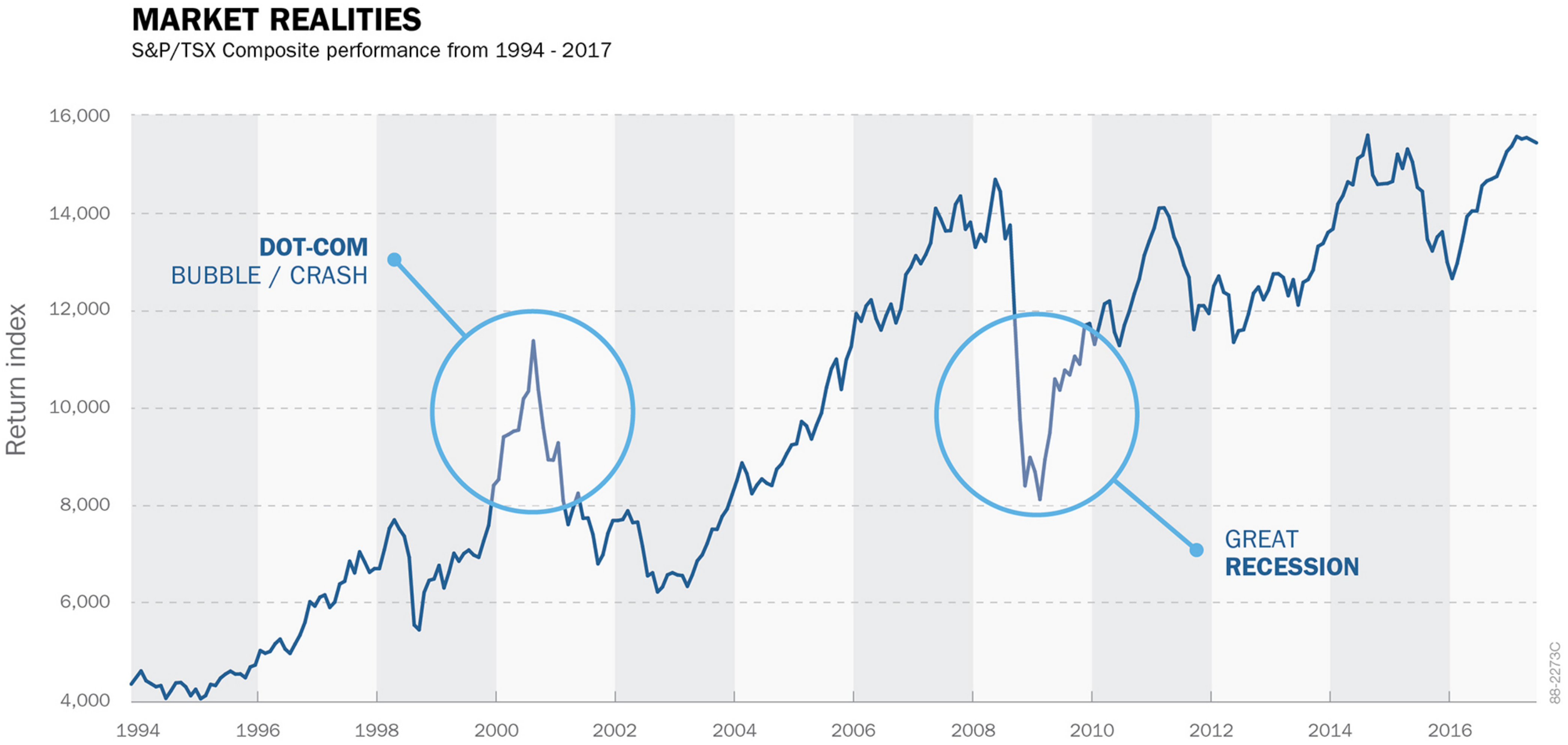
# Disciplined investing in a late-market cycle

## What's your market volatility plan?

# Agenda

- Market realities
- Client concepts
- Advisor practice management
- Market volatility strategies for:
  - All client segments
  - Pre-retirees and retirees
  - Clients with securities

# Memories… or not



# Challenging investor emotions

## S&P/TSX Composite Index (price return)


| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net mutual fund sales | 12.8 | 17.4 | 22.0 | 37.5 | 0.2 | 4.3 | 10.9 | 20.4 | 30.5 | 41.4 | 56.5 | 55.7 | 29.2 | 44.0 |
| Redemptions | 111.0 | 124.4 | 133.4 | 150.7 | 180.8 | 144.4 | 139.6 | 134.7 | 133.2 | 158.3 | 166.0 | 178.1 | 191.6 | 213.2 |
| Gross sales | 124.1 | 144.1 | 153.0 | 185.6 | 181.9 | 149.8 | 148.3 | 151.7 | 158.0 | 198.8 | 219.5 | 233.4 | 218.4 | 248.4 |

Source: Simfund by Strategic Insights, as of Dec. 31, 2017 (in billions CAD).
Source: Morningstar Direct, as of Dec. 31, 2017.

# Stay invested to take advantage of market recoveries

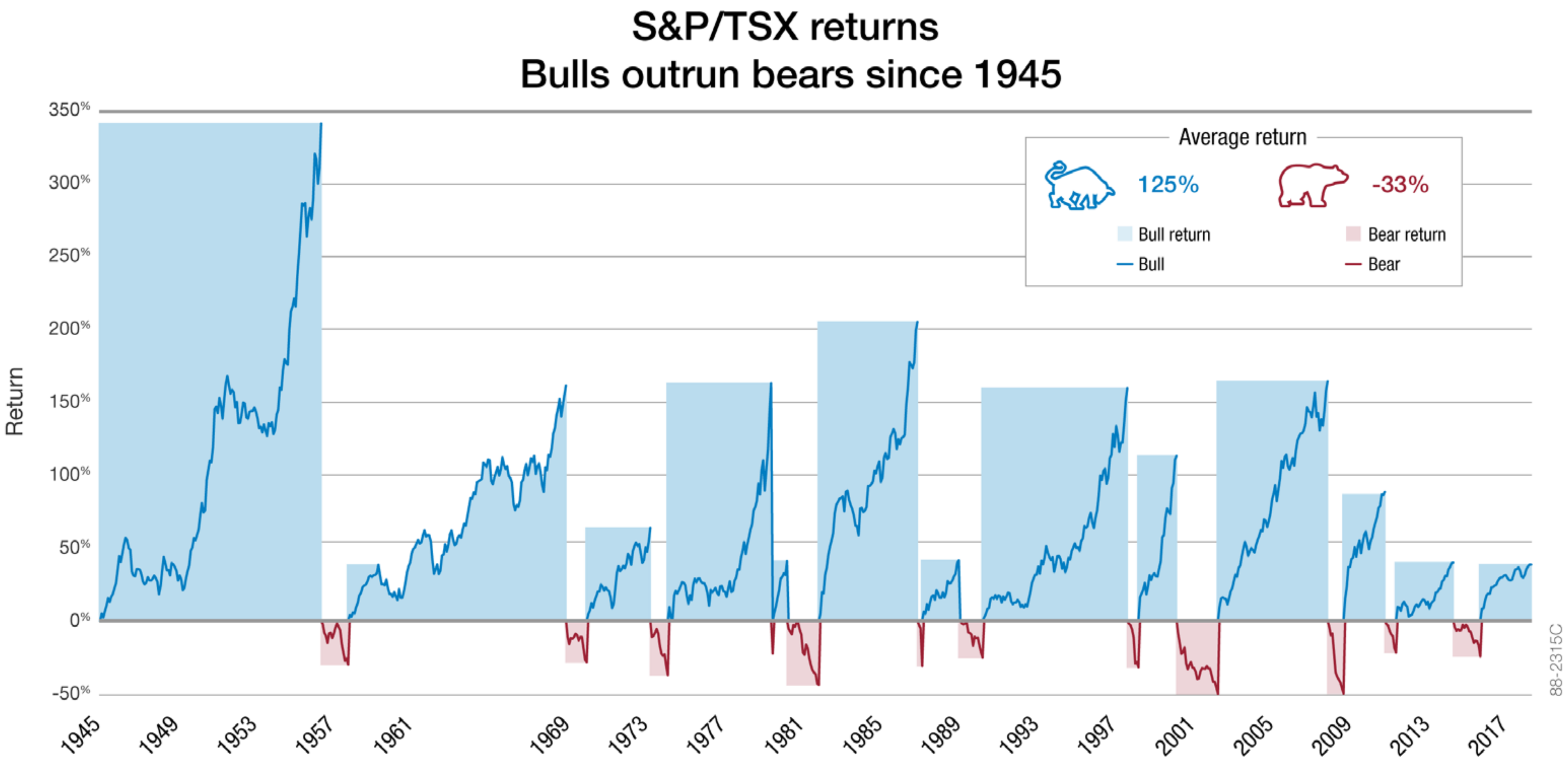
## Lessons of history – rebounds can happen quickly

Source: Morningstar Direct, July 31, 2018.

| Event / start of event | Drop in S&P 500 (percentage in number of weeks) | Month of lowest drop point | Net change at six months after lowest drop point | Recovery time for market to return to former level |
|---|---|---|---|---|
| Korean War, June 1950 | -15% in 5 weeks | July, 1950 | +31% | 3 months |
| Sputnik, Oct. 1957 | -10% in 3 weeks | Oct. 1975 | +8% | 7 months |
| Liquidity crisis, May 1970 | -23% in 8 weeks | July 1970 | +16% | 7 months |
| Arab oil embargo, Oct. 1973 | -17% in 9 weeks | Dec. 1973 | -1% | 6 years |
| Nixon resignation, Aug. 1974 | -19% in 5 weeks | Oct. 1974 | +30% | 6 months |
| Currency crisis, Oct. 1978 | -11% in 3 weeks | Nov. 1978 | +8% | 9½ months |
| Hunt silver debacle, March 1980 | -11% in 4 weeks | March 1980 | +9% | 3 ½ months |
| Financial panic, Oct. 1987 | -24% in 3 weeks | Oct. 1987 | +7% | 21 months |
| Iraq invasion of Kuwait, Aug. 1990 | -15% in 11 weeks | Oct. 1990 | +27% | 6½ months |
| Asian currency depreciation, March 1997 | -8% in 5 weeks | April 1997 | +31% | 2 months |
| Russian debt default, Aug.1998 | -13% in 5 weeks | Sept.1998 | +31% | 3 months |
| Terrorist attacks, Sept. 11, 2001 | -12% in 1 week | Sept. 2001 | +19% | 2 months |
| War in Iraq, March 2003 | -2% in 1 weeks | Mar. 2003 | +23% | ½ month |
| U.S. financial crisis and bailout, Sept. 2008 | -36% in 10 weeks | Oct. 2008 | +11% | 27 months |

# S&P/TSX returns

# Bulls Outrun Bears Since 1945



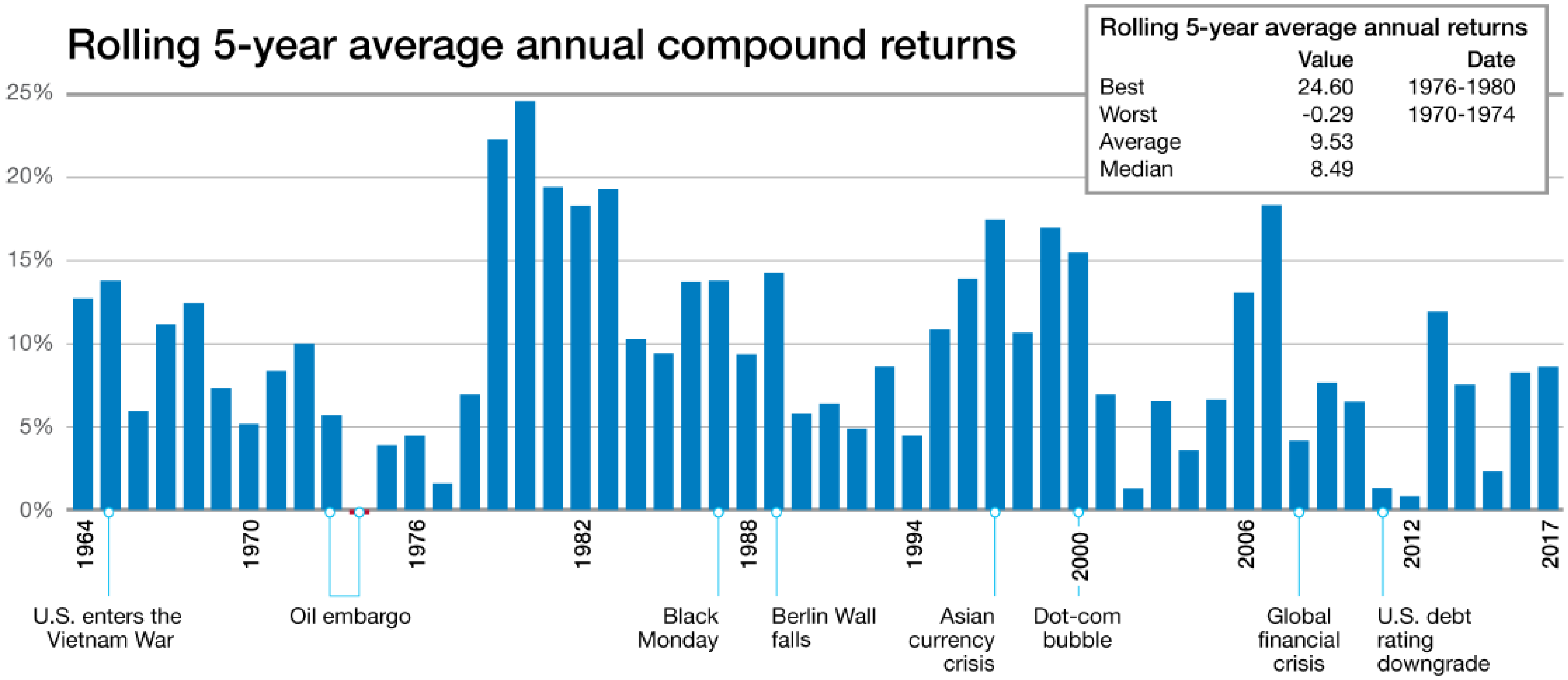

Source: GLC, as of Aug. 22, 2018; price only returns. Local currency. For the purposes of this illustration, a bull (bear) market is defined as a positive (negative) move greater than 20%.

# Canadian bond performance during worst declines in Canadian equity

| Worst decline periods | S&P/TSX Total Return | FTSE TMX Canada Universe Total Return | Difference |
|---|---|---|---|
| Sept. 1, 2000 – Dec. 21, 2000 | -24.2% | 3.1% | 27.3% |
| Jan. 30, 2001 – April 4, 2001 | -20.4% | 1.3% | 21.7% |
| May 22, 2001 – Sept. 21, 2001 | -22.0% | 5.0% | 27.0% |
| March 7, 2002 – July 23, 2002 | -22.1% | 4.5% | 26.6% |
| June 18, 2008 – March 9, 2009 | -48.5% | 4.7% | 53.2% |
| April 5, 2011 – Oct. 4, 2011 | -20.6% | 8.3% | 28.9% |
| April 15, 2015 – Jan. 20, 2016 | -21.5% | 0.1% | 21.6% |

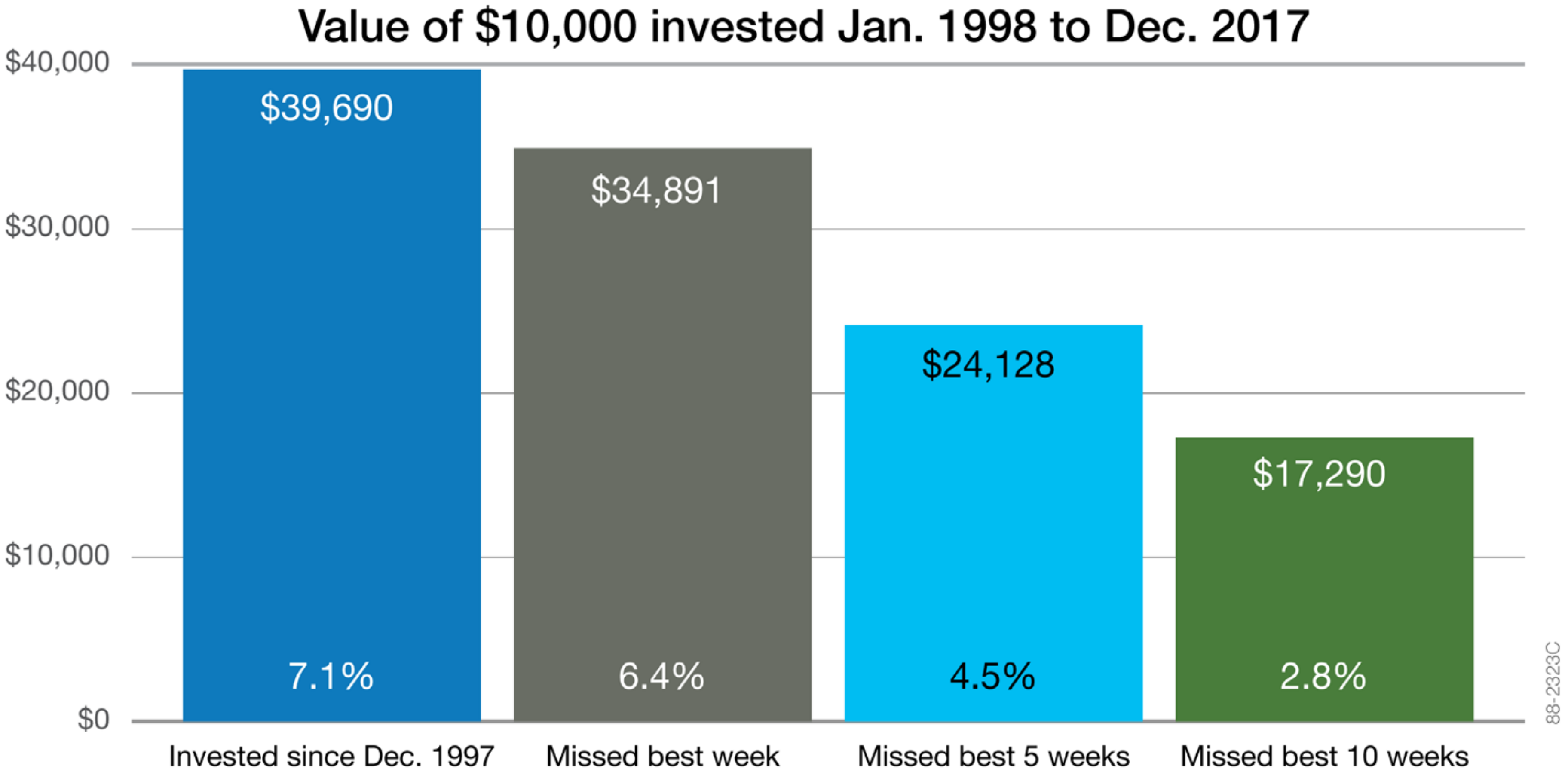
Source: GLC Asset Management Group Ltd. Bloomberg, PC Bond, June 30, 2018.

# Stay invested: Patience is rewarded




Source: Morningstar Direct, as of Dec. 31, 2017. Each date represents the start of a five-year period.

# 20 years of the S&P/TSX:
# You can't afford to miss the best weeks




Source: Morningstar Direct, as of Dec. 31, 2017.

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# What to do when markets get rough?

“We don’t have to be smarter than the rest; we have to be more disciplined than the rest.” **– Warren Buffet**

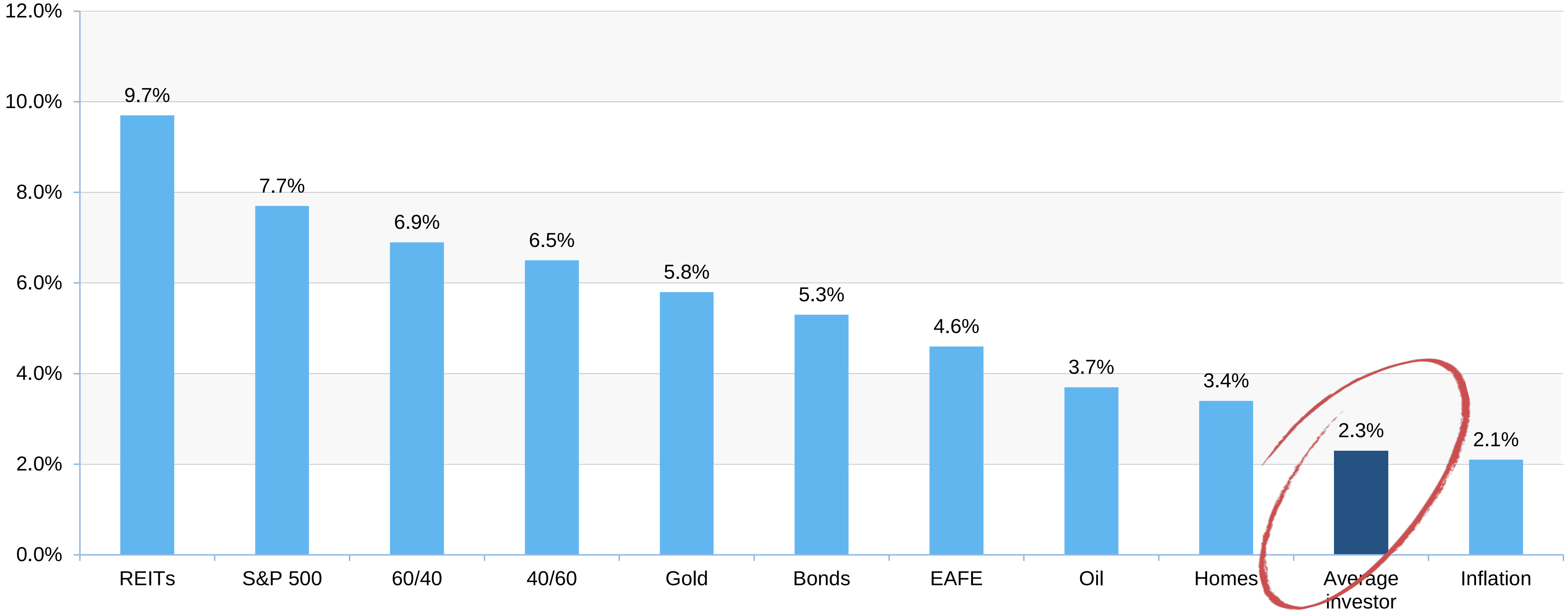
“You get recessions, you have stock market declines. If you don’t understand that’s going to happen then you’re not ready, you won’t do well in the markets.” **– Peter Lynch**

“The four most dangerous words in investing are: ‘This time it’s different.’” **– Sir John Templeton**

# ADVISOR PRACTICE MANAGEMENT

# Managing behaviours matters

## The gap between average investors' return and several market indices is significant.




Source: JP Morgan Institutional Guide to Markets, 2017.

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# Investors need your help to:

- Manage their decisions when they are emotional
- Sort fact from fiction – media overload
- Have realistic investing expectations
- Understand their tolerance for risk
- Balance risk with return in a way that makes them confident with their investments
- Have a plan suited to their investing goals
- Improve their financial literacy

# So why do clients leave?

"The primary reason clients fire a financial advisor is lack of personal touch. Clients can tolerate the ups and downs of the market, changing economic whirlwinds and an erratic interest rate environment if, and only if, they feel that their advisor is monitoring the situation and keeping them informed." **– Jason Laux**

"Clients don't necessarily fire advisors only because of performance, but rather because the advisor never communicates with them. Failure to communicate leads to poor investor behavior (like buying/selling at wrong time) as well as a feeling that the advisor is 'asleep at the wheel.'" **– Bill Hammer, Jr.**

# Be proactive

1. Put market volatility strategies in place for your clients
    a) Who is vulnerable?
    b) Who has an opportunity?
2. Develop a client communication strategy
    a) Do you know how clients want to be communicated to on a regular basis and with what frequency?
    b) Do you know who you'll reach out to first?

# Clients at risk

Clients:

- Whose portfolios have shifted too far into equities?
- Who are nervous and will want to exit their investments?
- Who are nearing retirement or are already retired?
- Who has securities that might be more susceptible to downside risk?

# STRATEGIES FOR ALL CLIENT SEGMENTS

# Who has the biggest opportunity in your book?

- Regular pre-authorized contributions (PAC) users
- People who are in receipt of a lump sum (e.g., sale of house, business, inheritance)
- Clients suitable for leverage loans
- Tax loss selling:
  - Apply losses to capital gains in 2018
  - Opportunity to refocus asset mix

# Review client goals and timelines

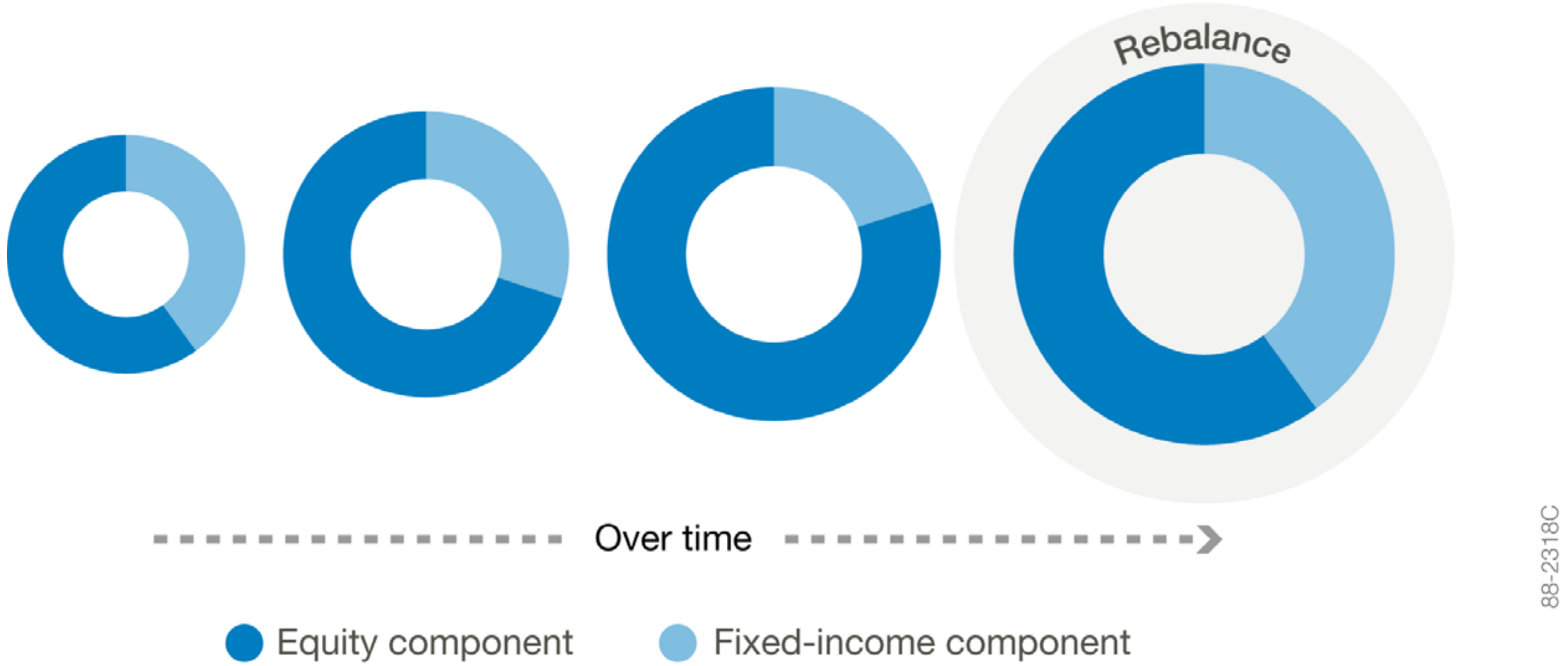
For the majority of your clients, their main goal is going to be long term: saving for retirement.

It's your job to coach and re-assure clients  through volatility by reminding them that  returns are smoothed over longer time horizons.

# Portfolio shift

## Importance of rebalancing

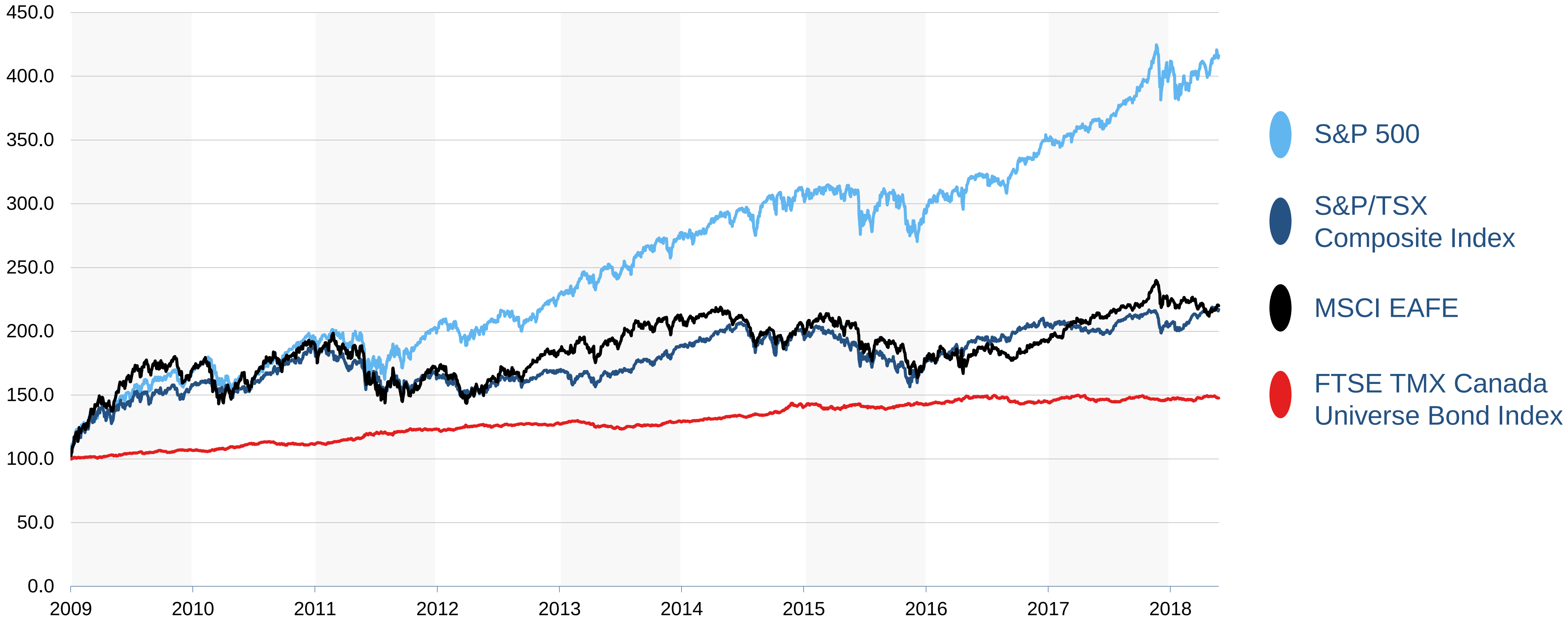
Determining asset allocation is only the beginning of a properly managed portfolio




Over time, a portfolio can become distorted, especially when equity components outperform fixed-income investments.

# Diversification is key

# Market values since 2009 financial crisis lows

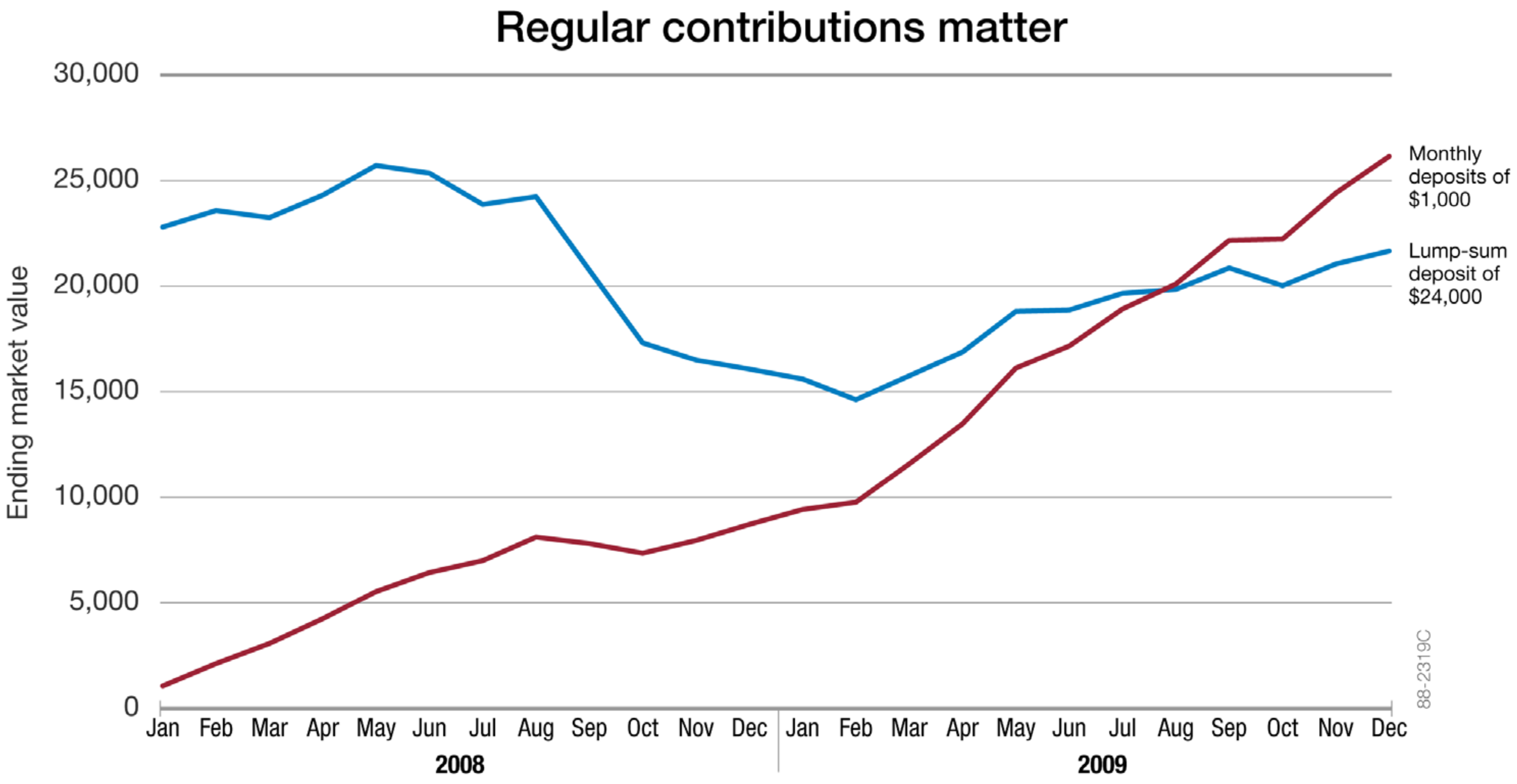



Source: GLC Asset Management Group Ltd., Bloomberg, local currency. Price only returns, as of July 31, 2018.

# Automatic features

- Auto rebalancing
  - Decide frequency
  - Decide rebalancing range (from 2 to 10%)
- Dollar-cost averaging (automatic switch program)
  - Smooth out the costs of investing by buying investments over time
    - Can help nervous investors ease into the market
    - If you have a large lump sum of money, you may want to move it into the market over a period of time (from 6 to 12 months)

# Dollar cost averaging: Volatility can be a friend




Source: Morningstar Direct, for period Jan, 1, 2008 to Dec. 31, 2009.

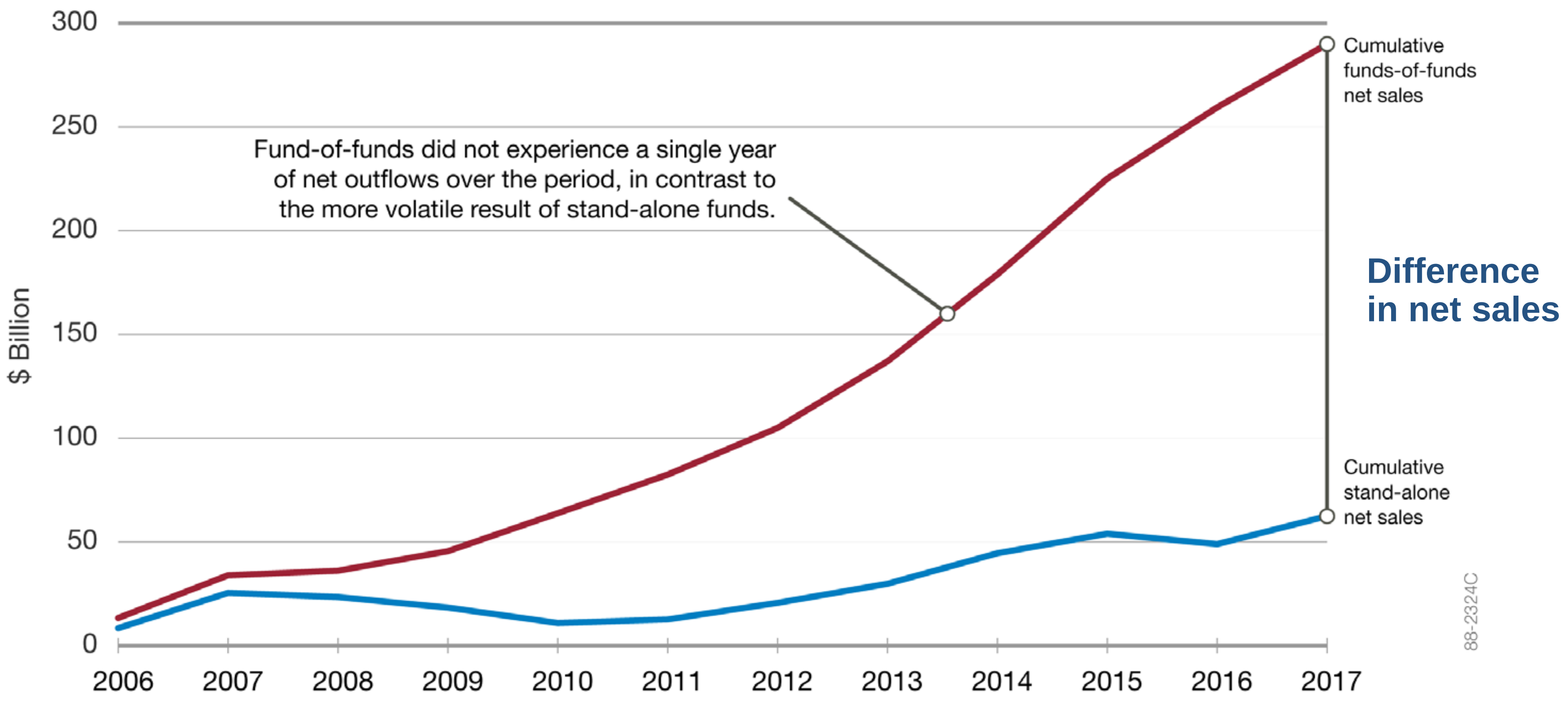
# Delegate and benefit with Portfolio Solutions Group

| | | Benefit |
|---|---|---|
| 1 | **Time** | **Build relationships** with client |
| 2 | **Expertise** | **Helps reduce risk** |
| 3 | **Administrative services (rebalancing)** | **Automatic re-balancing** without paperwork and requiring no client meetings |
| 4 | **Strong due diligence** | **Remain true to mandates** through research, selection and oversight processes |

*How much time, energy and expertise do you spend with clients on portfolio construction and management?*

*Is it increasing your value to your clients, or does it increase your revenue?*

# Multi-manager funds have higher cash flows

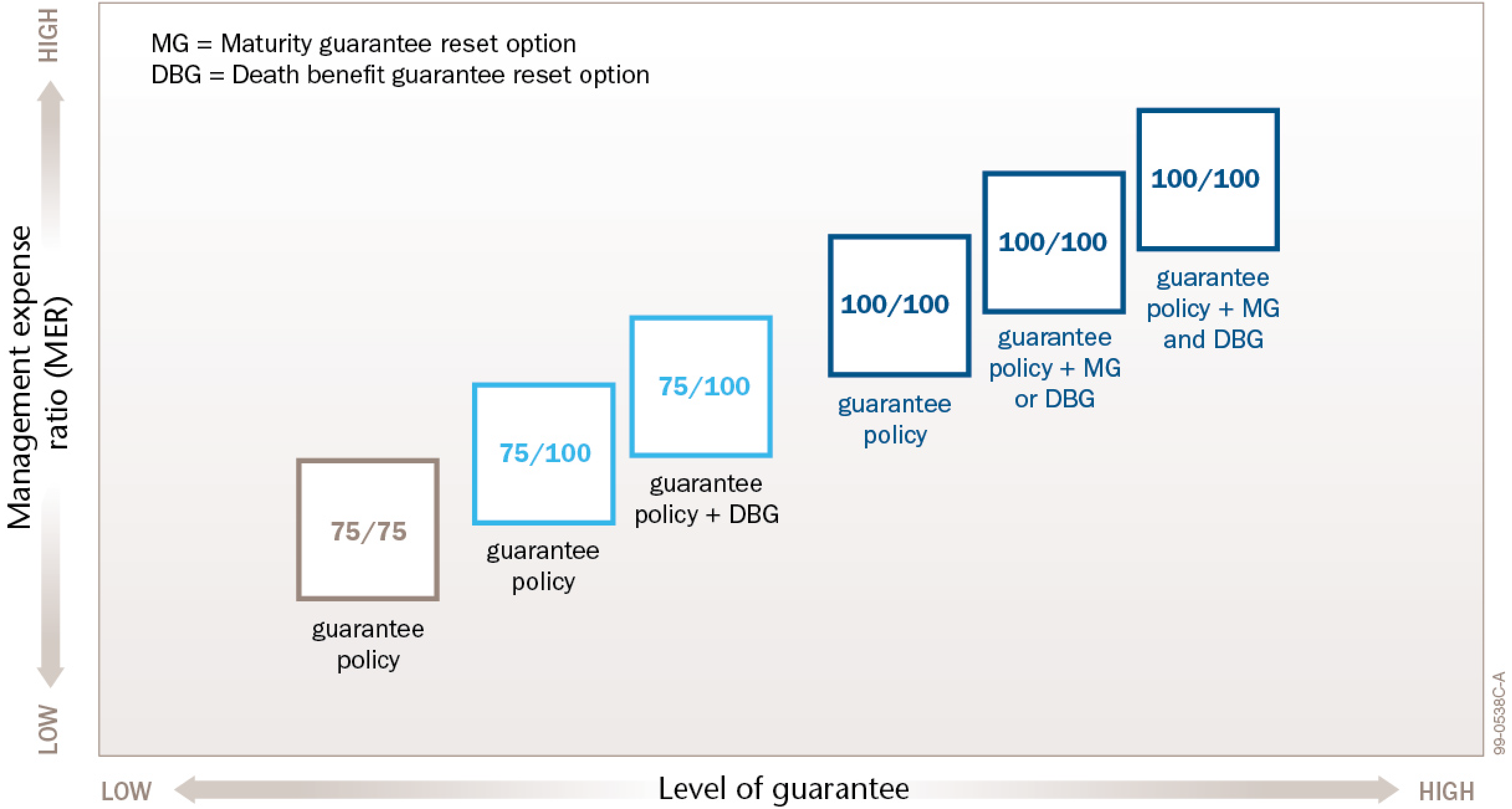



Source: Simfund by Strategic Insights, data as of Dec. 31, 2017.

# Moving to lower-risk funds

| Fund name | Fund category | IMR grade | 3-yr. standard deviation |
|---|---|---|---|
| Income (Mackenzie) | Balanced Funds | Green | 3.58 |
| Canadian Equity (Bissett) | Canadian Equity Funds | Green | 7.38 |
| Global Equity (Setanta) | Global Equity Funds | Green | 9.24 |
| European Equity (Setanta) | International Equity Funds | Green | 10.60 |
| U.S. Dividend (GWLIM) | U.S. Equity Funds | Green minus | 10.61 |

# Segregated fund policy spectrum

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# RETIRING SOON AND RETIREES

# Move clients to Canada Life

## Take advantage of reset options to lock in higher market values

- Move mutual funds to segregated funds and “reset” their market value with a death benefit guarantee
- Purchase the death benefit guarantee reset that will automatically reset the higher death benefit in an upward market

# Estate Protection

- Do you have clients approaching 80 years of age who could benefit from moving to Estate Protection funds?

- You can reset their guarantees and get 100% death benefit


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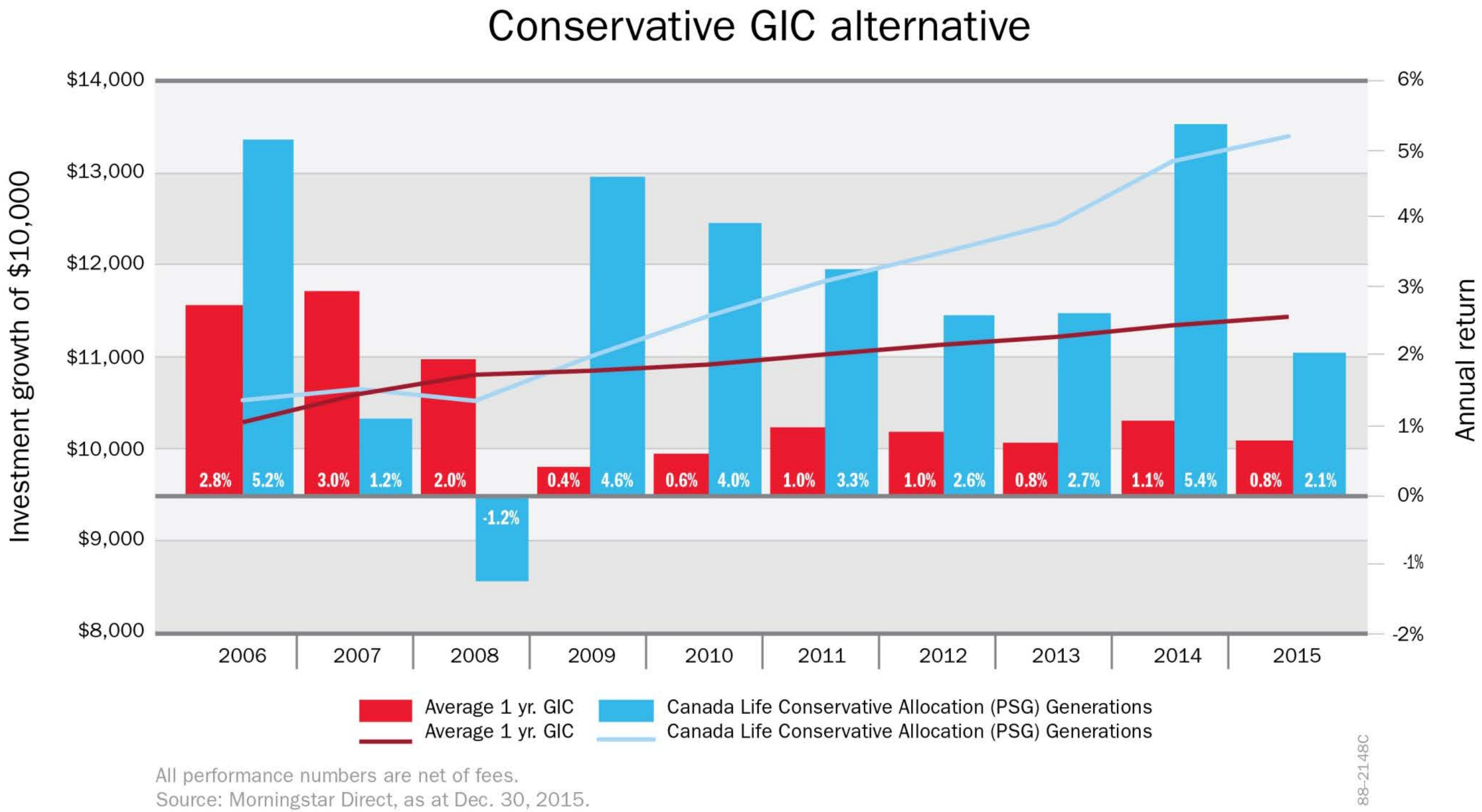
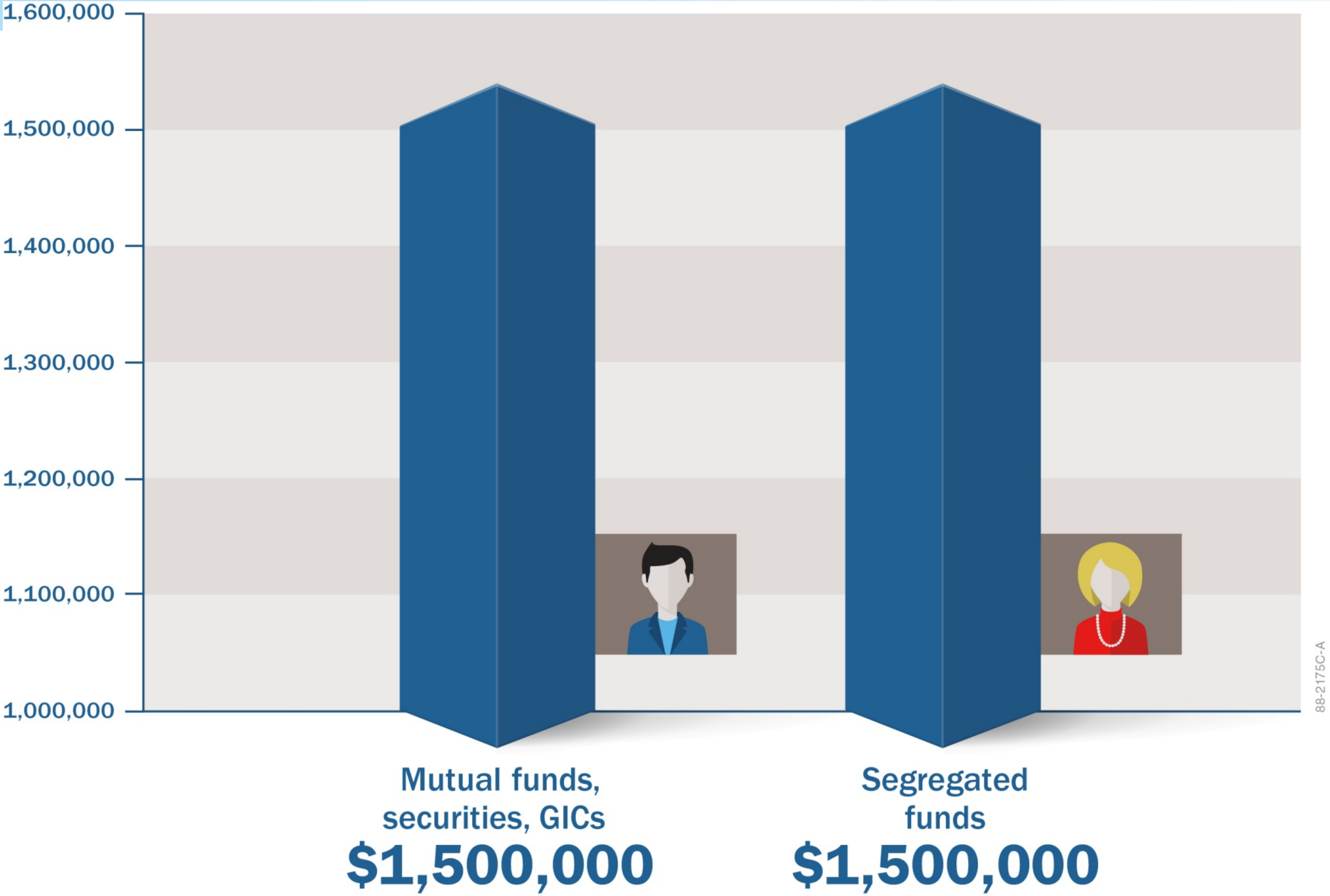
# Solution – Conservative Allocation Fund




All performance numbers are net of fees.
Source: Morningstar Direct, as at Dec. 30, 2015.

Your legacy matters – you choose how you want it to live on

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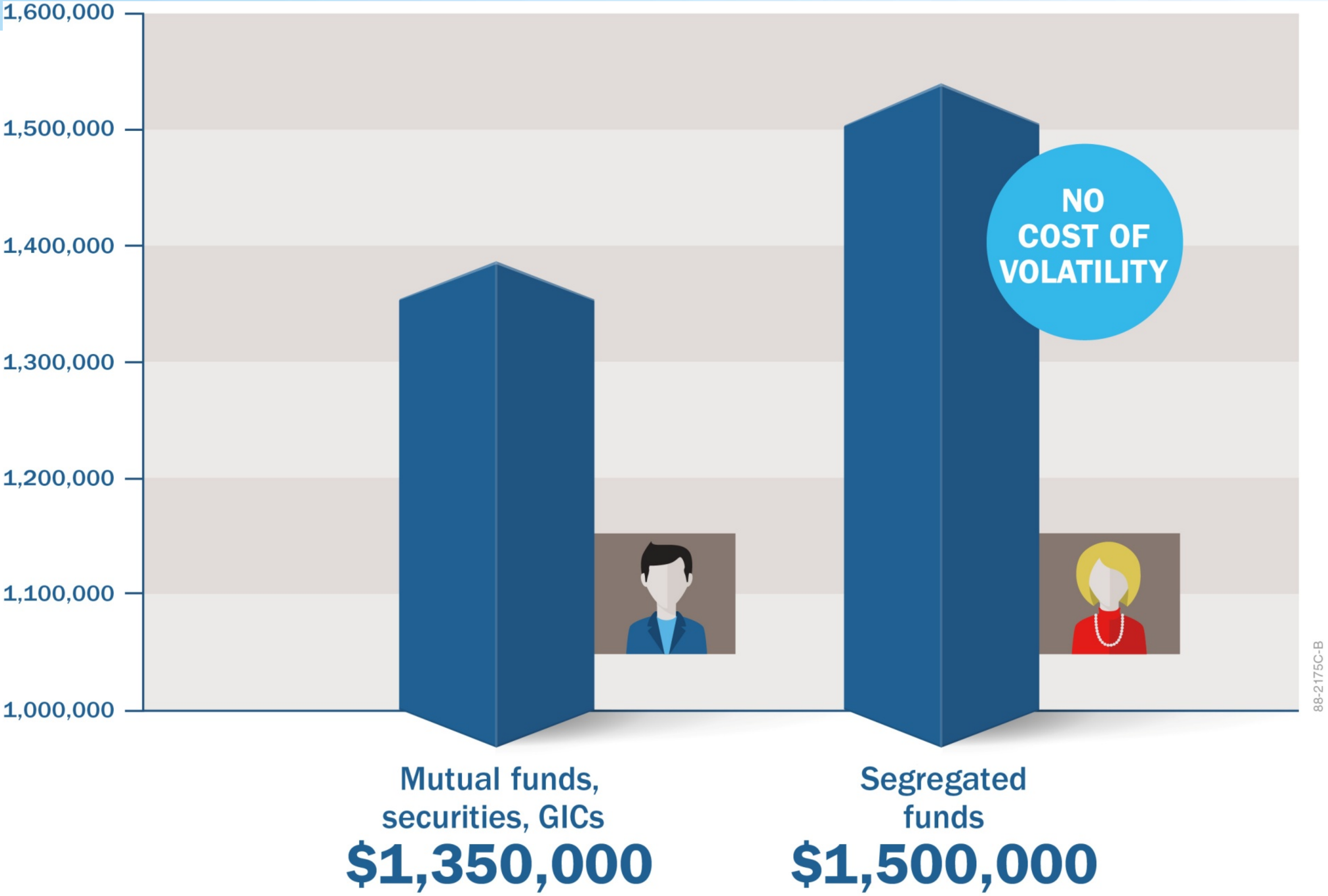
# The cost of market volatility

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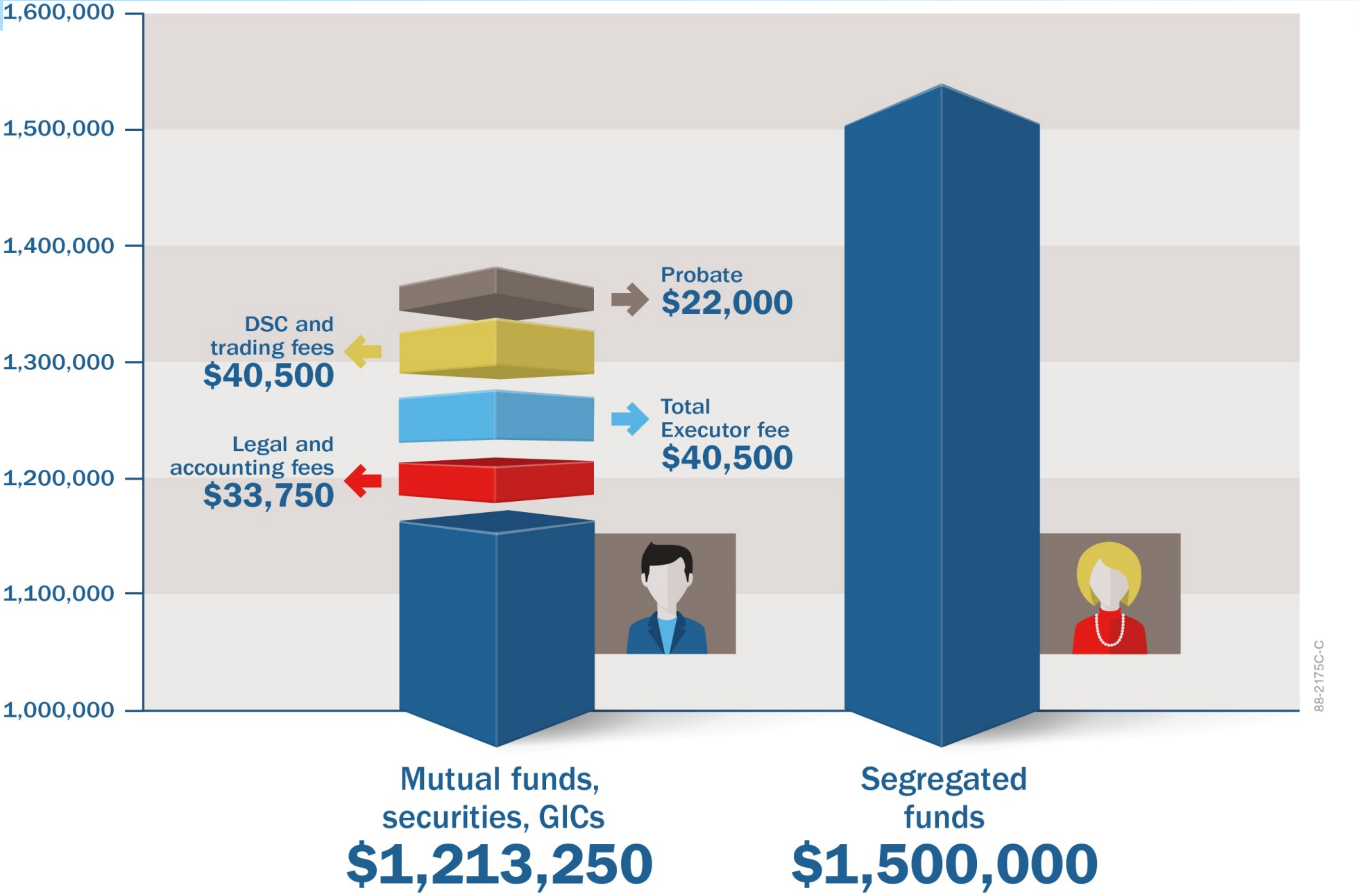
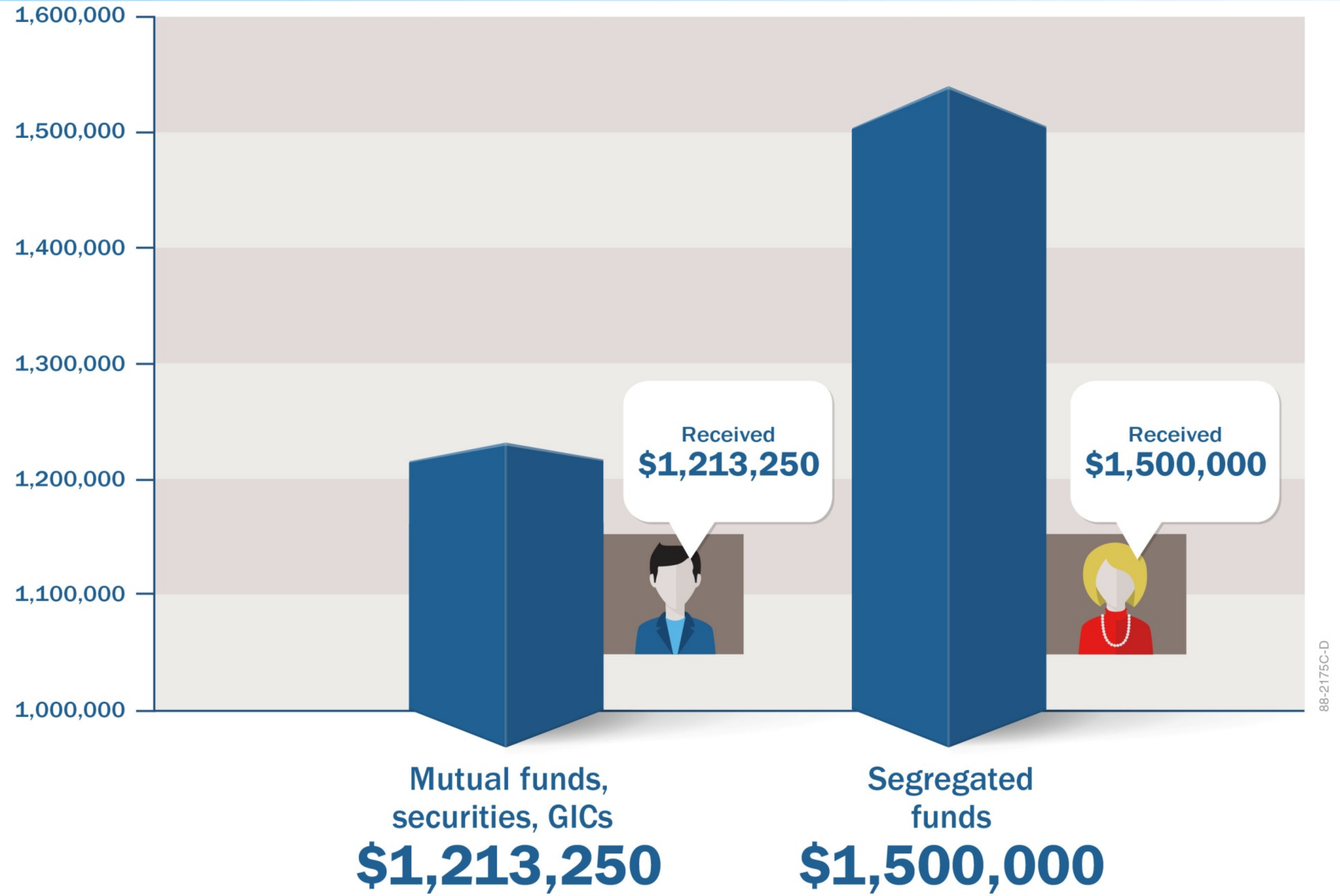
# Other estate costs



# Which legacy would you prefer?

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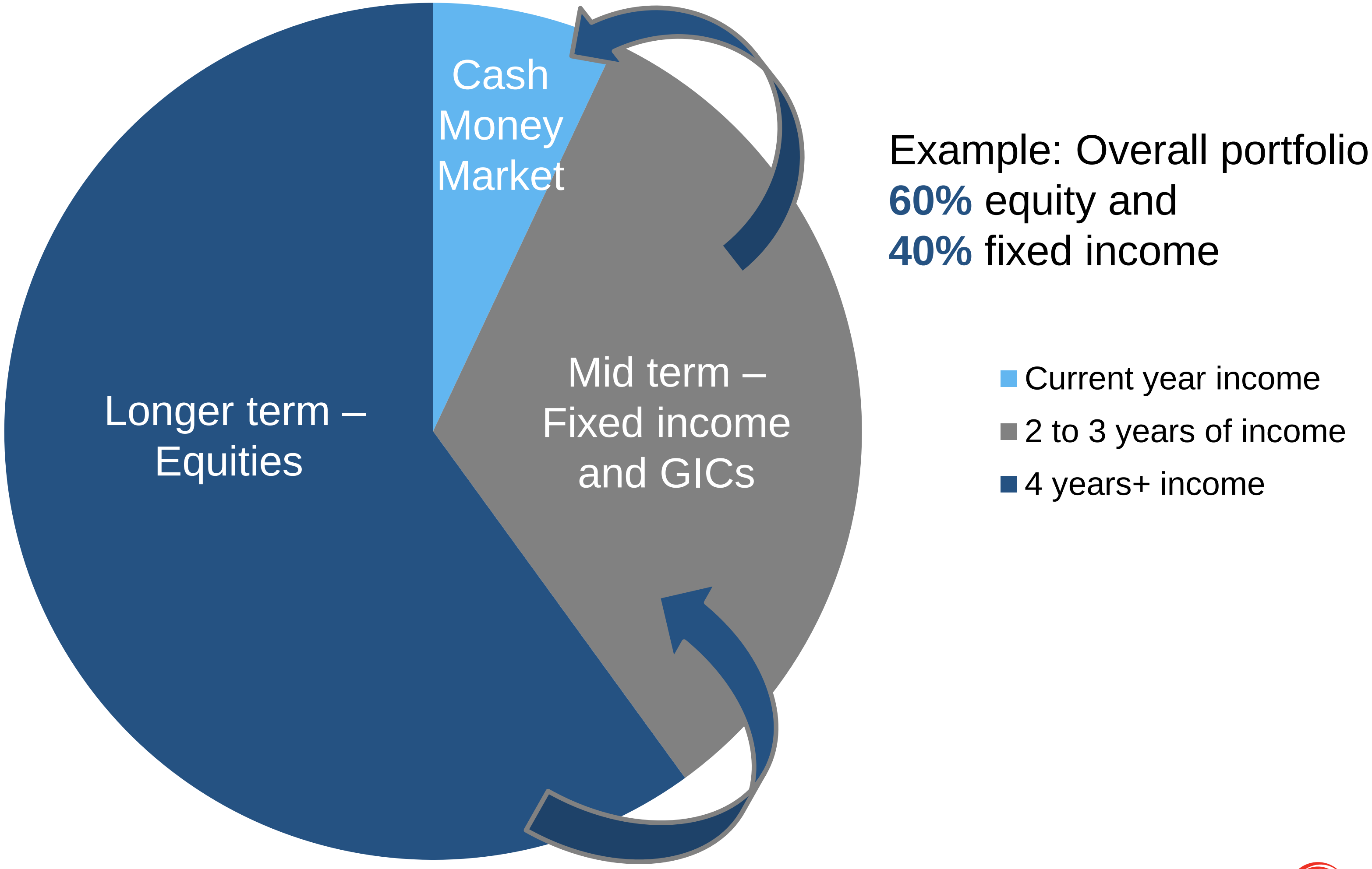
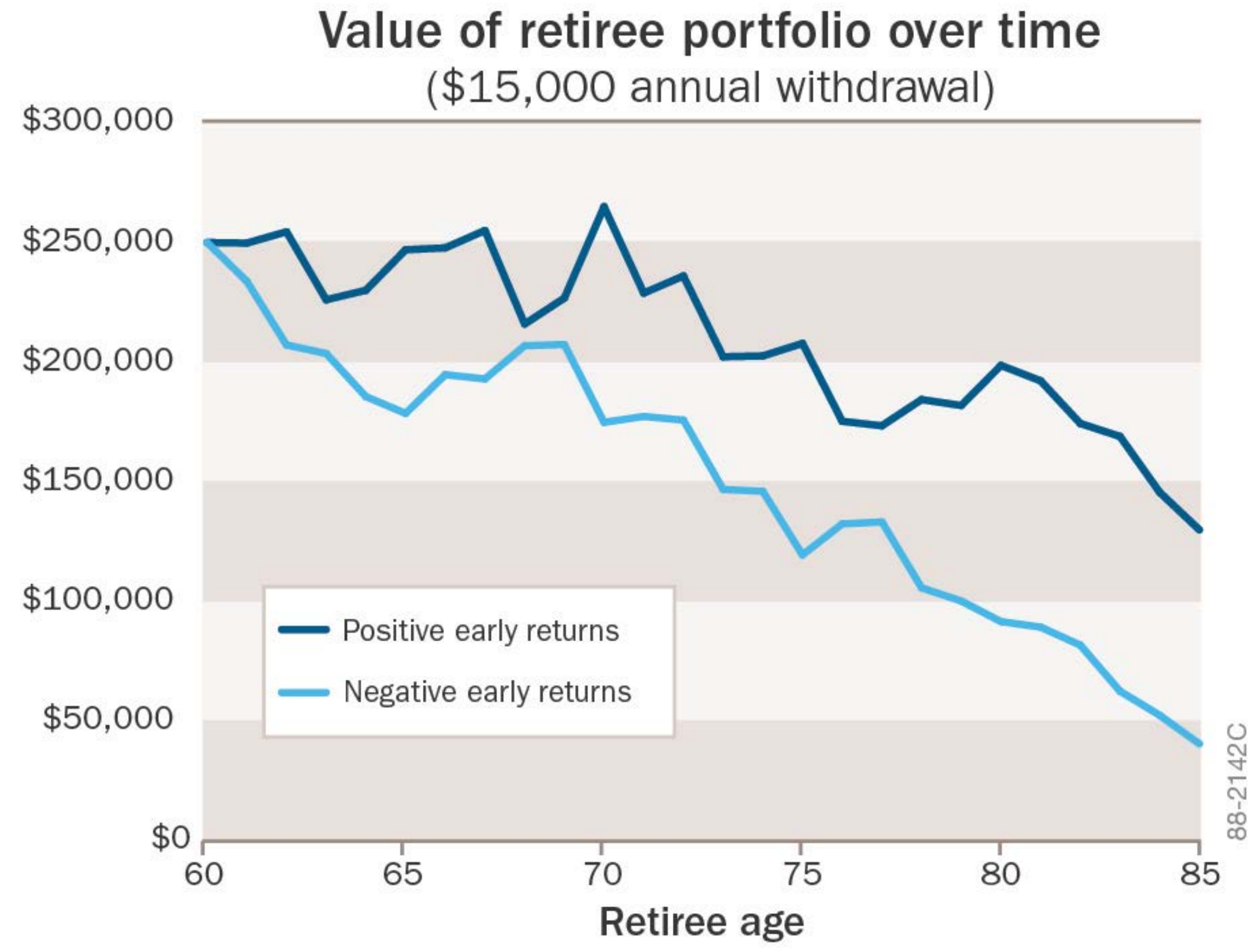
# Cash wedge – Income strategy




Example: Overall portfolio
**60%** equity and
**40%** fixed income

# Sequence of returns: It matters




Concept used for illustrative purposes only.
Situations will vary according to specific circumstances.

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# Annuities: Creating a stable base

- Create a stable base of guaranteed income in retirement by purchasing an annuity with a portion of your client's assets
- Take advantage of our annuity features
  - Flexible income start date
  - Short-term rate protection
  - Extended death benefit
  - Income transition period

# Why use managed solutions (PSG) for retirees?

- Professionally managed, compliant and disciplined
- One fund solution that automatically rebalances back to preferred risk tolerance
- Free up time to focus on planning and income stream management:
  - **Create an income stream –** You don’t need to manage and rebalance multiple funds meaning less paperwork
  - **Practice management –** It’s easier to make changes when you’re not managing multiple funds per client

# Move out of securities

- Clients often have a securities portfolio during the accumulation phase
- Difficult to manage in retirement
- Can be more susceptible to volatility

# Next steps

- Educate clients about the realities of markets
- Help clients manage their behaviour
- Think about strategies to mitigate clients' risk
- Prepare yourself and your team for volatility

# Summary

The information provided is accurate to the best of our knowledge, based on information publicly available
as of Aug. 31, 2018. The comparison is open to change subject to receipt of further information.

A description of the key features of the segregated fund policy is contained in the information folder. Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase
or decrease in value.

This fund is available through a segregated funds policy issued by Canada Life.

**Information for financial security advisors.**
**This material is not intended for use with clients.**