e-transfers, and mobile payments mean that funds come and go without physical money ever exchanging hands. You can pay for your Starbucks with your watch, and you can even authorize Nexus to pull a transfer directly from your bank account! When we step back and consider how much has changed thanks to digital banking, it truly is amazing. But digital currencies are a quantum leap beyond traditional banking. The major differences vary depending on the type of digital currency. So let’s take a look at some broad categories:

Digital currencies can be categorized into three distinct buckets: **Cryptocurrencies, Stablecoins** and **Central Bank Digital Currencies.**

Cryptocurrencies

Since the price of a Bitcoin went from under $10,000 to over $18,000 in December 2017, cryptocurrencies have been in the news and on people’s radar. Despite all this attention, many aspects of cryptocurrency still baffle us and others. For instance, blockchain technology, the anonymity associated with owning and trading in cryptos, the “mining” of new coins and the huge price swings unsettle people. For some, it’s all just a little bit too confusing, and, for others, cryptocurrencies simply don’t jive with their current understanding of currency or money. The way we see it, there are two camps of people who are currently involved in cryptos: those who value privacy and are willing to live with the volatility that comes with it, and those who enjoy the speculative nature that is a by-product of the large price swings. It won’t surprise you, but at Nexus we aren’t in either camp. We need to understand what drives valuation changes in our investments before we can be “adopters”.

Continued on page 4

Stablecoins

Like the cryptocurrencies described above, stablecoins are not controlled by a central bank. The exact attributes of stablecoins vary widely, but in contrast to cryptocurrencies which leave valuation to market supply and demand, stablecoins derive value from underlying assets which back their value. Because of this difference, stablecoins are designed to avoid the major price swings that are associated with cryptos (thus the name). But this change in pricing dynamic also shifts the profile of who might be interested in using/investing in such a currency. For some, the very appeal of a crypto is the lack of any tie to traditional fiat currencies.

There are several stablecoins already in the market, with the largest one being Tether. The value of one digital coin (TUSD) is pegged to the value of a US dollar, and the total market value is about $68 billion. But Tether and others face regulatory challenges and questions about the nature and quality of the assets that back their currencies. As mentioned above, Facebook's Libra did not capture broad interest. But Facebook is refining its efforts to develop a stablecoin (now called Diem) that will no doubt integrate with the broad commercial aspects of the Facebook ecosystem (Instagram, WhatsApp, Facebook Marketplace, etc.)

Central Bank Digital Currencies (CBDCs)

Finally, there are the digital currencies issued by central banks (CBDCs). They are the most likely digital replacement of traditional money. Unlike cryptocurrencies and stablecoins, which avoid centralized oversight and prize anonymity, CBDCs are theoretically backed by fiat currencies and regulated by central banks.

Pressure on large central banks, such as the Federal Reserve and the European Central Bank, to get moving has been mounting because of China's recent roll-out of the digital Yuan (a CBDC), as well as the increasing adoption of cryptos and stablecoins generally. Despite this pressure, there are no major CBDC launches expected for several years. Because CBDCs may eventually replace traditional money, central banks are moving cautiously. They are mindful of the potential disruption that CBDCs might generate. A successful digital currency will need to act like a cryptocurrency in some respects, such as providing easy settlement and efficient cross-border transfers. But it must also deliver the valued attributes of traditional money that many take for granted, like portability, anonymity and limited daily fluctuations in value.

It is apparent that the three digital currencies described above serve vastly different roles. While CBDCs are the most likely candidates to replace today's currencies, it is possible that the future involves all three types of digital currencies described above.

As we consider the adoption of digital currencies, there are serious implications for security and privacy, as well as myriad other potential knock-on effects. Such effects are not confined to the traditional financial sector. The digitization of money will affect every corner of the economy. Below we list and briefly discuss a few issues to be weighed as we consider the next chapter in the history of money.

Privacy and security: As with all things digital, digital currencies come with a heightened risk of cyber-attack. While blockchain has proven to be resilient against hacks, a CBDC solution will likely look different as it would not use a decentralized ledger system that comes with blockchain.

Decreased dependency on the US dollar: Part of the dollar's appeal is the safety net and portability that it provides. Many emerging economies either explicitly or informally operate on the strength and stability of the US dollar. Digital currencies could replace the role of the dollar in certain circumstances.

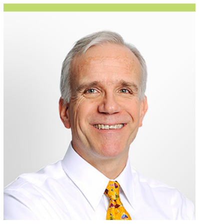
Possible shift in the role of traditional banks: The role of commercial banks in deposit-taking, cash distribution and liquidity would be much different in an entirely digital system. For better or worse, developments in "fintech" technology and the digitization of currencies would broaden the number and nature of participants in the financial system. Uneven regulatory treatment will be a fundamental problem.

Public skepticism: While we all know people who profess to fully understand the world of cryptocurrencies, we are skeptical that people will readily accept that their money is better off in a computer as opposed to under the mattress. As digital currencies become a little more common, we expect traditional currency and digital currency to co-exist for a long time. To our mind, full replacement of traditional currencies by digital ones is only a very distant possibility.

What do you think that the future of money will look like?

COVID:

An Uneven – and Unequal – Recovery



by Fergus W. Gould, CFA

Canadians have had enough of the lockdown. Here we are 18 months after you first heard of the then mysterious Wuhan flu. Today, but for any curve balls from the variants, normalization is finally underway and the path to recovery is visible. For most, there has been some hardship and, for some, tragedy. We are still coming to grips with all the health facets of COVID – a more precise understanding of the effects on the "long-haulers" and the unsettling evidence that, for some at least, this virus seems to shrink parts of the brain with as yet unknown consequences.[1]

As widespread as the human and health impacts have been, this article focuses on some of the economic aspects of the recovery. Of course, economic growth has meaningful implications for humans and health. Economic growth directly affects our standard of living – especially so in the lesser-developed parts of the world – and helps with innovations of all kinds that make life better for us all.

Today, for countries such as China and New Zealand, the economic recovery is essentially complete, thanks to severe and successful lockdowns and isolation, even if vaccination progress is relatively low. The U.S. is now in full blown recovery. Thanks to vaccinations and government stimulus, the World Bank bumped its forecast for 2021 U.S. economic growth to 6.8% from the 3.5% that was estimated in January, even though the U.S. lockdown was less stringent than others.[2] Some countries, like Canada and many within the European Union, may be "set to pop".

Continued on page 5

These countries have had more severe lockdowns than the U.S. and are now vaccinating at a torrid pace. Typically, the more severe the lockdown, the larger the economic recovery gap, with vaccinations providing the rocket fuel. Vaccinations help economic growth in at least two ways. First, by lifting restrictions on social activity, typical economic activity will return. Please… who doesn't want to sit down in a restaurant, go to the ball game, and travel on vacation? Second, by reducing the risk of future outbreaks, businesses and consumers are more confident about the outlook, so growth is more assured and more resilient as a result.

But there is a tale of two paths ahead. Simply put, the developed world has a multi-lane freeway and the developing world has an uneven track. The developed world has the vaccination vials, the distribution system, the refrigerators, and the healthcare staff. The developing world, … not so much. And it shows. The World Bank forecast estimates the 10 highest vaccination economies will grow 5.5% in 2021 on average, which is way higher than the norm for the developed world. The 10 lowest vaccination countries – typically the poorest – are set to grow only 2.5% this year. For the poorest 29 economies in the world, only 0.3% of the population has received at least one dose of a vaccine. For these countries, 2020 and 2021 will be the lowest growth they have experienced in at least 20 years. Some of these countries will reach herd immunity mainly by way of infections, not vaccinations. India may get there in early 2022.

All the developed world's government-provided stimulus is driving up prices and speculative activity. If this trend persists, it may be inflationary, rather than only a normalization blip, and lead to higher interest rates. Ironically, this would be hitting developing countries below the belt. Typically, when interest rates rise in the developed world, money drains out of emerging market economies towards the developed countries. In response, the developing world is forced to raise interest rates. As is the case in this instance, this could occur before these economies have made a proper recovery. Brazil and Russia have already been forced to raise interest rates, with Russia directly pointing the finger of blame at the loose monetary and fiscal policies among the world's major economies.

Apart from exacerbating have- and have-not country inequalities and the human implications, on the economic side for North American investors, what goes around comes around. The developing world is now more developed and provides a meaningful assist to global economic growth, to the profits of developed world companies, and hence to the health of their own economies and stock markets. For many reasons, let's hope for more evenness amongst the uneven.

---

1) A U.K. study suggests there could be long-term consequences from COVID: https://www.medrxiv.org/content/10.1101/2021.06.11.21258690v1.full.pdf
2) The statistics and the theme of this article comes from The jabs and the jab-nots, The Economist, June 19, 2021.

The Nexus IT Crowd

by Nicole Weiss

We are happy to announce Ian Ligertwood as the newest member of our team. As Vice President, Operations & Technology, Ian will be responsible for managing all business process and technologies in support of the firm's internal operations. With a focus on operational optimization and excellence, Ian will also manage all systems, software and other technology so the firm can deliver the highest caliber of services to its clients.

Ian joins us from an institutional investment firm where he helped transform their operations department and was responsible for the firm's technology. In addition to developing a scalable and heavily automated middle-office, he worked closely with the investment team as a data analytics resource during his tenure. Prior to that, Ian was the technology lead at another institutional and private client firm.

As Vice President, Operations & Technology, Ian will be responsible for managing all business process and technologies in support of the firm's internal operations.

Away from the office, Ian has a love for photography, which is a generational interest in his family. It also goes hand-in-hand with his passion for travel – his goal is to have visited the same number of countries as his age – and he can't wait to be able to travel again. He's also looking forward to the day when he can get back to attending live music. But, until then, he's keeping busy with his old vinyl record collection.

We were fortunate to be able to have a firm-wide in-person welcome with Ian at the end of the summer, in addition to embracing our virtual welcome options. We are delighted to have Ian on board and look forward to him becoming an integral part of the firm.

Invest
Thoughtfully™

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

Nexus Investment Management
111 Richmond Street West, Suite 801
Toronto, Ontario M5H 2G4

Tel: (416) 360-0580
email: invest@nexusinvestments.com

nexusinvestments.com

NEXUS