Industry *Insights*

Winter 2022

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INDUSTRY INSIGHTS
WINTER 2022

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Sun Life

Inflated currency, deflated retirement expectations

Inflation impacts all of us. But none more so than retirees.

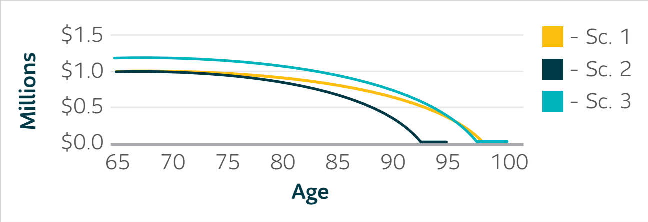
At 4.7%, Canada's inflation rate is the highest it's been since 1991. COVID-19 is largely to blame, having increased our desire to have stuff in a world that wasn't ready to supply it.

Even a brief period of increased inflation means retirees may need to withdraw more from their retirement savings than originally estimated. They may need to continue withdrawing more for the rest of their lives.

Here's an example:

Harriet is 65. She determines she'll need $40,000 per year in retirement, adjusted for inflation. Using the conventional 4% initial retirement withdrawal rate, she'll need $1 million in her retirement account. She assumes an average growth rate of 4% in her investments.

Scenario	Inflation assumption	Initial deposit	Harriet's age when investment ceases being able to fund her retirement need
1 (base case)	2% inflation forever	$1M	97
2	4.5% inflation for two years, then 3% thereafter	$1M	91
3	Same as scenario 2	$1.17M (17% more)	97



Consider investing tactically

We often think that equities will always outperform inflation, making them safe against a shrinking currency. History shows us that this isn't always true. Equities may be safer in bullish periods (e.g., 1921-1928, 1949-1965, 1982-1999), but this generally isn't true for bearish ones (e.g., 1900-1920, 1929-1948, 1966-1981). However, some equities perform better than others during market downturns. The Canadian S&P/TSX has often outperformed the USA's S&P500 during bearish eras. This could be because of the increased weighting in financial and energy companies. These industries tend to be more resilient in tough times and more able to pass on increased pricing to customers.

TAKEAWAY

Advisors should stress-test Clients' retirement plans to make sure they can withstand higher inflation. Tactical equity allocation could help support portfolios in bearish periods.

Source: Advisor's Edge

Seeking safety in a negative real yield environment

Consider a "safe money" investment that could be more appropriate for Clients.

As per the Bank of Canada (BoC), 10-year bond yields are sitting at 1.5%. Inflation is at a 30-year high of 4.7%. Together, this creates a negative real yield of -3.2%. The BoC assures Canadians that inflation is transitory. They are doing what they can to avoid a prolonged devaluation of our dollars.

The market has already priced in six interest rate hikes for 2022. If this happens, those caught holding bonds may experience negative nominal returns as market values adjust sharply downward. This could happen as new bonds gain popularity over old ones.

But government debt is at its highest level ever and the economy is facing sensitive growth prospects. Some believe it's unlikely the BoC will raise rates by much. If it does, the government could be in a risky cash flow position that could hinder Canada's growth. The result could be a longer period of inflation that remains above the BoC's target of 2%.

Bonds have typically served as the preferred means of mitigating risk in portfolios. But the expected interest rate hike and the uncertainty of inflation is driving many to seek an alternative.

Have you considered these alternative investments?

- Floating or rate-reset preferred shares
- Inflation-linked bonds
- Convertible or foreign bonds
- Permanent life insurance (like Participating whole life or Universal Life)

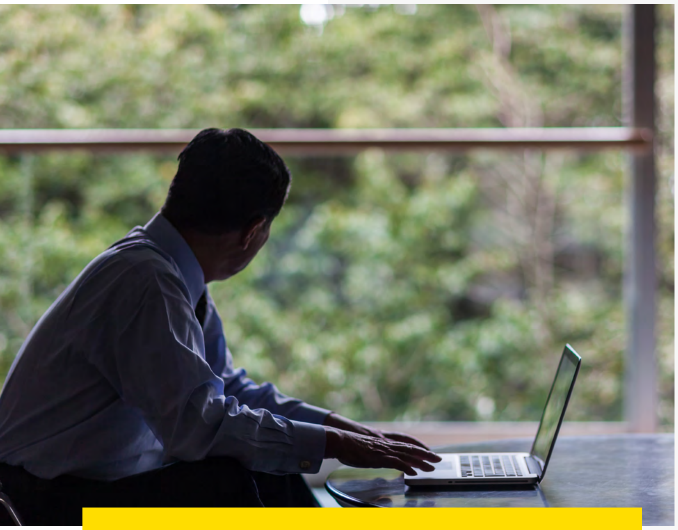
Source: Investment Executive

TAKEAWAY

In turbulent times, safe asset investments are as important as ever. But it's often best to avoid making drastic changes to chase trends.

Ignoring climate change will cost the financial industry (and us all)

Sun Life and five other financial institutions participated in an informative new study.



TAKEAWAY

Advisors should learn about climate change and contemplate how this could affect Client investments. **Learn more by reading CFA Institutes Environmental, Social and Governance issues in investing.**

Delaying policy action on climate change will increase negative economic impacts and risks to the financial sector. This is according to new research from the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI). The analysis examined the result of transitioning to a low-carbon economy under four different scenarios. Each scenario varied based on the timing and severity of emission reduction requirements.

The exercise revealed that mispricing of transition risks could expose financial institutions and investors to sudden and large losses. It could also delay investments needed to help ease the impact of climate change. The analysis didn't consider physical risks, which is an area for future study. Physical risks and efforts to limit them could also cause implications for the global and Canadian economies and the financial system.

As more data becomes available, concerns about climate change will transition from abstract warnings about an intangible what-if scenario to forecasts about concrete financial impacts. Governments are likely to respond by pushing all industries to do their part. This will have a major impact on the way we do business and the way we invest. Discussions with Clients aboutEnvironmental, Social and Governance (ESG) opportunities will quickly turn to baseline expectations.

Source: Investment Executive

Engage Clients and prospects through social media

Harness the power of quality content to reach your target audience.

Do you engage with Clients online? You can use social media to personalize your brand and stay top of mind with both Clients and prospects. To use social media effectively, you need to know what platform(s) your target audience and Clients are using. Once you know where to focus your attention, you can begin creating and positing quality content that will engage your audience. Make sure your brand and tone of voice is consistent throughout posts and platforms. Be personable and encourage interaction – social media is a two-way communication tool. By using social media, you can build meaningful connections and foster trust with Clients and prospects.

Source: Forbes

TAKEAWAY

Social media plays an important role in connecting advisors to Clients and prospects. Knowing where to focus your attention, creating engaging content consistent with your brand and interacting digitally are ways to stay top of mind and provide exceptional experiences.

Canadians pour their wealth into ETFs

ETFs begin to diversify by including physical crypto assets.

In 2021, Canadians invested significant wealth in ETFs, mutual funds and saving accounts. There was a 27% increase in annual flows and a total amount of $323.1 billion invested in ETFs.

In February 2021, Canada launched the first physical crypto asset ETF. In less than a year, assets grew from zero to $5.9 billion across more than 30 products. This shows how the ETF market is becoming more diverse by including newer and smaller products.

Even the large market of mutual funds is adding ETFs. At the end of November 2021, mutual funds held about $2 trillion in invested assets. ETFs made up 13% of these mutual funds, with sales totaling $112 billion. In 2020, the total sales of ETFs in mutual funds were $32 billion.

Source: Investment Executive

TAKEAWAY

ETFs are becoming a popular way to invest wealth. Including ETFs in portfolios helps give Clients more flexibility and choice in their investing options.

Don’t get ditched. Show the value of your advice

Advisors can help DIY investors avoid unnecessary risk.

The do-it-yourself (DIY) investment approach is becoming increasingly popular. In 2020, Canadians opened $2.3 million self-directed investment accounts. DIY investing is an easy way for many to start saving money. However, DIY investors need your advice to understand how to invest.

One Client segment to target with advice is millennials. They are more eager to adopt the DIY approach than others and often overlook the value of advice. To entice millennial Clients, focus conversations on financial literacy, risk tolerance, security and sustainability. Explain how financial advice is more than just investing, fees and returns. Without your advice, millennials may lose more than they gain.

DIY investors may also face challenges as they make risky investment choices without accurate information. For example, DIY investors might invest with meme stocks – stocks that gain popularity through social media – rather than having a balanced portfolio. They may not see the risks involved with this type of investing if a recession happens. DIY investors also might not know what type of investments should be in what type of account. Having this information could help them avoid future taxation problems and different foreign withholding taxes. It is important that people learn the value of advice and exercise caution with DIY investing.

Source: [Advisor’s Edge]

TAKEAWAY

With the influx of DIY investors in the market, the value of advice is more important than ever. DIY investors need your advice. You can help guide them through challenges and risky investments by giving them accurate information.

An outlook on the markets for 2022

A report from Mackenzie Investments suggests that each variant outbreak will have a declining impact on capital markets.

This year, COVID-19 will impact the markets less. They will shift their focus to other economic factors. Here are the key economic issues to watch for in 2022*:

- **Inflation.** Despite inflation resetting higher than the sub-2% range, deflation and productivity gains should keep inflation in check.
- **Central banks.** The actions of central banks can influence commodities, currencies, stocks and bonds.
- **China's growth.** China is trending towards improved growth and expecting to overcome issues in the labor market and supply-chain.

Market Expectations

Mackenzie Investments is positive on Canadian equities for 2022, focusing on banks and energy companies. Canadian banks have fared much better than global partners due to lower interest rates. For energy companies, higher commodity prices have helped firms create cash flow to repair their financials. Canadian investors should expect a second year of equities gains and negative returns for bonds.

Source: Advisor's Edge

TAKEAWAY

Advisors should continue to take a balanced approach to investing. Temporary market trends are just that – temporary.

*This article is from December 2021. The situation in Ukraine could also impact markets in 2022.

Moving towards high net worth Clients is easier said than done

A glimpse of what it takes to turn an existing advisory firm into a go-to place for high net worth Clients.

Advisors looking to shift their focus to high net worth Clients need to rethink all aspects of their practice, including services and marketing strategies.

Reducing Clients

Start by identifying the type of Clients to continue working with and which prospects to pursue. Create a set of standards like a minimum amount of investable assets and how the Client acquired their wealth. Business owners with a high concentration of wealth are usually the primary objective.

At the same time, advisors need to reduce the number of Clients they serve. Wealthier Clients with more complex finances generally needs require more time-consuming work and attention than those of more modest means. Moving smaller accounts to another advisor in the firm can help make room.

Retooling services

Another aspect to consider is adding services that high net worth Clients value. Four key areas to focus on are taxes, taking care of heirs, asset protection and charitable giving. Clients want advisors to play a central role in coordinating and communicating with other professionals such as attorneys and accountants. Another added value could be creating a secure portal for storing and easily accessing financial documents.

Engaging with centres of influence (COIs)

Building relationships with estate planning attorneys, accountants and other professionals can create referrals for new business. Advisors can create a virtual family office network to strengthen relationships with COIs. Start by interviewing accountants, attorneys and insurance professionals that are a good fit. Then, after collecting appropriate consent, meet with small groups to review Client cases and brainstorm ideas for solutions. Advisors can build relationships with these COIs and over time they may even refer other high net worth Clients.

Source: Wealth Management

TAKEAWAY

Advisors should look at their services and marketing strategies to shift towards wealthier accounts. Key areas to look at are reducing Clients, retooling services and engaging with COIs.

Great content builds strong brands. Strong brands attract new Clients

Social media content plays a significant role in referral flow.

There is a strong connection between an advisor's content marketing efforts and an affluent Client's willingness to refer. Here are three reasons why Clients are more willing to recommend an advisor based on their marketing content:

Ease of sharing: When an advisor creates content, it's easy for Clients to pass it along to others. This introduces quick and simple engagement opportunities like forwarding a video, texting an article or tagging a friend. Sharing can happen organically, or advisors can ask Clients to send the content to a friend. Sharing a video to a connection is an easy way to introduce yourself.

Opportunity to share: People are less likely to notice you if you don't create content. Creating content puts you top-of-mind and gives others the chance to share it. And that could lead to more referrals.

Desire to share: Think about a TV series you have shared or a restaurant you've suggested. Since you felt it was unique or special, it increased your desire to share it. The same goes for advisor content. Clients are more likely to share content that they get something from, so try to make content that's valuable and entertaining.

Most advisors report referrals as their primary source of new business. Content marketing can play an influential role in reaching more Clients. Stay in front of Clients using relevant and meaningful social content. Doing so helps you build and keep relationships.

Source: Oechsli

What type of content does your financial advisor create?

	Referrals sent past 12 months	
	0	5+
Video	29%	52%
Articles	26%	44%
Podcast	6%	22%
Newsletter	52%	61%

How would you rate your financial advisor's social media presence?

	Referrals sent past 12 months	
	0	5+
Excellent	3%	46%
Above avg.	12%	35%
Average	24%	13%
Below avg.	12%	2%
Very poor	5%	0%
Unsure	44%	4%

TAKEAWAY

Show prospects that you stand out with relevant social content. Help drive referrals and highlight your professionalism and expertise. Don't forget your Canadian anti-spam legislation (CASL) obligations before sending any marketing emails.

Tips for advisors working on succession

How and why to prepare details about your practice and Clients.

As an advisor, you're likely familiar with succession planning. But have you looked at the succession plans for your business if you retire? Here are some reasons why you should, as well as tips to get you started.

1. **Assess your practice and prepare Clients for advisor retirement**
   An advisor needs to detail their business model and the qualities and needs of Clients. This should include how the advisor:
   - communicates
   - selects investments
   - approaches financial planning and tax advice
   - charges Clients

2. **Brief successors on your process**
   The retiring advisor needs to do everything possible to equip the successor for a smooth transition. This includes providing the successor their presentation formats, processes and other practice secrets.

3. **Tell Clients about retirement/succession plans**
   Clients shouldn't know about you retiring until your plan is in place. You want to help Clients feel confident to stay with your practice. Once a transition plan is in place, tell Clients about the successor or team that will support them when you retire.

4. **Time your succession transition**
   You must tell Clients the actual retirement date before it happens. Give Clients as much notice as possible. A good goal is one year's notice. This allows for a full transition-overlap period, along with annual reviews for each Client. If a full year isn't possible, the overlap period should include high service times. (e.g., tax reporting, RSP, TFSA and RESP contribution periods).

Source: Investment Executive

TAKEAWAY

Keeping Clients happy with a successor advisor is a sign of a successful transition. Successors should provide all the services you did, if not more. If you're thinking about retirement, start developing a transition plan. You should tell Clients about your retirement and the transition plan as early as possible after your plan is in place, even if you don't have an actual retirement date.

Are NFTs speculative?

What the rise of NFTs means for advisors.

Nonfungible tokens (NFTs) are like cryptocurrency. They use the same blockchain principles to program and record transactions and "ownership" of a digital asset. NFTs first need tokenizing. This means assigning a unique string of code to it. From there, sellers save the code and send it to a decentralized ledger. Then, "ownership" of the digital asset becomes something people can buy and sell.

People can tokenize any asset that needs protection and identification rights, like the deed to a house, exotic cars, employment contracts or royalties. This simplifies how people exchange these assets. Tokenizing securities and trading them outside of traditional channels is also possible. NFTs could mean an investor goes from having 15 to 20 asset classes to having more than 20,000.

According to research completed by Kathryn Harrison, founder and CEO of Magpie, a fintech firm beta-testing a platform that lets advisors pull in and track a Client's NFT data and performance, less than 10% of advisors handle crypto assets as part of their practice. However, it's an area worth looking into. According to surveys conducted by Piplsay, CNBC and the Spectrem Group, 49% of millennials own cryptocurrencies. The same surveys also show half of millionaire millennials own NFTs. NFT collectors may seek advisors for help understanding what they should do with the NFT investment and how it impacts their portfolio. This is an opportunity for advisors to differentiate themselves as experts in an investible niche.

Source: [Wealth Management]

TAKEAWAY

NFTs carry even greater implications for advisors than cryptocurrency. They're the expression of digital property rights in a time when we can digitize almost anything. Advisors need to redefine what it means for something to have value and how NFTs can impact portfolios.

Digital assets are changing estate planning

Three myths of digital assets planning.

Digital assets remain one of the least understood aspects of estate planning and estate administration. There are three myths on how to handle this new asset class in estate planning:

1. **Myth #1 – All digital assets are the same**

   Digital assets aren't all the same. They vary from emails to loyalty points. Estate advisors should treat each as having unique value to Clients. Each provider's terms of service allows for differences upon death.

   Review the distinguishing features of each asset and develop an estate plan addressing each unique aspect. This will ensure effective management of the digital assets when needed.

2. **Myth #2 – Password managers and hard-copy lists are the answer**

   Sharing passwords seems like a convenient answer to the problem of transferring digital assets. However, the terms of services (TOS) set by service providers prevent the account owner from sharing password(s). The person with the password could face legal liability by attempting to access an account after death.

   Encourage Clients to use the pre-planning options that are available and seek legal advice. For significant digital assets, encourage Clients to use business accounts instead of personal accounts. Business accounts often provide multiple-user access.

3. **Myth #3 – Appointing a digital executor solves the problem**

   Digital executor is a made-up term and not legally recognized. Clients should name a person to deal with their digital assets in their will. Identifying other guidance or technical support that the person may need is another worthy measure.

Source: FORUM Magazine

TAKEAWAY

It's critical for advisors to raise Clients' awareness of their digital assets and the impact they have on their estate plans.