Leon Frazer & Associates
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STRATEGIES

President's message

It was a unique privilege to create this message as we approach the final quarter of 2021 (believe it or not). While I always appreciate the chance to speak on behalf of our teams, this instance is particularly special because it marks the first time that I'm simultaneously addressing two newsletter audiences: our readers of both *Grow Together* and *Strategies*.

You may recall we joined forces last year, combining the wealth operations of CWB Wealth Management and CWB McLean & Partners with T.E. Wealth, Leon Frazer & Associates, Doherty & Bryant Financial Strategists and T.E. Wealth Indigenous Services. This created a stronger private wealth organization with a national footprint, backed by the strength, focus and enterprising spirit of CWB Financial Group.

Over the past year, we've proceeded thoughtfully with a plan to draw from the unique strengths of each legacy organization. Over time, this will enable us to bring the best of our combined capabilities to the wealth advisory experience for each of our client families. From the beginning, we made a promise to minimize disruption for clients, and to prioritize stability and continuity as we gradually simplify our business model, streamline integration with CWB, and align our combined capabilities to strengthen the client experience. Today, we remain fully committed to finding creative ways to provide richer, more vibrant experiences for our clients and our people, with continuous positive renewal.

There's no doubt that investment in digital capabilities will play a major role in bringing these richer experiences to life. Our new partnership with Conquest Planning is a perfect example of the progress we're making in this area. We announced the partnership on August 12 as an early step in the execution of our multi-year digital strategy and technology roadmap, and it's the right first step for us. It reflects our commitment to deliver sophisticated financial planning to client families with complex needs.

We're excited about Conquest's ability to support robust and dynamic planning requirements, and its intuitive power to help advisor teams address a range of scenarios based on changing client needs. Readers will no doubt hear more about our technology strategy in future updates. That said, these pages are primarily reserved for sharing insight, education and thought leadership from the talented professionals who serve our clients every day.

Within this issue, Scott Blair, our Chief Investment Officer, addresses certain market structure innovations and other factors which have contributed to highly volatile trading in the small group of companies which have come to be known as "meme stocks." Most importantly, Scott summarizes what the handful of speculative frenzies we've observed in recent months on the margins of financial markets should mean to long-term investors like us.

On the financial planning side, Ann Bawden addresses the crucial mindset shifts and common fears associated with the transition from accumulation to retirement. Also, Jason Kinnear and Aaron Hector team up to consider various tax strategies to align charitable giving commitments with our broader financial plans.

Taken as a whole, the current issue of *Strategies* underlines the value of long-term thinking and careful planning to see us through the noise, complexity and challenges of our financial lives.

We're proud to feature contributors from several of our legacy organizations in this issue. Over time, we will take further steps to make it more obvious these individuals and their colleagues are all part of a single, highly capable private wealth advisory firm. You can be sure that any related changes will be thoughtfully executed, and fully contemplate the feedback we continue to invite from our clients and our teams.

I'd like to extend my sincere gratitude if you're among the many clients who have taken the time to share your insight with us in recent months. No matter which legacy brand we serve you through, our enduring commitment is to provide you with thoughtful advice, sound planning, and professional investment management customized to the needs of your family. We appreciate every moment of the time you spend with us, including the time you may spend with this issue. Please enjoy it, and let us know what you think!

Sincerely,

Matt Evans, CFA
President & CEO
CWB Wealth Management

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Nothing is free

Smart marketers have always played to people's love of a bargain. Sometimes there's real value in a deal, but more often than not, it's just clever advertising.

A great example of smart marketing hiding the true cost of a purchase dates back to the mid 1800s. Back then, it was common for saloons to offer free lunches for patrons purchasing drinks. The catch was that the foods were heavily salted, which increased alcohol consumption. In effect, drink purchases subsidized the food which more than made up for the free meal. This gave rise to the expression: there's no such thing as a free lunch.

How the lunch is getting salted today

The digital age has taken this concept to a new level through what's known today as the hidden revenue business model. Google and Facebook are masters of this model, where products appear to be free but are actually paid for by someone other than the end user. While there are no monetary charges for a Facebook account or to use Google's search engine, these businesses generate massive revenue by selling your personal data (search history, shares, likes, etc.) to advertisers. This gives rise to the more modern expression: when the product is free, you are the product.

The investment industry isn't immune to the disruption of new technologies – or to the consumer's desire for a bargain. One very successful new entrant is the U.S. discount broker Robinhood, which formed in 2013 using the motto "democratized finance for all". Its main selling feature for account holders has been zero commission trading (the free lunch!). The business model has been very successful with over 18 million accounts and $80B USD in assets now on their platform.

How does Robinhood make its money without charging a fee for trading? By using the hidden revenue business model, of course.

The canary in the coalmine?

The catch here is that instead of selling customer data to advertisers, they sell the customer's trade orders. The practice is called payment for order flow (PFOF). Robinhood doesn't execute their clients' trade orders. Instead, they send the orders to market maker firms that execute the trade, and then pay a fee back to Robinhood for the order.

PFOF is controversial and banned in many countries, including Canada, due to potential conflicts of interest. The main concern is that the investor placing the order may not receive the best price possible in the market. So,

although the client's execution cost is zero, the investor may have been better off paying even a small commission to avoid the potential conflict of interest.

Robinhood and other online brokers tend to market to first-time or younger investors by focusing on lower costs, low account minimums and a modern experience. reworded to: When combined with the younger generation's connectivity and comfort with technology, you get a new and powerful mix of market access, questionable advice and peer pressure (through sites like reddit) and investable cash (through stimulus cheques), all against a backdrop of a very strong bull market.

What does this "meme" for investors?

This mix has created the perfect recipe for meme stocks to thrive. These are stocks that have essentially gone viral on social media and move based on retail trading hype rather than fundamentals. Many of these firms are old economy companies (such as AMC Theatres) or former market leaders (such as Blackberry) that have fallen on hard times with mixed future prospects.

No stock personifies this craze more than GameStop. Figure 1 shows how the company has struggled to consistently make money in the past decade. The share price reflected this business reality until late last year. When the meme stock phase started to take hold, an army of young day traders bid up the share price largely through apps such as Robinhood.

> **"This gives rise to the more modern expression: when the product is free, you are the product."**

Famed investor, Howard Marks, said last year that some people, "think it's a gambling game, and they think of it like betting on football." He went on to say, "It reminds me of the people day trading in 1999 and declaring day trading a can't-miss strategy. The tech stocks crapped out in 2000."

In our view, these comments accurately reflect what we see happening today.

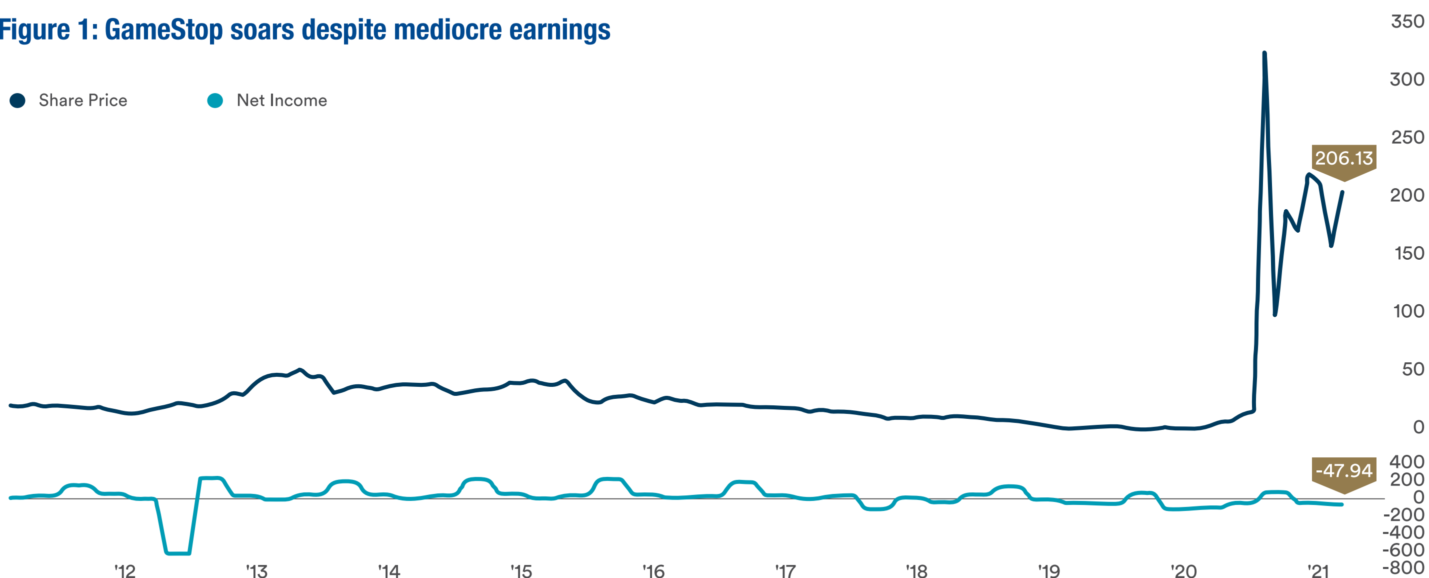
Every generation of do-it-yourself investors seem to need to learn the hard way that successful investing is about planning, discipline, patience, knowledge and research. It's not a casino and it's not easy to stay the course when the market goes against you for an extended period of time.

Despite what others might say, studies consistently show that most investors are better off going with conventional wisdom and seeking advice at a fair price. A dedicated investment advisor can help mitigate risk brought on my market fluctuations, because their advice is backed by an understanding of how to build wealth through time in the market – not trying to time the market. Historically, this has always resulted in more stable financial outcomes.

How long will the meme stock craze last? It's impossible to know. These things often go on longer than we think possible. But when it ends, the true cost of buying stocks in securities hyped on a message board will likely far exceed the commission saved at Robinhood and its ilk. Which brings yet another saying to mind: you get what you pay for.

Scott Blair, CFA
Chief Investment Officer
CWB Wealth Management

Figure 1: GameStop soars despite mediocre earnings



Source: FactSet

The upside of upside down – how to fear-proof your retirement plan

In a recent discussion with a client about their upcoming retirement plans, I noticed they referred to their impending retirement as "the Upside Down world." They explained that everything – including their mindset, strategies, goals, and even day-to-day plans – were all about to be flipped upside down. Though I'm not certain they were meaning to reference the megahit sci-fi Netflix series *Stranger Things*, the allusion was there and I couldn't ignore it.

For anyone who hasn't seen the series, a quick explanation (and spoiler alert). A group of kids discover what they call 'The Upside Down', which is an alternate universe existing in parallel to the regular world. If you've seen the series, this comparison may sound a bit dramatic, but to some retirees the shift from saving to spending can be just as jarring.

You may have heard the saying "the best savers are the worst spenders." In many cases, this rings true and can be based in a fear of outliving your savings, worries about future inflation, or just struggling with the overall change in mentality. However, there are multiple questions, preparations and strategies you can work through with your advisor to make this 180º flip a lot less daunting.

The first thing I suggest is to define your fears. When considering your retirement and the beginning of this deaccumulation phase, what about this shift is at the root of your worries? From taxes to longevity, defining your list of concerns can help you and your advisor create a strategy that specifically addresses them in tangible ways. This will help minimize your fears and guide you towards your retirement goals.

Everyone's list will look different, so no tactic or approach is one-size fits all. However, here are the top three fears we find on the list of many almost-retirees who struggle with this transition.

1. Outliving your money

Outliving your money is a common concern for people as they near retirement, and understandably so. This is where having a plan becomes vital. Creating a comprehensive financial plan with your advisor lets you visualize and understand future cash flows, taxes, expenses, surpluses, or deficits, and more. The plan serves as a guide and should be regularly reviewed and adjusted to reflect your evolving life experiences. In treating it as a living document, you can have greater assurance that it will do what you need it to do – last as long as you do!

2. Deaccumulation

From a young age, we've learned to accumulate and build as much wealth as possible in preparation for an enjoyable retirement. Now, how do we enjoy it? I like to think of this as a mindset shift.

"When considering your retirement and the beginning of this deaccumulation phase, what about this shift is at the root of your worries? "

You should start to think of your portfolio as your new employer after retirement or the sale of your business. What type of paycheque can you earn from your portfolio? That all depends on a few things including your risk tolerance, time horizon, and if you wish to leave a legacy or spend it all.

An effective plan will structure your portfolio like a paycheque source that, ideally, can be maintained and increase year-over-year to help keep you ahead of inflation. By thinking of your portfolio in this new way, you can work through scenarios with your advisor to take the guesswork out of your new income longevity plan.

3. Market volatility

When discussing risk, it's important to think not only about your ability to take on risk but also your willingness. Based on your financial objectives, time horizon, and personal willingness or tolerance for market fluctuations, your advisor can help ensure your level of risk is aligned with your feelings and objectives.

For example, if you have a large cash expense looming you can discuss this with your advisor and set aside an appropriate amount of money to avoid any near-term volatility. Or if you're feeling nervous about market volatility, voice this to your advisor and have an open discussion about your personal objectives, how the portfolio is structured and what you could expect during periods of volatility.

The list can go on, but with clear objectives and the appropriate plan in place, you can worry less about spending and focus on a happier, more fulfilling retirement. Pause, reflect on your transition fears, and then reach out to your advisor to help navigate this new, exciting phase to ensure there are more ups in your upside down world.

Ann Bawden, CIM®
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Does your charitable giving plan fit with your personal and financial goals?

As the year starts to wind down, our clients often think about their philanthropic interests during this time. Most clients have a planned giving goal each year, or have included charities in their estate plan – or both. While your charitable intent may be clear, how you accomplish these objectives should be considered against your other personal and financial goals. Let's review some popular options.

Cash

Gifting cash is the most common way to donate. It's straightforward and simple to execute. You'll get a charitable donation receipt when you donate to a registered charity

Investment assets (securities/funds)

Most charities have a long-term investment account, which means you can directly transfer your securities (stocks/fund units) from your investment account to theirs. When donating to charity, the gain you had on your investment is no longer subject to capital gains taxation. The bigger the gain you have on your investment, the bigger the tax benefit you'll receive by donating shares. You'll still get a donation receipt equal to the full value of the securities that were transferred on the date that the transfer occurs.

You can donate cash or investments (or art, cars, land, etc.) directly to a charity, or you can use donation vehicles such as private foundations, donor advised funds (DAF), or charitable remainder trusts. Let's explore these options further.

Private foundation

A private foundation is a non-profit entity established by an individual or family to carry out their philanthropic wishes. Private foundations are also registered

“Before you decide which to use, consider your philanthropic goals, the potential tax savings, and the time and effort you wish to contribute.”

as charities with the Canada Revenue Agency (CRA), so contributions made to them are entitled to a charitable donation receipt. Those contributions generate tax-exempt investment income, which is used to fund the charitable activities of the private foundation.

Setting up and donating to your own private foundation is an ideal way to play a more active role in your charitable giving. As a donor, you'll get to decide which charities will be supported, who sits on the board, and how the donated funds are invested. As a bonus, your private foundation can also be used to educate and mentor younger family members about philanthropic giving. Donating cash or assets to someone else's foundation is also an option.

From a tax perspective, donating through a private foundation allows you to make gifts when it best serves your tax-planning objectives. This means you can realize the benefits of a tax deduction for contributed assets at any time, even if you don't select which charitable grants to make until a later date.

On the downside, there are some restrictions on the activities of private foundations. There are also the costs related to the set-up and annual tax return filings.

Donor Advised Funds (DAF)

If you like the features of a private foundation, but are overwhelmed by the complexity and administration involved in managing one, you may be interested in a DAF. With a DAF, you would donate at a time of your choosing into an account with an independent charitable foundation, which would take care of all the back-end administration.

You'd be issued a tax receipt at the time you make the donation to the independent foundation, but you don't need to decide which charities ultimately receive your gift until a later time. Depending on the structure of the independent foundation you choose, you may be able to work with your existing investment professionals, or you may rely on the investment options of the foundation.

Charitable remainder trust

A charitable remainder trust is a unique tax planning vehicle that can be used by individuals for their benefit and the benefit of their favourite registered charity. If you contribute publicly traded, dividend-paying stocks to a charitable remainder trust, you or another named income beneficiary could continue to receive these dividends while you're alive (e.g., to fund your retirement). Your favourite registered charity, as a capital beneficiary, would receive the remaining assets in the charitable remainder trust when you pass away.

When you transfer assets to a charitable remainder trust, you'll receive a charitable donation receipt equal to the fair market value of the charity's residual interest in the trust (i.e., the projected value of the assets remaining in the trust when you pass away). You can then use the charitable donation receipt to reduce your current personal taxes.

The disadvantages of using a charitable remainder trust are the potential complexities and costs. The creation and administration of a trust require professional assistance and annual compliance costs (e.g., filing the trust tax return). You'll also need to have the charity's residual interest in the trust assessed to determine the dollar amount of your charitable donation receipt.

With all the unique ways to donate to charity come varying levels of complexity and tax considerations. Before you decide which to use, consider your philanthropic goals, the potential tax savings, and the time and effort you wish to contribute. A financial planner can help you with this analysis, to determine which giving-while-living option is right for you and your family.

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