May 2020 Financial Planning Email Update

Previously I have outlined the enormous government spending program to assist all who have been affected by the economic slowdown to “flatten the curve” of the Covid 19 corona virus pandemic. This included assistance to individuals (Canadian Emergency Response Benefit, Canadian Emergency Care Benefit and Increased Child Benefits) and assistance to business (Canadian Emergency Wage Subsidy and Canadian Emergency Business Account Loan Program). The 2020 total annual Canadian deficit as a result is expected to be 200 billion dollars.

On the one hand, the tremendous effort to both ensure our health care system remains capable of handling the pandemic as well as the government support for all individuals and businesses that have been asked to literally close up and go home is very admirable. We are all so glad that the lockdown designed to slow the spread of the corona virus appears to be working as intended from the public health perspective.

On the other hand, we are in Canada embarking on a never before plan to ensure the liquidity of the Canadian bond Markets thru a Bank of Canada program known as Quantitative Easing. Programs similar to this have been used in the United States and Europe in the past with great success. The difference is the US currency is the reserve currency for the entire world and the Euro dollar is supported by the European Economic Union. Today Central Banks around the world are creating oceans of new money and spending power to calm markets and offset the pain of the locked down economies. The US Federal Reserve has stated they will buy unlimited amounts of US Government bonds. They are joined by the Bank of England, the Bank of Japan and the European Central Bank. Each of these policy makers are going to lengths they never would have considered even a few months ago. In fact the idea of a Central Bank permanently increasing the money supply then using the newly created funds to buy freshly issued government debt has been strongly rejected by many in the past. The thinking is that the raising of new funds would lead to an unsustainable Central Bank balance sheet and damage credibility on controlling inflation.

What the Bank of Canada is planning on doing to support the bond market and the Government of Canada spending is to purchase a minimum of 5 billion dollars in Government of Canada Bonds every week for at least 1 year (a total of 260 billion dollars in one year). On top of that to support provincial spending to buy up to 50 billion dollars in provincial bonds. The Bank of Canada is also going to purchase up to 10 billion dollars in investment grade corporate bonds.

What the Bank of Canada is doing is required as the borrowing needs will far out weigh the market demand for these government and corporate bonds for the foreseeable future. The long term issue is how is the Bank of Canada able to purchase these bonds totaling 320 billion dollars in the next year ?

The answer is printing new money. The injection of this much new money into the Canadian Monetary System in the next year has a very high risk of creating high levels of inflation which has not been seen since the 1970’s. To protect against the loss of purchasing power from increased inflation I strongly recommend maintaining a diversified professionally managed portfolio which will be invested in ownership (equity) investments which will be a hedge against inflation. The alternative would be a bank deposit based strategy which would have no market fluctuation risk but would have a very high risk of loss of purchasing power. For example currently a high yield investment savings account would earn .5%. If inflation were to increase from the current levels of 2% to say 4% then the after inflation rate of return would be -3.5%(.5-4 = -3.5%). If that .5% were taxed at only 25% the after tax/after inflation rate of return would be -3.625%(.5 - .125 – 4 = -3.625%). If we are able to maintain a positive after tax, after inflation rate of return by utilizing our diversified professionally managed portfolios we would be in a significantly better position in the long term.

If everything goes according to plan the Quantitative Easing transactions will be reversed down the road when times are better and markets are functioning smoothly, selling back these mostly government bonds to private buyers and reversing the increase in money supply. Unfortunately all previous efforts at Quantitative Easing in the United States, Europe and Japan have never been reversed.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns that you would like to discuss or review, please do not hesitate to email or call Amanda or I at 519-894-2661 or toll free 1-800-716-5538. Have a great day.

Respectfully Yours, Gary

Gary H. Attack, BBA,CFP®,RFP,RRC® | CERTIFIED FINANCIAL PLANNER® professional

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