Points in Time: Q3 2020

Recovery of the economy and markets continued in Q3

WATCHING

Stocks and commodities rallied strongly again this quarter on continuing signs of a recovering global economy, and due to confidence in the policymakers to continue administering easy monetary policies and deliver on more fiscal stimulus. Stocks did close the quarter on a weak note as volatility resurfaced on what is expected to be a hotly contested U.S. election in November.

The S&P/TSX Composite Index gained 4.73% in Q3 led by the Industrials sector, while the Energy and Health Care sectors were the only sectors delivering negative returns. The 10-year government bond yields in Canada and the U.S. showed little change to end Q3, and at 0.56% and 0.68% respectively, they remain near historically low levels.

The U.S. dollar showed a steady decline against most currencies during the quarter and this spurred strong gains in commodity prices, including copper and gold. The strong gain of 11% in the copper price is notable as strength in the copper price has typically been associated with economic growth. The Canadian dollar also continued its strength in Q3 and closed at $0.75 to the U.S. dollar. From the low of $0.69 reached on March 19, the Canadian dollar has appreciated almost 9%.

THINKING

As we begin the last quarter of 2020, investors will be focused on two key issues: the potential for a second wave of COVID-19 and the outcome of the U.S. elections. As the weather turns colder in the northern hemisphere, new COVID-19 cases have been rising in Canada and the U.S. If this trend continues, it may cause governments to re-introduce restrictive measures on businesses from resuming normal operations, which could slow or halt the economic recovery. Progress on a vaccine development continues at a fast pace, but there is no certainty that a successful vaccine will be developed by the end of the year.

Secondly, the U.S. election is occurring on November 3, although there is much anxiety that a clear outcome from this contentious election may not be known for some time. If no clear winner can be determined quickly, investors should be prepared for heightened volatility in stocks into year end.

The offset, however, is that the fundamentals of the economy remain solid and corporate profits are expected to resume their growth trend in 2021. So while the markets may fret over some of these potential near-term issues, investors should continue to keep an eye towards the long term.

Half of the companies in the LFA portfolio have increased their dividend this year by an average of **7.2%**

DOING

Amid the turbulence in the global equity markets this year, it is reassuring and refreshing to see that some things are still working. 50% of the companies in your portfolio have actually increased their dividend this year. This means an increase in income for our clients in an otherwise uncertain environment. Another income boost has come from reallocating some of our Agnico Eagle position, which is up over 30% year to date, into Scotiabank and Rogers Communications, with dividend yields of 6.3% and 3.7% respectively. We have also increased our position in Canadian Utilities, a high quality dividend payer that presents a real opportunity at these levels.

2020 Dividend Performance Summary

Canadian Dividend Portfolio

Number of companies in the equity portfolio	30
Number of companies that declared an increased dividend	15
% of companies that declared an increased dividend	50%
Weighted average of dividend increase	1.7%
Consumer Price Index Increase (YoY*)	0.2%
Equity portfolio dividend yield**	4.8%
S&P/TSX dividend yield	3.2%

Income Stability Portfolio

Number of companies in the equity portfolio	28
Number of companies that declared an increased dividend	14
% of companies that declared an increased dividend	50%
Weighted average of dividend increase	2.3%
Consumer Price Index Increase (YoY*)	0.2%
Equity portfolio dividend yield***	4.6%
S&P/TSX dividend yield	3.2%

Top 10 Dividend Growers

Agnico Eagle Mines	14.3%
Canadian Natural Resources	13.3%
Manulife Financial Corporation	12.0%
Enbridge	9.8%
Intact Financial Corporation	9.2%
TC Energy Corporation	8.0%
Canadian National Railway	7.0%
Toronto Dominion Bank	6.8%
Fortis	5.8%
Bell Canada	5.0%
Pembina Pipeline Corporation	5.0%

* Estimate from Bank of Canada, August 31st, 2020

** The dividend yield is based on the Leon Frazer Canadian Dividend Fund using the target weight for cash

*** The dividend yield is based on the Leon Frazer Income Stability Fund using the target weight for cash

source: Leon Frazer & Associates, September 30, 2020

A Closer Look at BCE Inc.

BCE Inc. Fact Sheet:

Trading Symbol:	BCE
Market Cap (Mil):	$46,919
Dividend Yield:	6.0%
Dividend Growth 3 Year (per year)	5.1%
Dividend Growth 5 Year (per year)	5.1%
Sector: Communications Services	

Overview

Founded in 1880, BCE is one of Canada's oldest companies. With over 18 million customer connections, it is Canada's largest provider of telecommunications services and provides wireline services in Ontario, Québec, Manitoba, the Atlantic Provinces and Canada's Northern Territories.

The company operates in three segments. The wireline segment accounts for 54% of revenue, wireless, which is the faster growing segment accounts for 36% of revenue, and the media segment accounts for 10% of revenue.

BCE's operating segments provide a full range of communication services to both residential and business customers. These include local, long distance and wireless phone services, high-speed and wireless Internet access, IP-broadband services, value-added business solutions and direct-to-home satellite and digital television services.

Strengths

BCE has increased its dividend for 12 consecutive years, at a rate of 5% or higher per year.

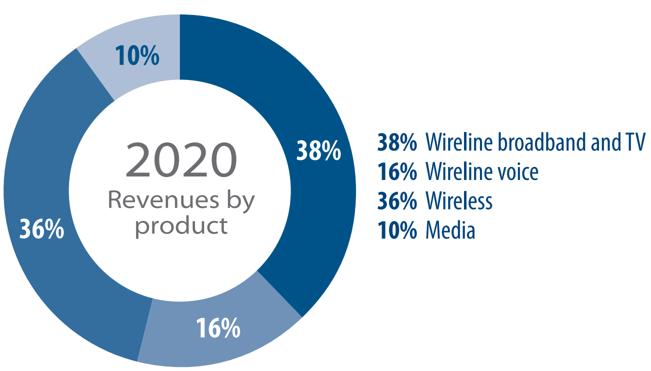
Building Canada's most extensive fibre network across seven provinces, its fibre-to-the-premise build program reaches over 5.1 million homes and businesses and is expanding every year.

As a vital digital infrastructure in Canada, it was able to handle the increase in volume due to COVID-19 in 2020.

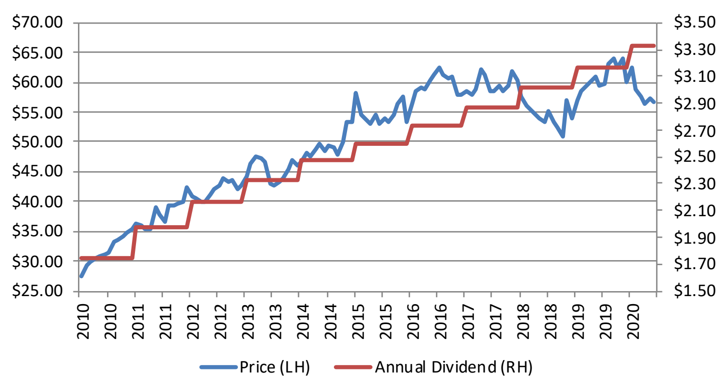
BCE, along with Telus and Rogers, are the leading-edge companies in Canada for the next generation of the 5G wireless build-out. 5G will give customers faster download speeds, low latency, and more capacity and connectivity for areas such as autonomous vehicles, industrial automation, and traffic management.

BCE has national reach. They are present in all provinces in the wireless segment, and in eight provinces with wireline.

BCE Segment Breakdown



BCE Inc. Price and Dividend History



Sources: Bloomberg, Thomson Eikon, BCE Inc.

Covid-19: What better reason to finally get a financial plan?

2020 has been an extraordinary year – and it's not over yet. There's still the U.S. election, and a very real possibility that the current White House resident won't leave office even if he loses. While the markets have mostly recovered from their March lows (they're still in negative territory on a year-to-date basis, with the exception of the tech-heavy Nasdaq), the majority of people's investments – and daily lives – are still feeling the impacts of this ongoing global pandemic, and may for a while longer.

From a financial perspective, what do you do? If you're years away from retirement, you continue to stay the course because the markets and global economies will recover over the long term. Having said that, what does your future look like? Do you want to retire early or be a snowbird? How much money should you be saving for this?

If retirement is around the corner, has Covid-19 added a few more corners and pushed that vision out a few more years? How much money are you going to need for retirement…70% of your current income? More? Less? Should you start collecting CPP and OAS at 65, or wait? If you're already retired, the virus has likely impacted your investments and plans for the future. You're most likely spending less – though perhaps your adult children are requiring financial assistance. Maybe you have new health issues and need to think about having money for in-home care.

Having a financial plan in place will help you answer these kinds of questions. It will let you identify and prioritize your objectives, establish a realistic timeline for achieving them, and gather sufficient financial resources to support your plan. Of course, plans can change which means expectations and priorities may need to be revised. But it becomes much easier, and less worrisome, to adapt to new situations when you have a clearer picture of the road ahead.

One of the essential components of financial planning is tax planning. As we near the end of 2020, here are some high-level tax strategies you may want to consider:

1. **Capital gains and losses:** If you've realized capital gains in your portfolio this year, consider selling underperforming positions to nullify your gains. If you've realized losses, you can carry them forward indefinitely or back to any of the past three years, assuming that you had reported gains in any one of those years.
2. **RRSP contributions:** If you have room, contribute before the end of this year to maximize the tax-deferred growth in your RRSP. You don't need to wait until the first 60 days of 2021.
3. **Charitable contributions:** While most individuals will contribute cash, you can also donate publicly-listed securities without being subject to tax on the potential realized gain. The donation must be in-kind, and you will receive a tax receipt equal to the fair market value of the securities at the time of the donation.
4. **Tax instalments:** Make your final payment by December 15 to avoid any late payment charges. Alternatively, if you know that your potential taxes owing for the current year are going to be less than the prior year, consider paying a lower instalment in December than indicated. Note, if you underestimate your taxes owing, the CRA may subject you to penalties and interest if the instalments did not cover the taxes owing.
5. **Purchase assets before year end:** If you own a business and your year-end is December 31, consider buying computers, office furniture, equipment, and so forth, before year-end in order to claim depreciation on these assets for tax purposes.

If you're unsure about how to make the most of year-end tax planning strategies, our licensed Certified Financial Planners are happy to help. They can provide guidance on how you can increase your 2020 earnings with strategies such as the above. Reach out to your portfolio manager for more information.

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