

# The Francis Forum

Winter Edition 2019

I hope your Christmas Holiday was enjoyable and your New Year is off to a wonderful start.

## Behind the Scenes

**Doing Well – Doing Good;** In December our tradition of community giving continued in the following ways. I was once again a title sponsor with colleague Michael Prittie at the Annual Christmas Cheer Breakfast with a \$5,000 donation. In addition, numerous meaningful donations were made to local food banks, CHEO, the Ottawa Regional Cancer Foundation, Compassion Canada and others. We are all fortunate to be investors, and while sometimes we lament about falling markets or other interruptions to our wealth creation plans, it's important to remember we all have more than capital at work – we have lots of other meaningful assets and incomes that allow us to live quite well.

**New Team Members;** Some notable highlights here at Capital Wealth Architects this fall included the following additions to my team. I am pleased to announce James Hickman CFP, CIM joined us mid November. James has many industry qualifications along with 10 years experience. We are proud to have James interacting with us and clients on financial planning matters. Also, Steven Aubin has returned from Thailand, and he is happy to be back with us. Steven will resume his former role assisting Kyle Taylor with research, bulk securities trading and other related duties. We have a great team here and a deep pool of knowledge and experience. Janet Nunn continues to recover and we hope she will be back in March or April latest. Janet did join the festivities at our Annual Children's Christmas Party held at the newly renovated Science and Technology Museum. Janet was pleased she could attend and interact with all guests in attendance.

**Continuing Education;** Often, we as advisors attend workshops, investment conferences and other industry educational opportunities – some local and some far away. Many might consider these to be paid perks or benefits of our industry, however the reality is far from that. Did you know that mutual fund companies (or any sponsoring company) is forbidden to pay so much as a transfer from the airport to the hotel? In fact, advisors pay 100% of all flights, hotels, transfers, and any food costs not at the venue. Believe me when I say these costs add up and are not refunded. We are attending of course due to interest in the educational material – being investment, economic or planning related.

Last year, I attended an out of country event in New York City in February for the annual Entrust Permal Alternative Investment Conference. This is a coveted event and features household names (in our industry) such as William Ackman, Nelson Peltz and many others. Our dinner speaker was former VP Dick Cheney as well as Ambassador Susan E. Rice. The speakers and content here are first rate.



Duane Francis CFP, CIM, CPCA  
FCSI, CIWM  
Portfolio Manager/Senior Financial  
Advisor  
Life Insurance Advisor

Mandeville Private Client Inc.  
1565 Carling Avenue, Suite 610  
Ottawa, ON K1Z 8R1  
Telephone: (613) 728-0101  
Fax: (613) 728-4075  
Email: dfrancis@mandevillepc.com

Natalie Nunn  
Executive Assistant  
Telephone: (613) 728-0101 ext 221  
Email: nunn@mandevillepc.com

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In addition, there are many events offered at local venues, our branch or head office. Often, I or an associate in my place, will attend lunch sessions or evening dinner sessions that consist of taxation updates, estate planning or some other facet of the planning matrix. Some of these include insurance...even an anti money laundering course and quiz. Some are interactive conferencing. We also have annual regulatory continuing education requirements (investment, insurance and designation related) that are tracked in order to maintain our licensing.

I find the vast majority of the above events interesting and informative. When I am away, do not assume it is a vacation. Many times, I am spending time and money on events like those noted above in order to be the best I can be in my role.

## Stock Market Worries??

As fall turned to winter, the stock markets turned cold just like the weather here. This very situation was touched upon several times last year in communications, that markets were becoming valued and stretched. Recent volatility was a clear reminder that despite above average returns over time - market returns are *not* linear. Recent market movements also illustrated that market timing can be unforgiving as we saw large declines followed by large gains in the days that followed. Selling into a decline only means you will very likely miss the upside when it occurs. At times like this it is wise to focus on the playing field (and the quality of your players) instead of the scoreboard. We are selecting wonderful businesses – leaders in their class, domiciled in long term growth industries and proven and effective at growing earnings. Don't sell them short.

Comparing statement to statement balances just leads to frustration and unnecessary worry. Instead, look at how much profit you have achieved over the past three, five and ten *years*. This is what counts alongside any financial planning in place to reach your goals. Match the investment to the time horizon and holding period. Put another way, it is fine to compare a daily interest bank account or T-Bill day to day, but Royal Bank, Cymbria or Berkshire Hathaway rates of return are measured over many years - and the later three create real wealth, lower taxes and offset inflation with time. With quality stocks you are rewarded with above average long term returns by *tolerating* short term volatility. That is the trade off. You need patience in stocks...patience and the ability to not allow your emotion to corrode the framework required for success. We utilize a three-silo approach to asset management and have the appropriate amount allocated to each (short term, mid-term and long term) and mix of income oriented and capital growth – not to mention Privates and Alternatives to ensure your particular objectives are met and goals achieved.

Like the winter weather, warmer days lie ahead for those willing to wait.

*Duane*

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## Donor advised funds: Flexible philanthropy

Donor advised funds have come a long way as an efficient charitable giving vehicle. Particularly in Canada, it is a gift planning tool of choice for those who don't wish to make direct donations to charities.

"It's essentially a segregated fund within a public foundation or charitable organization," said Joshua Thorne, manager, philanthropic advisory services, Scotia Private Client Group, speaking at the third annual Doing Well by Doing Good conference in Toronto. "Its purpose is to make charitable gifts, or charitable grants, to other charitable organizations."

Donor advised funds are typically offered through community foundations, but over the last decade many Canadian financial institutions have moved into the space.

With 174 community foundations across the country, there's no shortage of opportunities that advisors can look at for their clients.

As a charitable donation should be, a donor advised fund is an unalterable gift. "Once the assets are donated to the public foundation, for funding the donor advised fund, it is an irrevocable gift," said Thorne. "The donor cannot get it back for personal purposes at any point in time."

A donor advised fund foundation is similar to a family foundation in that "you could put a name on a donor advised foundation, a donor advised fund within a public foundation."

It could be an individual's name, a family name or a corporate name. "There's the opportunity to have family involvement," said Thorne. It allows for the successive generations to get involved with the charitable giving of the family.

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The fact that donors get tax savings in the year that the gift is made makes it an important feature for many clients.

Typically, the assets are pooled with other assets for cost-sharing purposes. There are different ways – mutual fund structure, pooled endowment or private client – that individuals and organizations might be pooling those funds.

"There's a different level of service in different organizations in terms of the personal planning and support for local, national, or international grant making," said Thorne.

Some organizations and donor advised fund foundations have a tremendous amount of infrastructure to bolster their ability to help donors decide where they should direct their charitable giving.

"It's a structure for both long-term flexible and multiple large and small beneficiaries," he said. The structure provides a degree of control and accountability that is lacking in direct gifts to charities.

Also there's the opportunity for anonymous giving, which may be critical to many clients. "For some clients the number one selling feature of donor advised funds is the ability to make significant charitable gifts without letting their family or the rest of the world know that they are the philanthropist behind that."

There are other reasons why a donor advised fund makes sense. One of them is cause neutrality, the ability to separate planning and giving. It resonates with clients because they're able to put complex or simple plans in place without the pressure of fundraising. It provides "the ability to simplify charitable gift plan, and the ability to give now and get that tax savings now, while designating charitable beneficiaries later."

The fundraising pressure that comes from charities that are looking for revenue does not always sit well with the clients. Clients who have significant assets, or complex assets, want the freedom to plan and do so in privacy, said Thorne.

People like the opportunity to use a donor advised fund as it simplifies their life, their philanthropic plan, and allows for increased flexibility. "People need the tax receipt before the end of the calendar year, but they haven't figured out what their charities are going to be."

There are also clients whose assets are in transition, who've been busy running their business, or looking at the sale of the business. "When these clients want to do something philanthropic, donor advised funds give them the opportunity to structure and allow it to happen."

So what's in it for the advisor? Philanthropy is about a client's personal values and understanding them provides an opportunity for enhancing the client relationship.

"If you can engage on the personal values, you increase the relationship with your client, you solidify it," said Thorne. Philanthropy and the ability to talk about philanthropy – where a charity fits into a donor's plans, knowing the specifics of a client's plans – are the areas where advisors are able to have positive conversations and keep their clients.

<https://www.advisor.ca/news/industry-news/donor-advised-funds-flexible-philanthropy/>



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## Hotel Trends 2019: What You Need to Know

As 2018 enters its last quarter, Travel Market Report sat down with hospitality consultant and Adjunct Professor at the NYU Jonathan M. Tisch Center for Hospitality Bjorn Hanson, to talk about hotel trends for 2019. And while we were at it, we asked some other hoteliers for their thoughts, as well. Here's what Hanson says we'll be seeing in 2019:

### 1. Urban hotels charging resort fees

Last year was "a test year" for resort fees, Hanson said — and travelers (and the travel agents who book them) apparently failed the test. So, expect to see more hotels in cities, as well as resort destinations, tacking fees onto the final bill.

### 2. More enforcement of cancellation fees

The big year for cancellation fees was 2016, when most hotels went to two days out, but many still leave enforcement up to the individual property. "I think enforcement will slowly increase, though there are few more offensive acts to a guest than saying, 'Sorry, we don't care about your personal life or your work schedule.'"

### 3. Lower guest acquisition costs through direct booking

After years of losing bookings to online travel agencies (OTAs), in 2017 hotels finally took back a couple of points. Expect to see more direct marketing, bonuses and member rates for travelers who book through hotel websites. "It's about cost and about who owns the guest." Travel agents, too, will see initiatives designed to encourage direct booking.

### 4. Longer booking windows

Soaring occupancy rates through 2019 will make it necessary to book early and be flexible. While in some cities rate increases have not gotten good traction, others, notably New York, have seen steady rate growth as "availability has been a challenge and will become even more of an issue."

### 5. Interesting local food and beverage

Celebrity chefs are out as hotels stop competing with fine dining restaurants and turn instead to good, relatively simple, wholesome and local food service. Upscale and upper upscale hotels are asking what interesting things they can do "with this space in this neighborhood, and we are seeing lots of clever things," Hanson said — not the same menu in 500 hotels, but genuine, interesting, local and tasty offerings.

### 6. Better technology

There will be more and faster internet access, used in new ways. "Guests' appetite for high-speed internet is very hard to satisfy," and very costly for hotels, Hanson said. Still, "hotels have realized it is such a dissatisfier, that they are upgrading" — but they are trying to add some value to their expenditure by letting guests easily connect their personal devices to TV screens and hotel services.

### 7. Promoting social media and Instagram

There's nothing like a high rating on online sites and lots of Instagram postings for effective (and free) advertising. Hotels are creating little Instagrammable scenes around the property to encourage photos.

### 8. Simple, inclusive, local and special decoration

"There must be a secret meeting room where hotel designers go to agree on new hotel designs. I'd say more than 75 percent of hotels where I am involved have the same discussion," Hanson said. No longer are all rooms the same; whether it's art or furniture or even the configuration, the trend is for guests to feel they are staying in a customized room. Simple used to mean homey, but now it's very comfortable, in shades of gray and black and tan, so the person stands out. The room should play a supporting role.



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## Feedback from other experts

Travel Market Report also has seen a trend toward more all-inclusive properties; Hyatt's foray into the all-inclusive market was followed this month by Hilton, and Hard Rock Hotels of Mexico and the Dominican Republic have "ditched resort credit to bring guests a vacation experience that is truly all-inclusive," including deeply discounted experiences like golf, spa treatments, tours and excursions, effective Jan. 6, 2019.

At Solmar Hotels & Resorts, VP of Operations Ricardo Orozco suggested that, in 2019, "luxury travelers will rely more on travel agents; this is a trend that we're already experiencing."

Mario Cruz, concept manager for Original Group, said: "Just as 2018 was the year of multigenerational travel, 2019 will be about couples and adults. More hotels are catering to adults in kid-free environments, either by opening adults-only properties or adults-only sections within one property."

Travel professional Heather Howard DiPietro at TravelSalesGroup LLC agreed that guests are looking for "Insta-worthy experiences" and hotels are delivering. In Antigua, for example, properties are "now including extras like Galley Bay, where you can take a hobby out to explore a shipwreck; or Blue Waters, where they offer a free trip out to the reef for snorkeling; or Curtain Bluff, where they include waterskiing and motorized water sports."

Chris Hornick, Dream Vacations Franchise owner and vacation specialist in Pleasant Hill, Pennsylvania, agreed that the trend is toward the unique. "Something I am seeing across the board, including domestic hotel stays, is that clients and travelers want that local culturally immersive experience nowadays. Everyone has 'been there, done that' with the major attractions and sightseeing destinations; people want that true 'what the locals do and go' experience. Smaller boutique hotels and even bed-and-breakfasts have become more popular for clients who want that small town, local charm and experience," he said.

And Dawn Gillis, World Travel Holdings product manager, land & car, reports: "There's a big focus on dining options/restaurant variety, food quality and diversity, cooking classes and demonstrations, foodie events and fresh organic produce from on-site gardens and greenhouses. Karisma Resorts, for example, are known as the gourmet all-inclusive, and they really cater to foodies. In Mexico, guests of their resort the El Dorado Royale can join the audience at the Fuentes Culinary Theatre, a Food Network-style demonstration kitchen. Karisma Resorts also has partnerships with Jackson Family Wines and Canadian Beef, and hosts weekly events featuring their products. Excellence Resorts also has a focus on diverse dining, with multiple Caribbean and Mexico locations that offer 10 international restaurants and up to 16 bars."

The Hotel El Ganzo in Los Cabos, meanwhile, is offering "tours that take guests to authentic and not commercial spots, where they can interact with the grower or the local fisherman who has lived in Los Cabos all his life. Experiences that are off-the-beaten-path, so that discovery becomes the whole point of the excursion, the discovery of yourself and the real Baja," said General Manager Ella Messerli.

The Ritz-Carlton Lake Tahoe now offers in-room massage treatments, in-room caviar and cocktail receptions, and en suite pasta-making classes with the resort's executive chef.

And at Rome Cavalieri, A Waldorf Astoria Resort, the "Made in Italy by You Experience" takes guests into the heart of Rome for a sandal-making workshop. The owners of Le Mastro offer up tips on shoemaking and design, and then the guests create their own pair of Italian leather sandals.

Meetings, too, are looking for the unique and unusual. Beatriz G. De Smith, sales director of the Hilton Puerto Vallarta, said: "Groups are stepping out from traditional setups and layouts to introduce new space distributions and designs. For example, instead of having a U shape or a classroom set-up, clients are looking for a mix of furniture to create different spaces within the same room, and also looking to incorporate healthy choices in coffee breaks."

<https://www.travelmarketreport.com/articles/Hotel-Trends-2019-What-You-Need-to-Know>



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## Cannabis stocks are the hottest game in town — here's why we don't invest in them

Nobody wants to miss the party. It seems like a lot of fun. Who doesn't want to make a lot of money very fast?

Not surprisingly, we often get asked the question "should I be investing in marijuana stocks?"

Our answer is invariably "No!" Here is why.

Most of our clients are over 50 and have built up enough assets that they are close to or already past the point of needing to worry about outliving their funds. Even so, they still often have that worry. Early on, we ask our clients for their goals. They usually relate to financial independence for the rest of their life, being tax smart, and where possible, wanting to help their children and or charities when the time is right. Of course, one of the key parts of determining if they can achieve these goals relates to various assumptions of the future. The key assumption relates to investment performance.

We usually build a financial plan for a client that is based on long-term investment returns in the 5 per cent to 7 per cent range after any fees. Returns can also be looked at as the rate of inflation plus 3 per cent to 5 per cent. The investment range is largely based on how conservative or growth oriented the client might be. We are confident in achieving these numbers based on the long-term history of stock markets, bond markets and to a lesser extent preferred shares. We also have the ability to look at certain private investments — especially in the lending market — that have helped to make these returns quite likely over time.

If we assume a long term return of 6 per cent on investments in a financial plan, one of our key jobs is to try and achieve that return in a way that is tax efficient and most importantly, achieved with lower volatility than would be found in stock markets. This issue of volatility is very important. Clients will be much more likely to stick to a long-term investment plan if they don't face major losses along the way. We are all aware of how difficult it was to stay invested in stocks in late 2008 when it seemed like they simply went down every week. As a result, we want to meaningfully limit the downside in a portfolio.

Now this brings us back to the question "should I be investing in marijuana stocks?" Given who our clients are, and their objectives and their fears, we are confident of achieving their goals in part because we can invest in an entire world of stocks, bonds, preferred shares, ETFs and alternative investments. Each investment can be analyzed to determine how it will add to our clients' investment goals. We can see cash flows, profits, dividends, credit quality, momentum and security on debts. This analysis gives us comfort in achieving the numbers in a plan for the client. It also gives us the confidence to ignore certain investment sectors that don't fit into our criteria.

Marijuana stocks are all start-ups. Most have not yet achieved any profitability. The industry itself is in its infancy. Product pricing and therefore profitability is still very much a question mark. The sector may turn out to be the answer to a wide range of issues like pain management, miracle cures, and even a partial replacement for alcohol. At the same time, none of this is known, and possibly none of it will turn out to be the case. The idea of first-mover advantage may be important, but considering that everyone on your street will be able to legally grow marijuana, and farmers in many corners around the world can easily grow the crop (legally or illegally), how much benefit will an early mover really have? How can any of these companies reliably be worth more than American Airlines, Canadian Tire or Goodyear? Essentially, we believe that the sector is a gamble. If you are younger and rolling the dice for a big win, then by all means invest here, but if you are on pace to achieve your goals without it, why roll the dice?

If we remember that one of the biggest risks to a long-term plan is to buy high and sell low, we do our best to avoid investments where the move from low to high has taken place very quickly — and without strong investment fundamentals. These investments have a much higher risk of reversing ground with the same speed. While the marijuana sector is exciting, in our opinion, it has some real risk of fitting into exactly what we don't want as part of a long term plan.

I am not saying that people can't still have some fun money, and maybe invest 2 per cent of a portfolio in something speculative, but we won't proactively do that with our clients' money. We don't need to, and they don't need to, and there is a real possibility that the marijuana story won't end well for investors.

<https://business.financialpost.com/investing/investing-pro/cannabis-stocks-are-the-hottest-game-in-town-heres-why-we-dont-invest-in-them>

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## Winter Activities

### TD Ottawa Winter Jazz Fest

February 7<sup>th</sup> - 9<sup>th</sup>

<https://ottawajazzfestival.com/>

### Tim Hortons Ottawa Ice Dragon Boat Festival

February 9<sup>th</sup>

<http://www.icedragonboat.ca/>

### Winter Brewfest

February 15<sup>th</sup> - 16<sup>th</sup>

<https://brewfest.ca/ottawa/>

### The Travel and Vacation Show

March 30<sup>th</sup> - 31<sup>st</sup>

<https://www.travelandvacationshow.ca/>

## Upcoming Events:

### Client Seminar:

January 23<sup>rd</sup>, 2019

Peter Christianson from Probity  
Presenting Flow-through Shares

In Addition,

Michael Prittie Presenting the Benefits of  
Spousal Loans

### Client Seminar:

February TBD

### Client Seminar:

March TBD

### Client Seminar:

April TBD

### Client Seminar:

May TBD

## Winterlude

The 41<sup>st</sup> edition of Winterlude runs from February 1 to 18, 2019.

Winterlude, the Capital's winter celebration, is held in Ottawa–Gatineau each February. It was created in 1979 to celebrate Canada's unique northern climate and culture.

Skate on the world's largest skating rink, check out the ice carving competitions or enjoy yourself in a huge winter playground surrounded by majestic snow sculptures. There's fun for the entire family, and all sites are open on Family Day.

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