

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

DIGITAL ASSETS AND ESTATE PLANNING MAJORITY DON'T CONSIDER DIGITAL ASSETS

According to a study conducted by the BMO Retirement Institute, 57% of Canadians with estate plans do not have provisions for digital assets while only 52% of Canadians have a will. Those who have a will tend to be older with more tangible assets than average while those who do not have a will tend to be younger with more digital assets than average. BMO estimates that in 2020 the average Canadian will have \$10,000 in digital assets at death. We can conclude that the majority of digital assets may disappear if Canadians do not include digital assets in their estate plans.

What exactly are digital assets and digital accounts?

A digital asset is a file over which a person claims ownership including blog and other social media posts, photos or spreadsheets to name a few. A digital account is how digital assets are accessed.

Digital accounts are categorized three ways:

- Accounts containing currency information – contains virtual currency that is convertible into real money such as PayPal, Air Miles or credit card accounts.
- Accounts containing personal/commercial information – email, social media or blog accounts that may have tangible or sentimental value.
- Accounts containing virtual property – includes media that is under license such as iTunes or Kindle accounts.

Why include digital assets in the estate planning process?

Sentimental value. In the past, families would debate who gets photo albums, record collections or book libraries, and often, certain photos, records and books meant different things to different people. In modern times, Facebook and Instagram are the photo albums, iTunes is the record collection and Kindle is the book library. The same planning should take place irrespective of whether the media is physical or digital.

Monetary value. The number of loyalty programs and the scale of each grow with each passing year. In addition, the advent of cryptocurrencies like bitcoin means that some individuals could die with tens or hundreds of thousands of dollars in digital assets. Email accounts of small business owners have tangible value as access to these accounts aids business continuity. Blogs and other social accounts can be revenue generators and keeping these accounts live could result in monetary benefit.

Legal Issues. Terms of service agreements for email or social media accounts restrict access to these accounts after death unless explicitly specified in a will.

What to do? Create and maintain an inventory of all digital assets → Appoint a trustee to manage digital accounts → Instruct the trustee how digital assets are to be distributed.¹

Current Rates & Data

Govt of Canada

90 day	1.71%
1 year	2.16%
2 year	2.30%
5 year	2.39%
10 year	2.46%
30 year	2.49%

U.S. Treasury

90 day	2.32%
1 year	2.53%
2 year	2.72%
5 year	2.96%
10 year	3.08%
30 year	3.15%

Canada Prime Rate

3.95%

U.S. Prime Rate

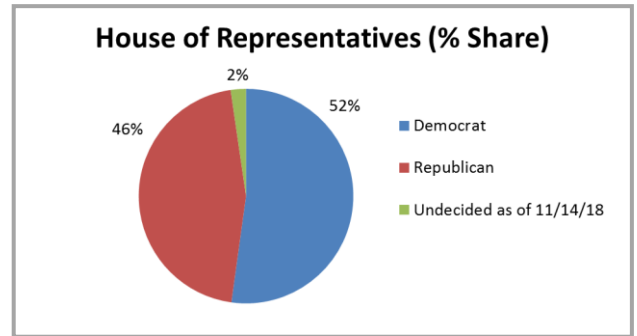
5.25%

Exchange Rates

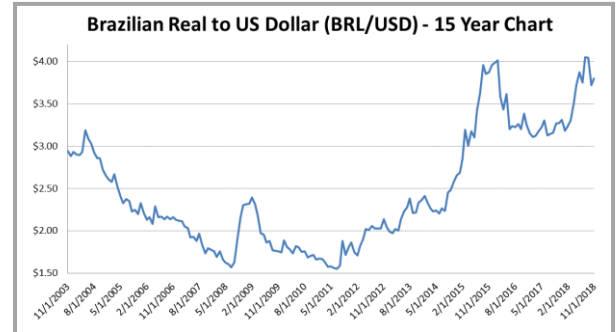
CAD/USD	0.755
USD/EUR	1.131
JPY/USD	113.9

ECONOMIC TIDBITS US GOVERNMENT SPLIT AS DEMOCRATS TAKE HOUSE & BOLSONARO TAKES BRAZIL RIGHT

- Out of the US midterm election on November 6, Democrats picked up about 40 seats in the House of Representatives marking the best midterm results since the post-Watergate election in 1974. The Democrats now have a ~28-seat advantage in the House that will make it nearly impossible for the Trump administration to pass partisan legislation. The Senate remains under Republican control.



- In late October, right wing candidate Jair Bolsonaro won the Brazilian presidential election on promises to defend traditional family values, be tough on violent and drug related crime and fight corruption by privatizing state owned enterprises and reducing regulation. Bolsonaro's far right views raise human rights and environmental concerns but bring hope that Brazil may finally exit its prolonged recession.



LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Stock Poised to Benefit from a Potential Paradigm Shift in Brazil's Economic Structure

- **Companhia Brasileira de Distribuição (CBD-US)** is the largest retailer of food and general merchandise in Brazil. CBD currently trades at ~7x trailing EV/EBITDA, compared to US, European and Canadian peers at 7x-9x. The valuation looks inexpensive given CBD has virtually no debt and CBD's earnings are close to cyclical lows while peers' earnings are close to cyclical highs.

Brazil's economy has effectively been in recession for the last six years due to a commodity bear market, political instability and worsening government finances. As of September 2018, Brazil's unemployment rate sits at 11.9%, below the 2017 high of ~14% and well above the 2013 low of ~6%. Should Brazil get its government finances in order and stimulate economic growth, there is plenty of room for the unemployment rate to decline and annual household incomes to rise. CBD would greatly benefit from an improvement in household finances. At the company level, CBD management has worked to improve profitability during the hard times and these efforts are starting to bear fruit.

We largely see CBD's valuation as being dependent on general economic recovery and in turn appreciation in the Brazilian real. President-elect Jair Bolsonaro has proposed economic reforms that could drastically change the shape of the Brazilian economy. We see CBD as a lower than average risk way (e.g. no debt, defensive sector) to play a politically driven paradigm shift in the Brazilian economy.

- **Key risk points:** Protectionist trade policies would hurt Brazil's export oriented economy. Political change may not result in higher economic growth. A prolonged commodity downturn would cap Brazilian GDP.

JEANNINE'S TIP O' THE MONTH Brian and Jeannine Celebrate 20 Years at Raymond James Ltd.

Twenty years ago, Brian Steele and Jeannine Campbell founded Steele Wealth Management and soon after opened the Waterloo branch of Raymond James Ltd. Markets change, investment processes change and hairdos change but Brian and Jeannine have kept providing industry-leading client service throughout. Here's to another twenty years!

This newsletter has been brought to you by Steele Wealth Management

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ⁱ Masterman, K., Sivarajah, A (2017 July 26). *Estate planning for a client's digital assets*. Retrieved from <https://www.advisor.ca>

Any bond, debenture or preferred share ratings listed within this newsletter are those of DBRS (Dominion Bond Rating Service).

All rates mentioned within this newsletter are as of November 16, 2018, unless otherwise stated. Rates have been sourced from Bloomberg. All stock information has been sourced from Market-Q.

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As the investment products listed in this newsletter may not be appropriate for everyone, a recommendation would only be made following a personal review of an individual's portfolio and risk tolerance.