INSIGHTS & PERSPECTIVES

May 2022 Issue

Shafik Hirani's Private Wealth Management Practice

by **Shafik Hirani**

ALIGNED capital partners inc.

SHAFIK HIRANI'S PRIVATE WEALTH MANAGEMENT PRACTICE

SHAFIK HIRANI

ABOUT THE AUTHOR

ALIGNED capital partners inc. | SHAFIK HIRANI'S PRIVATE WEALTH MANAGEMENT PRACTICE | CLU Chartered Life Underwriter | CFP | RRC Registered Retirement Consultant

Shafik has been recognized in Canada's Top 50 Financial Advisors twice in an industry with over 85,000 advisors. He has been ranked on Canada's Hot list for 2015 and was Canada's Runner up for ETF Champion of the year Nationally for 2016 and 2017. With two decades of experience in the industry, Shafik was national manager of the year for 7 years in a row (from 500+ Branch Managers and the top 1% of advisors out of 5000). In addition to professional practice, Shafik has also taught the Certified Financial Planning Course at the University in Calgary, was Vice President of the Canadian Association of Financial planners and was a Board Member Director for Advocis (the financial advisors association). Shafik has a Certified Financial Planning Designation and is a Chartered Life Underwriter. He is Founder of The Hirani Foundation for Charitable Giving, which donates to local Charites throughout Calgary specifically.

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ACHIEVEMENTS

- Winner - **"Canada's Top 50 Financial Advisors"** (for 2013, 2014), by *Wealth Professional Magazine*
- Awarded Runner Up - **"ETF Champion of the Year in Canada"** (for 2016, 2017)
- Recognized in Canada's - **"Hot List of Financial Advisors"** (for 2015), by *Wealth Professional Magazine*
- Recognized as Canada's - **"Financial Advisor of the Year"** (for 2014), by *ACQ Magazine's Global Awards*
- Recognized as Canada's - **"Top TFSA Investor"** (for 2014 & 2013), by *The Financial Post and Money Sense Magazine*
- Winner - **"National Manager of the Year"** - of 500 Branch managers for 7 years (for 2006, 2007, 2008, 2009, 2010, 2011, 2012)
- Awarded **"President's Elite: Top 1% of Consultants"** (of 4,500 Advisors) (for 2005, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014)
- Honored with **"Achievement in Business Award"** (for 2014), by previous firm
- Awarded 7 times **"Pillar Performance Award"** (2006, 2007, 2008, 2009, 2010, 2011, 2012)

EDUCATION

- 2015 **RRC** - Registered Retirement Consultant - *Canadian Institute of Financial Planning*
- 2014 **CPH** - Conduct and Practices Handbook Course - *Canadian Securities Institute*
- 2014 **WME** - Wealth Management Essentials Course - *Canadian Securities Institute*
- 2004 **CFA Level I** - Passed Examination
- 2002 **CLU**® - Chartered Life Underwriter - *Advocis Institute of Advanced Financial Education*
- 1999 **BMC** - Branch Managers' Course - *Investment Funds Institute of Canada*
- 1998 **CIFP** - Chartered Financial Planning Designation - *Canadian Institute of Financial Planning*
- 1998 **CSC** - Canadian Securities Course - *Canadian Securities Institute*
- 1998 **CFP**® - Certified Financial Planner Designation - *The Financial Planning Standards Council of Canada*
- 1995 **CIFC** - Canadian Investment Funds Course - *The Investment Funds Institute of Canada*
- 1993 **B.Comm.** - Bachelor of Commerce, Major: Finance (Hons.), Double Minor (Psychology & Economics) - *University of Calgary*

PERSONAL

- **Vice President,** *Canadian Association of Financial Planners* (2004 –2007)
- **Past Vice President,** *Advocis™ (The Financial Advisors Association) (Media Relations)*
- **Course Instructor - Chartered Financial Planning Designation,** *Mount Royal University* (2001 –2006)
- **Founder,** ***The Hirani Foundation for Charitable Giving***™ (est. 2010)

IN THE MEDIA

- **BNN Business Day AM - Regular interviews/commentary** - *Business News Network*
- **CTV Alberta Primetime News, Money Panelist** - *CTV / Bell Media*
- **Global News Energy TV, "Wealth Creation"** - *Global TV*
- **CBC's Alberta@NoonGuest** - *CBC*
- Award Winning **Presenter to over 100 Alberta Based Corporations on "Psychology of Wealth"**
- **Main stage speeches to Financial Advisors worldwide,** including Japan, Russia,China, Italy, Greece & Ireland

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Senior Investment Advisor & Certified Financial Planner

Market Insights and Perspectives

I know it has been a bumpy start to 2022 as the markets face numerous crosswinds including: disruptions to the supply chain, labor constraints, inflation spikes, the continued Covid-19 global pandemic, rising interest rates and the Russia-Ukraine crisis. With the sheer number of "crises" we are facing while the global economy attempts to recover, we are left wondering "what's next?"

Before focusing on the future, we must look at our current state. Our portfolios, again, have held up and successfully weathered the market volatility. I know this may provide little comfort with the current turmoil however, it's important to recognize where and how we have succeeded so far. We can attribute our success to a couple of decisions we have made regarding the construction and "asset allocation" of our portfolios. We predominantly lean towards "Large Cap Value" securities with lower P/E multiples and are Dividend payers (Large Cap securities have outperformed small market capitalization securities which have not held up in the current market conditions we are experiencing). This, along with a focus on diversification through many sectors and Foreign/Domestic ETF's ranging in asset classes from equities and fixed income, has allowed our portfolios to stand against the market headwinds we are facing and have faced thus far.

Where I find most people are getting lost is in trying process the vast amount of information about interest rates, inflation, market conditions, supply chains, continuous Covid setbacks and global political conflict that is being thrown at us daily. Every "expert" tends to inject his/her own opinion into the public sphere, muddying the already murky waters we are treading, attempting to predict the future. What we end up with is an array of conflicting opinions and a nagging pressure to throw all our eggs into one basket. When this happens, we must remember to stick with what we know and remember how we have successfully navigated the last storm.

With this, I wanted to provide you with some of my thoughts along with some information from a variety of sources to help better explain our current position and where many believe we are headed for the second half of 2022. I figure I will start by reflecting upon what's happened there before looking at macro-economic conditions and finally reviewing capital markets.

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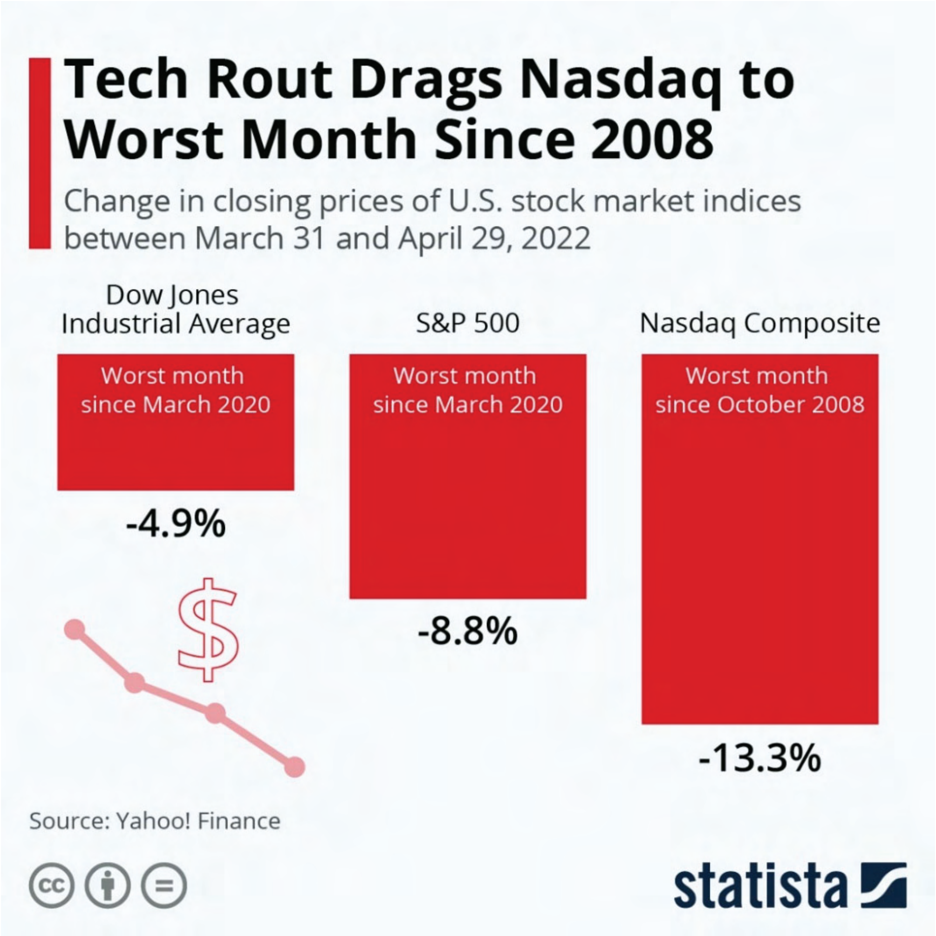
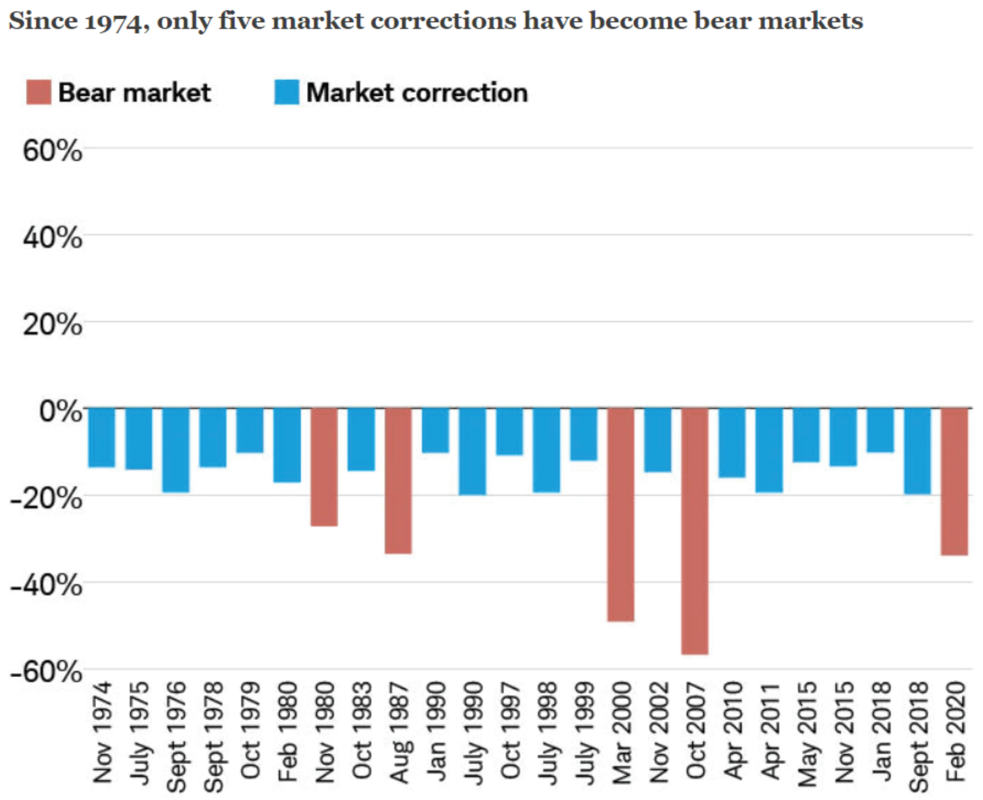
April closed out recording a terrible end to the month for stock markets. The S&P 500 had its worst month since the beginning of the pandemic (March 2022) and the Nasdaq since the economic collapse in 2008, dropping over 13.3% in 21 trading days.



With the markets pulling back, you may hear "market correction" or "bear market" being thrown around.

A correction is defined as a decline of 10% from recent market highs. Bear markets are market declines of 20% or more. Equity markets go through plenty of market corrections over the years. But very few of the corrections actually turn into bear markets.



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Each period listed represents the beginning month/year of either a market correction or a bear market. The general definition of a market correction is a market decline that is more than 10%, but less than 20%. A bear market is usually defined as a decline of 20% or greater. The market is represented by the S&P 500 index. **Past performance is no guarantee of future results.**

In the case of todays markets, a perfect storm created by numerous headwinds has stunted economic growth and lead to a correction plunging into bear market territory (or for the Nasdaq, already in one).

The Nasdaq is now down 28% from its November highs and is currently in a bear market. Here you can see a comparison between current and past bear markets.

Nasdaq:
current vs past bear markets

	Start Date	End Date	Nasdaq % Change	Days
1	01/11/1973	10/03/1974	-60%	630
2	09/13/1978	11/14/1978	-20%	62
3	02/08/1980	03/27/1980	-25%	48
4	05/29/1981	08/13/1982	-29%	441
5	06/24/1983	07/25/1984	-32%	397
6	08/26/1987	10/28/1987	-36%	63
7	10/09/1989	10/16/1990	-33%	372
8	07/20/1998	10/08/1998	-30%	80
9	03/10/2000	05/23/2000	-37%	74
10	07/17/2000	01/02/2001	-46%	169
11	01/24/2001	04/04/2001	-43%	70
12	05/22/2001	09/21/2001	-39%	122
13	01/04/2002	10/09/2002	-46%	278
14	10/31/2007	11/20/2008	-54%	386
15	01/06/2009	03/09/2009	-23%	62
16	08/29/2018	12/24/2018	-24%	117
17	02/19/2020	03/23/2020	-30%	33
18	11/19/2021	?	-28%	169

Average	-35%	198
Median	-32%	120

Source: Bespoke Invest

If the trend of past bear markets continues, we may not be very far from the median drawdown. But how did we get here?

While the rebound from the initial Covid crash was in fact swift, it was also short-lived as we are currently witnessing the markets struggle to maintain gains. Putting aside the conflict in Europe, supply chain disruptions and lingering effects from Covid have caused inflation to surge.

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Looking at the annual inflation rate in Canada from 1991 to today, we are hitting 30-year highs in a sudden spike. Inflation in 2022 rose to 4.8%, the highest levels we have seen since September 1991 at 5.5%. This marks the 9th consecutive month in which inflation has topped the Bank of Canada's control range of 1-3%.

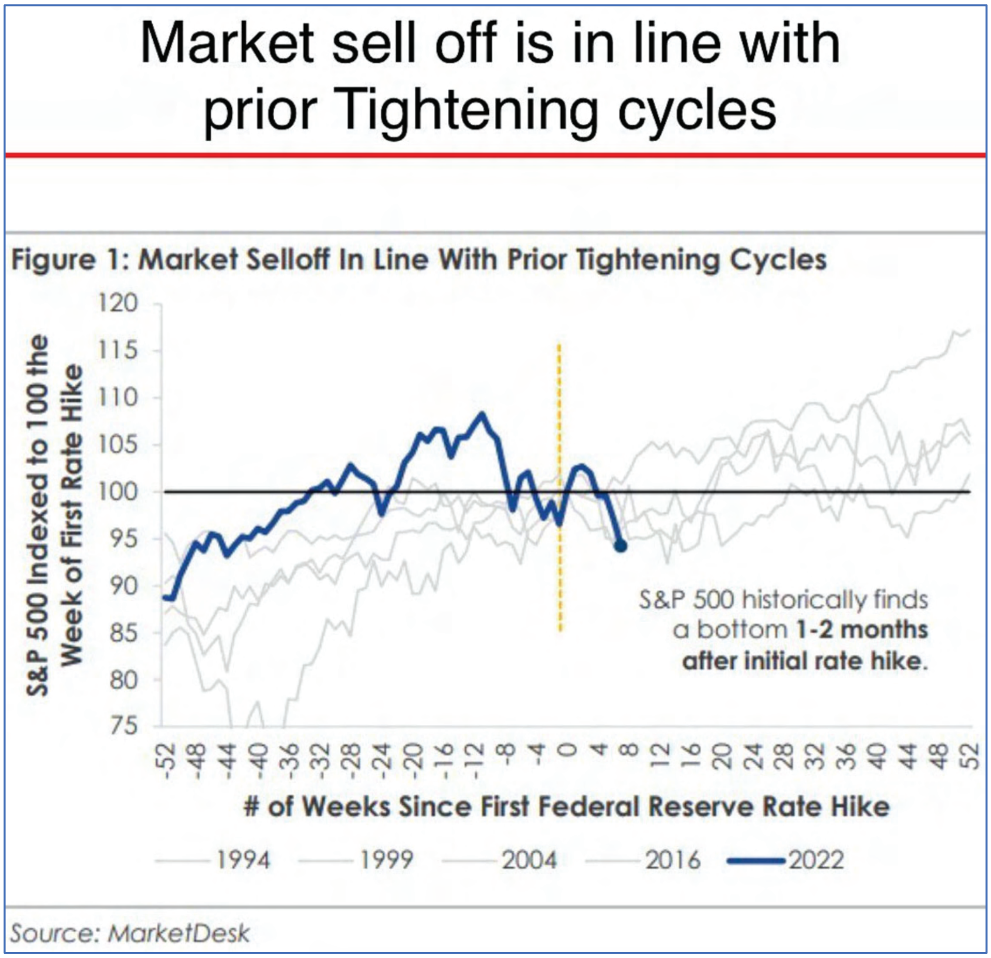
Canada's annual inflation rate

Canadian inflation has surged well above the Bank of Canada's forecast for Q1 2022, pushed higher by energy and food price surges following Russia's invasion of Ukraine.

Note: Reuters surveyed six leading economists for peak forecast
Source: Statistics Canada, Bank of Canada, Reuters survey

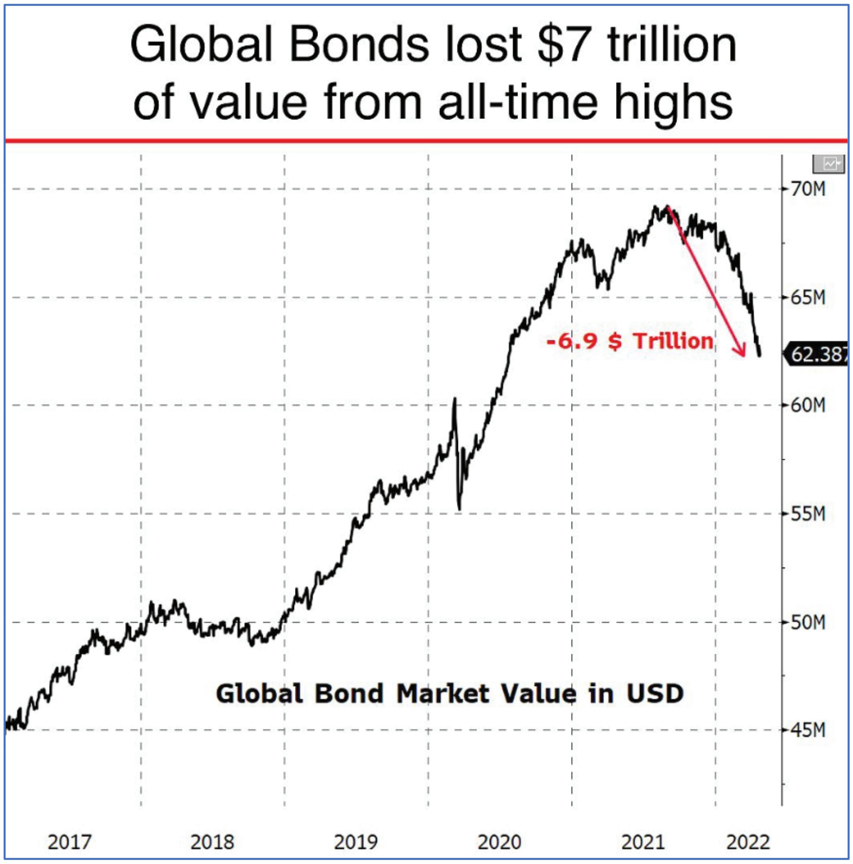
With inflation running rampant, the Federal Reserve (FOMC) and the Bank of Canada have recently begun a process called Quantitative Tightening, increasing interest rates to combat inflation. This process seeks to drain liquidity from the banks and increase interest rates to dampen cashflow-driven demand (Controlling borrowing rates).

With the FED increasing the interest rates at a fast pace, the markets are suffering. Usually, markets go south in the first months after the initial rate hike cycle start. Historically, within the first 2 months is where they find the bottom and will reverse direction and start going up.



Not only are equity markets suffering in the current environment of rising interest rates, but global bond values (which have an inverse relationship with interest rates) have also plunged from their all-time highs.

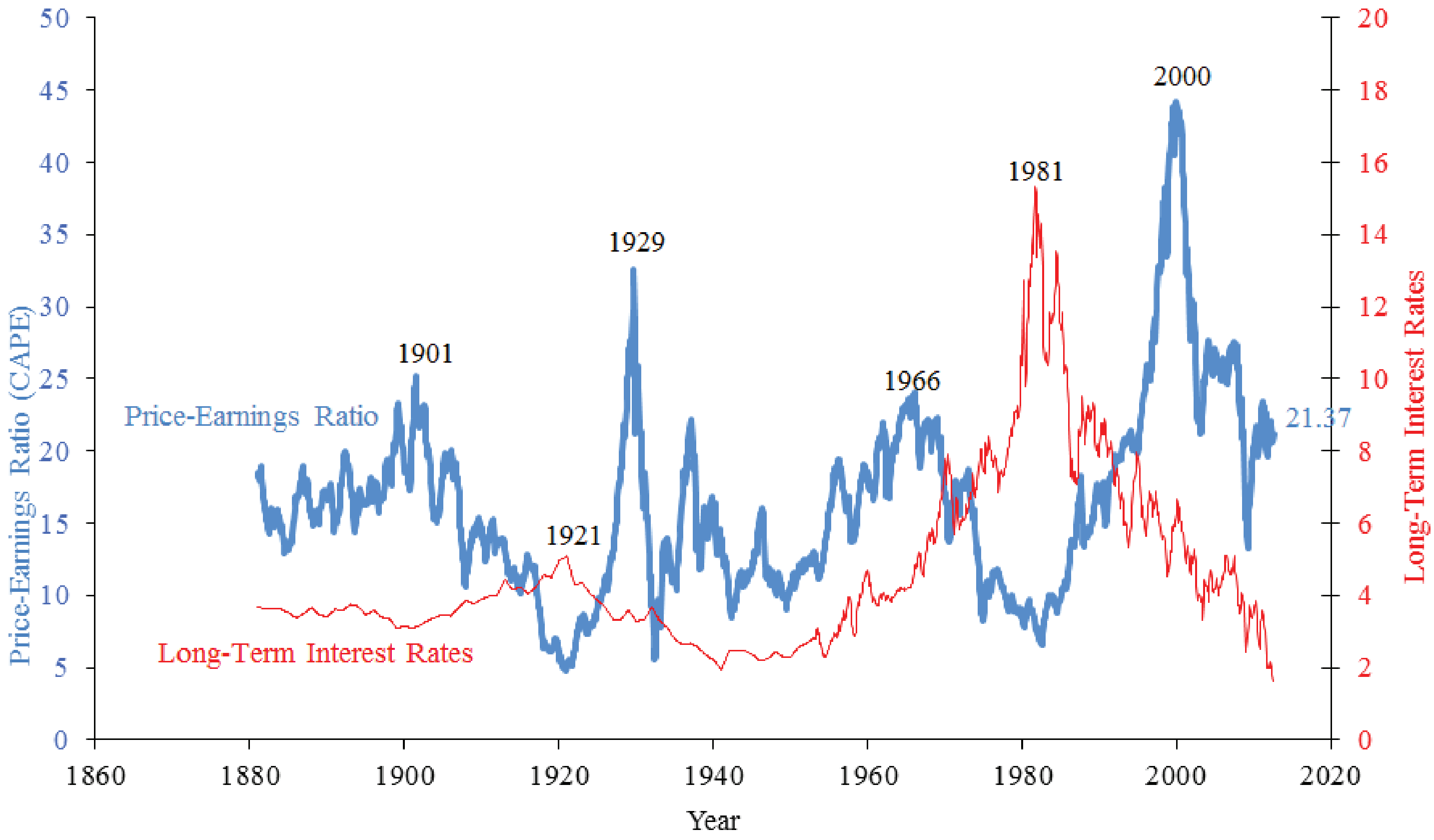
So far 2022 has been one of the worst years for bonds. The value of global bonds decreased by $7 Trillion in just six months.



Source: Bloomberg

People believe that bonds are a safe asset class, but sometime even the less volatile assets can be very unpleasant. With bonds having a negative correlation to interest rates, as the cost of borrowing continue to rise, the downward trend sustained by the bond market looks to continue through 2022.

How does this affect the equity market? As you can see below, there is an inverse relationship between interest rates and price-to-earnings (P/E) ratios.



For growth stocks, in low interest rate environments, the 'cost' of waiting for future growth to materialize is small. But, when rates rise, future growth is discounted back to present value and worth less so investors may not pay as much.

In this case, with the trend of rising interest rates set to continue through to the end of the year, we can expect genuine headwinds to rich stock evaluations, but this also creates a longer runway for securities fairly priced.

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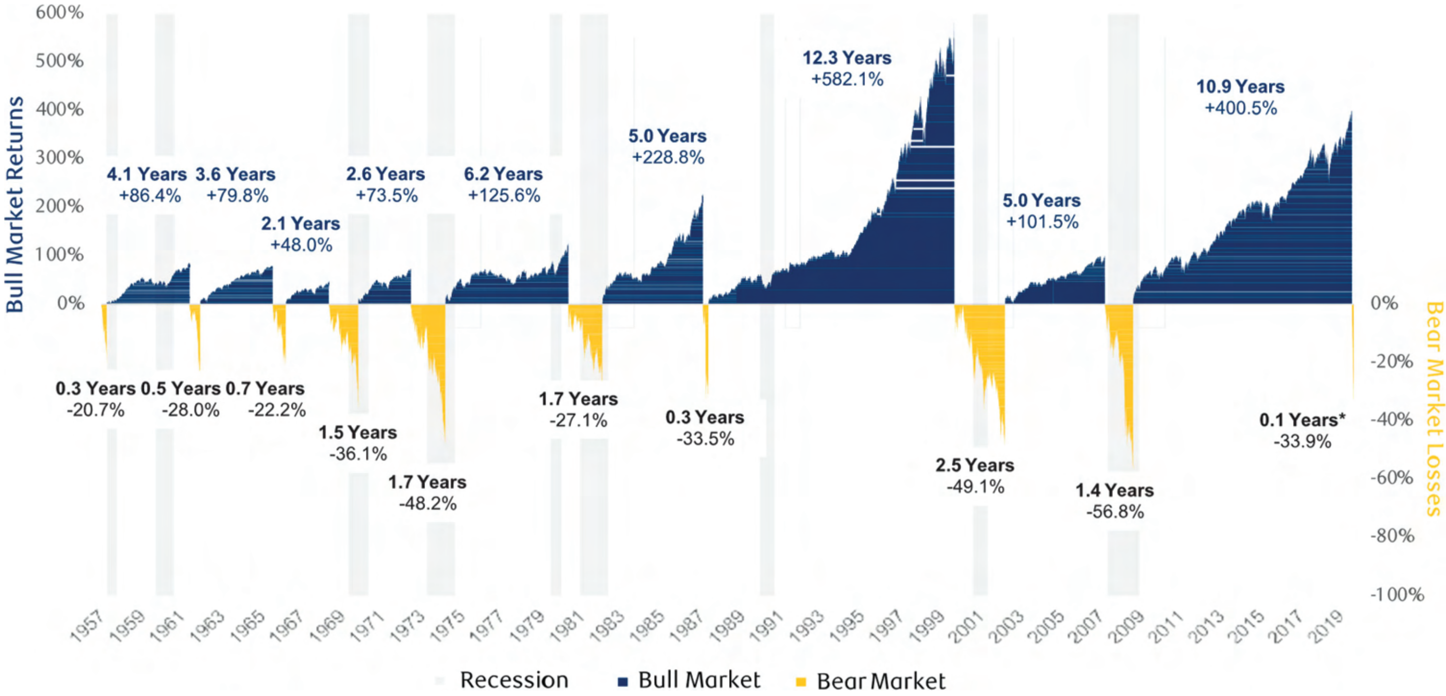
So where does this leave us?

With every market correction, investors have always found one reason or another to sell. These reasons, of course, are exacerbated in bear markets like what we are currently experiencing. In these times I try to remind clients of two things:

1. Bear markets do not last as long as Bull markets.

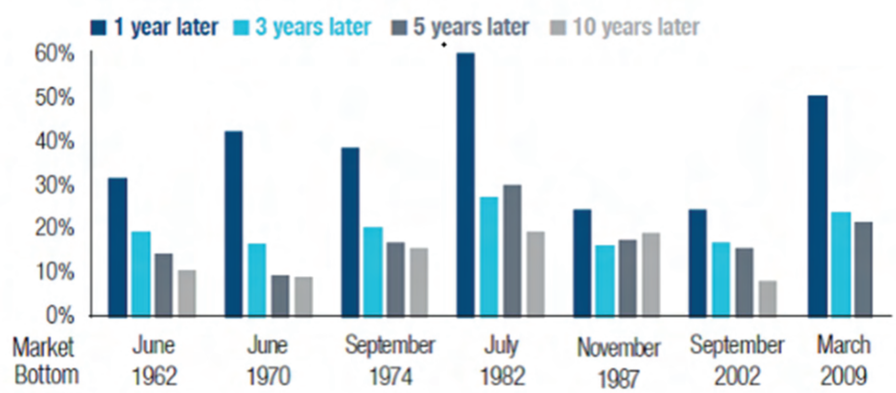


From the chart above you can see that in today's markets bear markets last on average a fraction of the time that bull markets last.

2. Those who ride the ups and downs and are not controlled by emotion, in the end, are rewarded by sticking with their investment strategy.

RECOVERY FROM BEAR MARKETS

Equity markets historically have delivered large returns in the years immediately after a bear market, with the potential to deliver double-digit average annual gains for several years. These are the average annual returns of the S&P 500 Index after declines of 20% or more (12/31/61–12/31/17).



Average Return After Bear Market	
1 Year Later	38.4%
3 Years Later	19.8%
5 Years Later	17.7%
10 Years Later	13.5%

Source: Bloomberg

From the historical chart, the average return of the S&P, after declines of 20% or more 1 year later, is 38.4%. The ten-year averaged annual return after a bear market historically has remained in the double digits.

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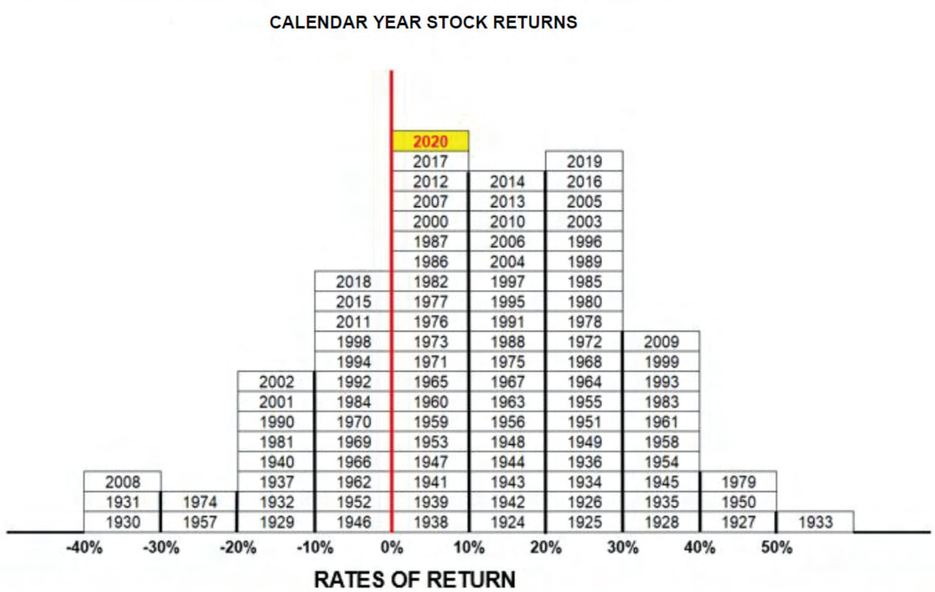
This is important to remember when fear and panic set in. The commonality between every market correction and every bear market, there is always a recovery. When compelled to make a reactionary decision, we must remember it is very difficult to “time” the market as you must be right twice (When to Buy and When to Sell).

Exhibit 2: Historically it has paid to own stocks

Calendar year S&P/TSX Composite Index (representing Canadian stocks) returns, 1924-2020



73% of the time, Canadian equity market has posted calendar year returns above zero

Represented by the S&P/TSX Composite Index from 1924-2020. Source: Confluence.
Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.
Indexes are unmanaged and cannot be invested in directly.

Historically (since 1924), Canadian stocks have earned investors a positive return 73% of the time. Staying invested is the key to long-term success!

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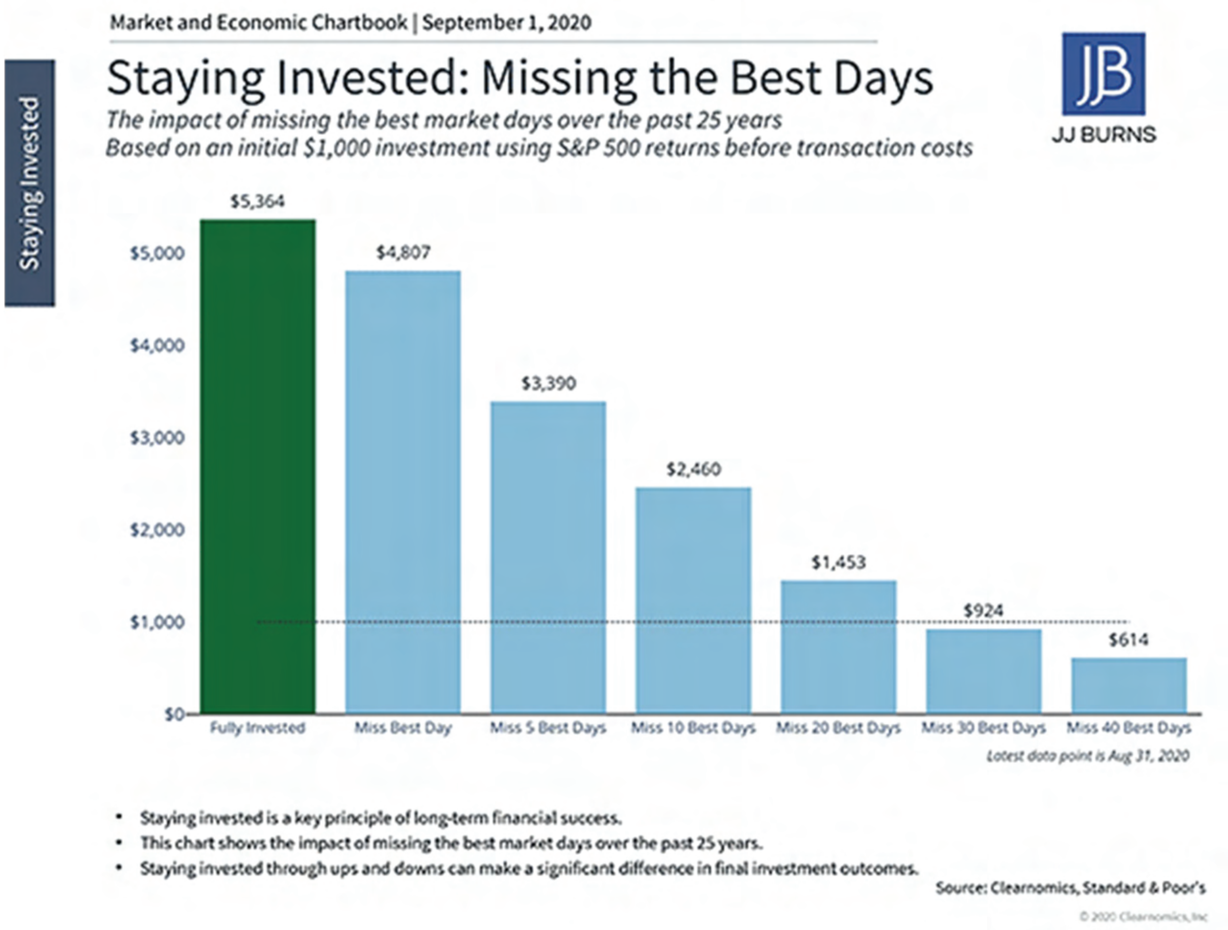
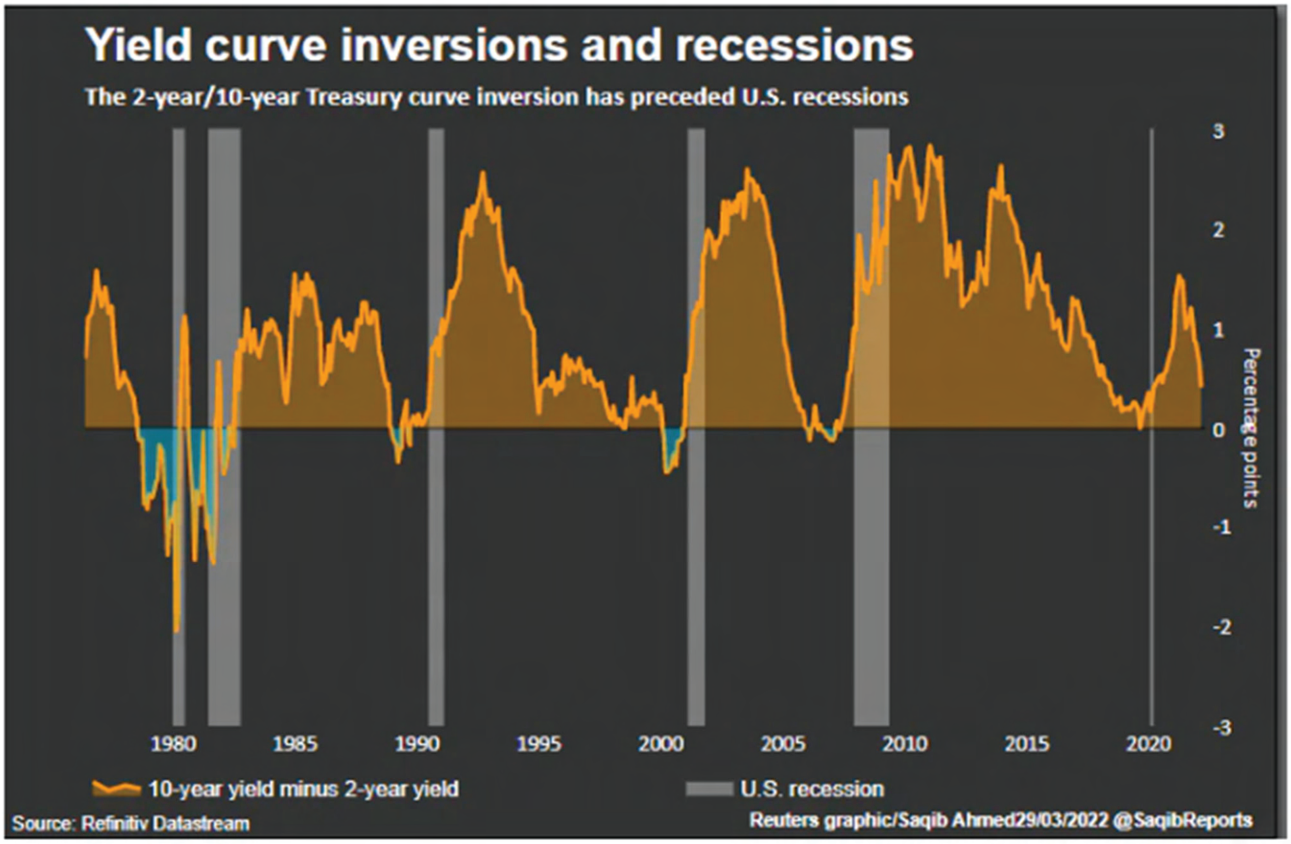
When you're going after stocks that are performing well, and constantly shift your strategy or buy and sell frequently, that could actually hurt your odds of losing in the stock market. As you can see below, "staying invested through ups and downs can make a significant difference in final investment outcomes." (*Clearnomics, Standard & Poor's*)



If you are attempting to chase a moving target you're increasing your chances of being wrong. In the case of a market correction, never try to catch a falling knife. Stay invested.

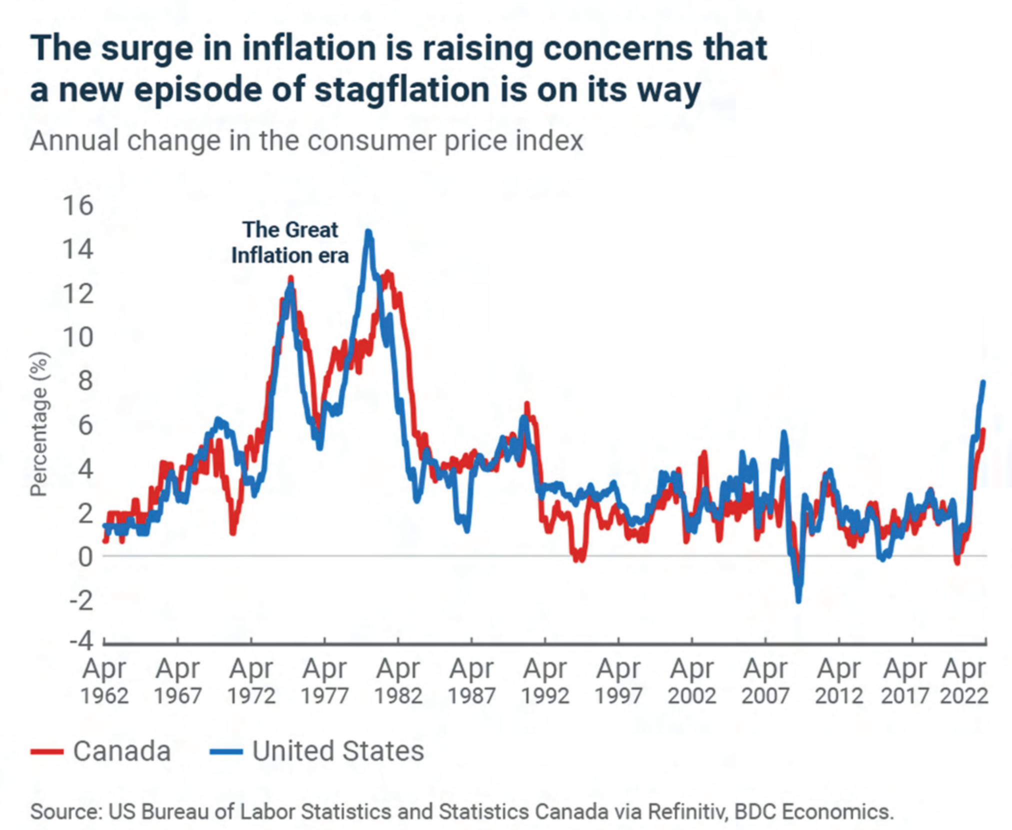
What can we expect in the next couple years? Many investors look to the US Treasury yield curve for predictions. The US treasury finances federal government budget obligations by issuing forms of debt.

From the chart below, we can see that the US curve has inverted before each recession from 1980, with a recession following between six and 24 months.



As the FED and BOC has started increasing interest rates as a weapon against inflation, the cost of borrowing for everything from mortgages to car loans is increased. This also impacts a wide range of consumer and commercial loans making it more expensive for businesses to borrow, dampening growth.

With the slowing of economic growth and high levels of inflation and by looking at the annual changes in the consumer price index, we may expect to be entering a period of stagflation. When we talk about stagflation, we look to three indicators: low GDP growth, rising unemployment at the same time as high inflation.



While we may be heading towards stagflation which causes concern, we arn't quite there yet. With demand being high, unemployment remains very low. Even with inflation rates rising and exacerbated due to the spike in commodity prices with the Ukrainian war, we can hope to see the effects of the FED and BOC quantitative tightening come into effect over the next several months.

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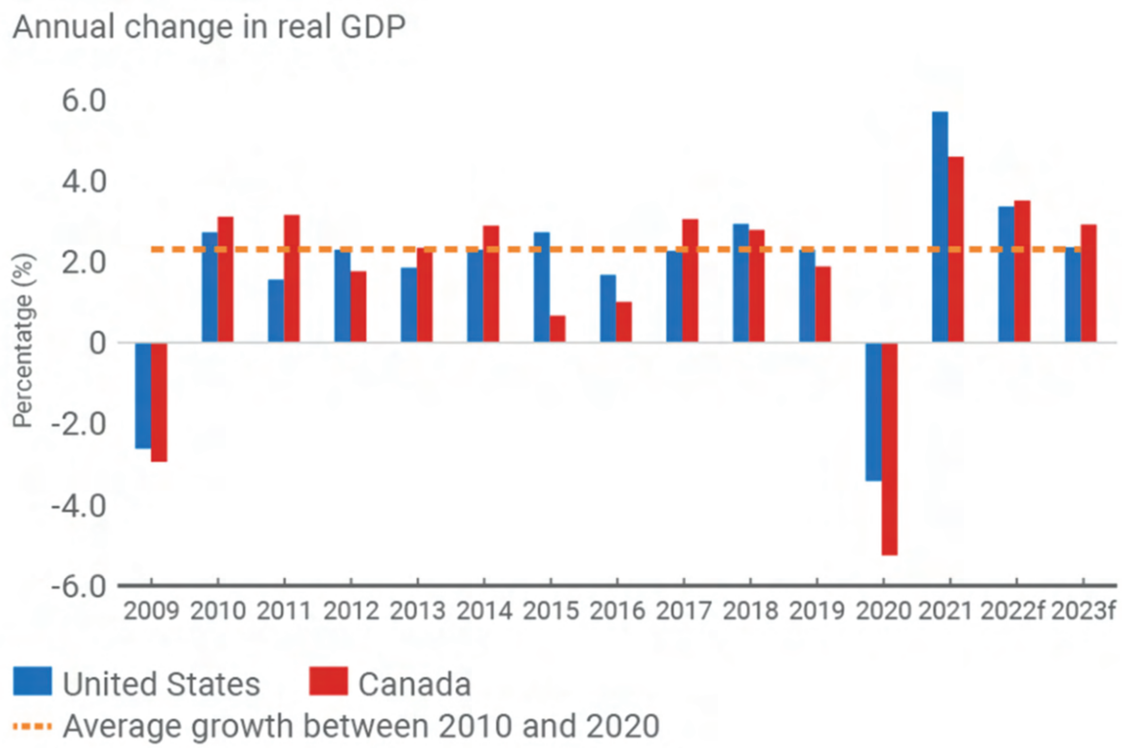
If the interest rate hikes are effective, while price increases may remain at a high for the foreseeable future, the forecast for economic growth is set to slow to a more sustainable pace in the coming years.



f=forecast.

Source: US Bureau of Economic Analysis & Statistics Canada via Refinitiv, BDC Economics.

With current inflation being mainly due to supply/demand imbalance and interest rate hikes set to stiffen demand, we should see returns to more reasonable levels in 2023. Until then, households and businesses are currently in decent positions to absorb much of these costs. As demand slows, supply will be better able to respond.

A final Note

So where does this leave us in present day? Markets are volatile, inflation is increasing, no signs of global tensions coming to an end, talks of an inevitable recession, and many people left in panic and filled with anxiety. While this worry isn't unwarranted, I want to remind you of a couple things:

1) When emotions are high and fear is dominant we must refrain from becoming shortsighted in our decision making. Again, NEVER try to catch a falling knife. Remain confident in our long-term strategy.
2) The commonality between every market correction and every bear market, there is always a recovery.
3) As always, your options are to Buy, Sell, or Hold. For some worried about a further market correction, it may be prudent to SELL a percentage of holdings to cash. Again, it is tough to time the market. For others this may present itself as an opportunity to BUY. I suggest we remain stable in our planning and hold.

In any case, as we drive through the fog, its important to step back, slow down and block out the noise. It is very easy to get overwhelmed and stray from the path. There will always be another mountain and another valley to navigate. It's a part of investing. Remember this and the fear of uncertainty will fade.

As always, if you have additional funds to invest, please email me. If you are open to referring and introducing me to a friend/family/coworker, please introduce us via email with me CC'd. Shafik.hirani@alignedcapitalpartners.com

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Author Biography:

Shafik Hirani, (BComm (hons.), CFP, RRC, CLU®)

As a Senior Investment Advisor & Certified Financial Planner, Shafik Hirani has a track record that speaks for itself. Throughout his 25-year career, he has delivered Investment Seminars and presentations in the hundreds to Corporations, Investment Advisers & Professionals Associations throughout the world. His prime areas of expertise include Wealth Management, Financial Planning, and the Psychology Wealth. (A growing is of Behavioral Finance).

Shafik's award winning strategies have been featured in a host of publications, and showcased on CTV, Global TV, BNN. He boasts a natural and empathetic approach, while maintaining intentness in planning your financial future. Shafik backs up these skills with multiples of success in aiding Oil & Gas Companies, Large Corporations and multiple Franchisees and Retirees alike.

Upon completion of his University studies, Shafik finished with a Bachelor of Commerce (BComm) (Finance with honors) and a double minor in Psychology and Economics from the University of Calgary. After completed his degrees, Shafik completed the Canadian Investment Funds Course (CIFC) offered by the Investment Funds institute of Canada (IFIC). He also went on to complete his Certified Financial Planning (CFP™) Designation and Chartered Life Underwriters (CLU™) Designation offered through the Financial Planners Standards Council of Canada (FPSC). He has completed the Branch Managers Course through the Canadian Investment funds Institute of Canada. Shafik also holds the Canadian Securities Course (CSC), the Conducts and Practices Course (CPH) and the Wealth Management Essentials Course (WME) offered through the Canadian Securities institute of Canada.

Shafik joined a large investment firm in 1995, and as such; he was instantaneously named Rookie of the Year due to his passion to take precedence in his performance. While employed there, he assumed a portfolio of over $200 Million dollars in client assets. At the firm, Shafik was also National Branch Manager of the Year (out of a possible 500 successful branch managers) from the years 2006, 2007, 2008, 2009, 2010, 2011, and 2012, collectively. In addition to simultaneously being Branch Manager, Shafik was also in the firms top 10 producing advisors (out of a possible 5000 advisors Nationally) for the years inclusive 2007-2014.

He moved to Aligned Capital Partners Ltd in 2015. In both 2013 & 2014, he was awarded amongst Canada's Top 50 Financial Advisors by Wealth Professional Magazine, and Ranked Canada's Top TFSA Investor for 2013 & 2014 by The Financial Post and Money Sense Magazine. In 2015 he was ranked as Wealth Professionals "Hot List" of financial advisors and has been awarded "National Runner up – ETF Advisor of the Year" for 2016 & 2017. In addition to the above educational credentials and awards, Shafik has been the recipient of a myriad of industry awards.

In his spare time, Shafik previously taught the Certified Financial Planning Designation (CFP) as a course instructor at Mount Royal University in Calgary. He also served on the Board of Directors of Parkdale/Point McKay Association as Treasurer and President. He was Vice President of the Canadian Association of Financial Advisors (CAFP) and was Director of the Alberta Chapter of Advocis – The Financial Advisors Association. Shafik enjoys family time with his young son, and as a hobby, he has fun practicing submission grappling with friends in the gym. He is the founder for The Hirani Foundation for Charitable Giving© which donates to multiple Charities throughout Southern Alberta.

*Additionally, if you are interested in finding out more about Shafik's philosophies, or viewing any media/tv appearances, or viewing a seminar or awards acceptance speeches; please check out his You Tube channel https://www.youtube.com/user/ShafikHirani

Shafik is very approachable and if you are interested in working with him, please reach out to him at shafik.hirani@alignedcapitalpartners.com.

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