Summary Report Canada:

A Brief Analysis of the Canadian Economy and its Investors

INTRODUCTION

In the past few decades, through constant growing manufacturing, mining, service and repair sectors, Canada was able to switch its economy from rural to a concrete and industrial one. Its highly developed mixed economy now ranks as the 10th largest GDP by nominal and 16th by per capita GDP. The following report is a comprehensive summary analysis of Canada's economy and its investors. It should present a snapshot of insights into the nation's debt level, financial assets level, investor behavioral preferences, and wealth distribution. All data and graph used are sourced from articles and surveys published online, which the links are cited at the end of this report.

DEBT AND RELATED

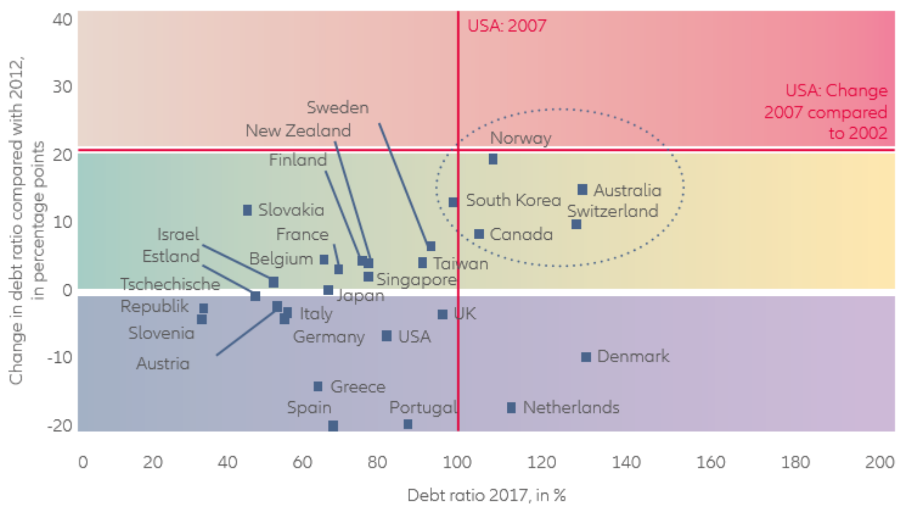
Both global and Canada's debt level are continually growing. At the outset of the prior decade, Canada's debt level had been around \$500 billion 'only'. The figure quickly rose to greater than \$600 billion at the end of 2012, that is around \$17,000 citizen. To compare, every US citizen owes greater than \$52,000. This comparison may make Canada's indebtedness level seems unworrying, but, the following assessment would say different.

A major assessment tool that is often used for indebtedness level analysis is the debt to nominal GDP ratio. How sustainable is the debt ratio in the household sector? In the following analysis, the situation in the US shortly before the property bubble burst is used as a benchmark. In 2007, the ratio of private household debt to GDP was around 100% and had increased by 20% over the previous five years. Any country lying above this benchmark will be considered "problematic" or "needs watching".

Though the private household debt is still at a moderate level in most countries, there are five countries that need watching under this benchmark analysis, and Canada is one of them. With that being said, Canada's historical debt growth rate is well below the benchmark (+9%), and its ratio is only a little above the benchmark level (104.3%)

Five countries need watching

Debt ratios 2017 and their change compared with 2012

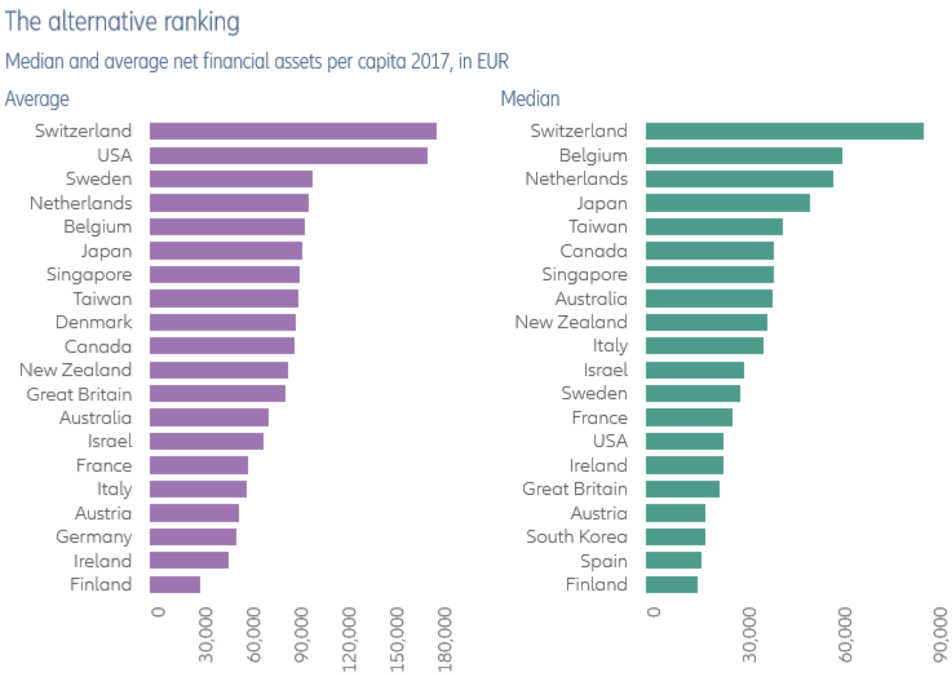


WEALTH DISTRIBUTION AND RELATED

In the last few years, public attention has focused less on growth in assets and debts than on the distribution of wealth. A growing number of investors are turning their backs on open markets and liberal societies, disappointed that it is always, 'other people' who benefit from globalization and foreign investment. Therefore, whether it be distribution analysis between or within countries, it is important to look into a country's wealth distribution to understand where a nation's income population separates.

One of the most commonly used wealth distribution indicators is the average and median net financial assets per capita comparison. If a country ranks high in average net financial assets but falls low on the median list, that means there is a pool of extremely rich population that is pulling the average high, whereas half or more of the population still remains relatively poor. Therefore, when putting the average and median net financial assets ranking alongside each other, it is apparent that certain nations' wealth distribution is exceptional 'unequal'. For example, the US fell from 2nd on the average ranking, to 14th on the other. Sweden and Denmark also exhibit similar change, who fell from 3rd to 12th, and 9th to 23rd respectively.

Canada has, interestingly, move up the rank, from the 10th to the 6th on the average and median ranking respectively. This movement in scale indicates that Canada's wealth distribution is somewhat 'equal', meaning that it would have a larger pool of potential investors with similar purchasing power.

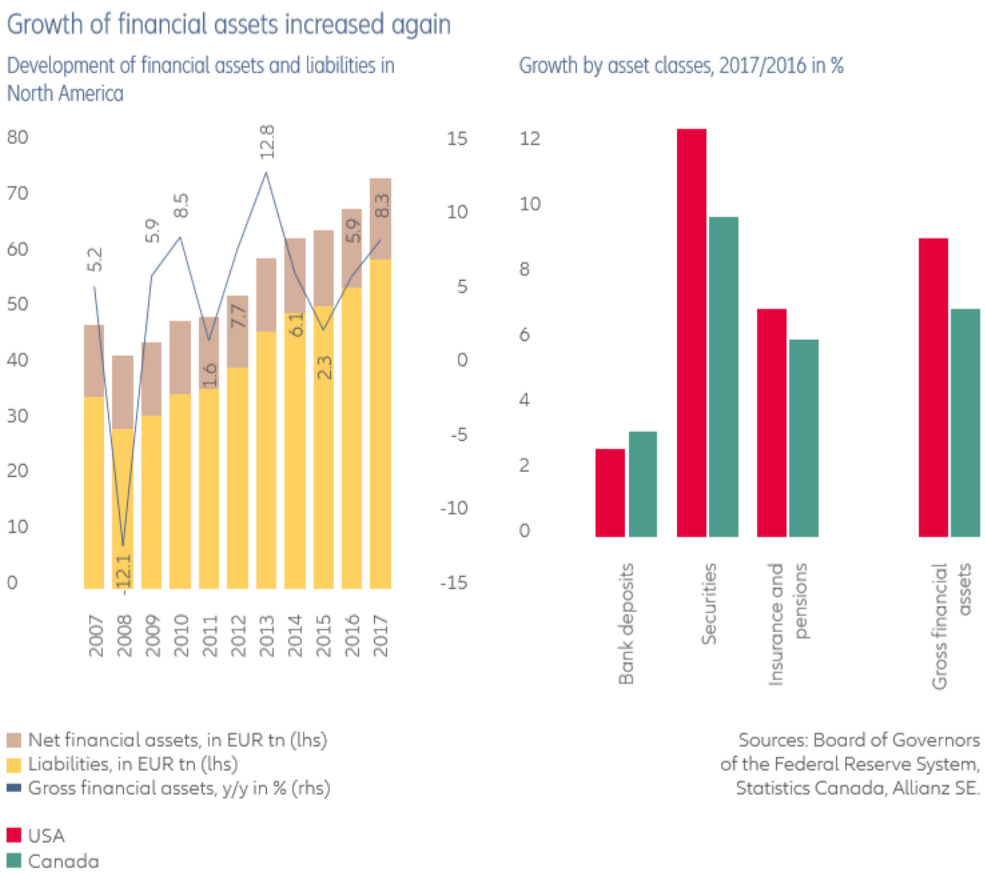


To support that argument, according to a survey of households published by the Federal Reserve System in 2017, which is carried out every three years, the richest 10% of US households held 77.1% of private assets. In the survey published three years previously, this figure was 75%. The US thus ranks among the countries with the greatest inequality worldwide and has the highest Gini coefficient for wealth distribution of all the countries we have analyzed. In Canada, almost 48% of assets were held by the richest decile of the population, putting the country slightly below the average for industrialized nations, which is estimated at almost 51%.

FINANCIAL ASSETS

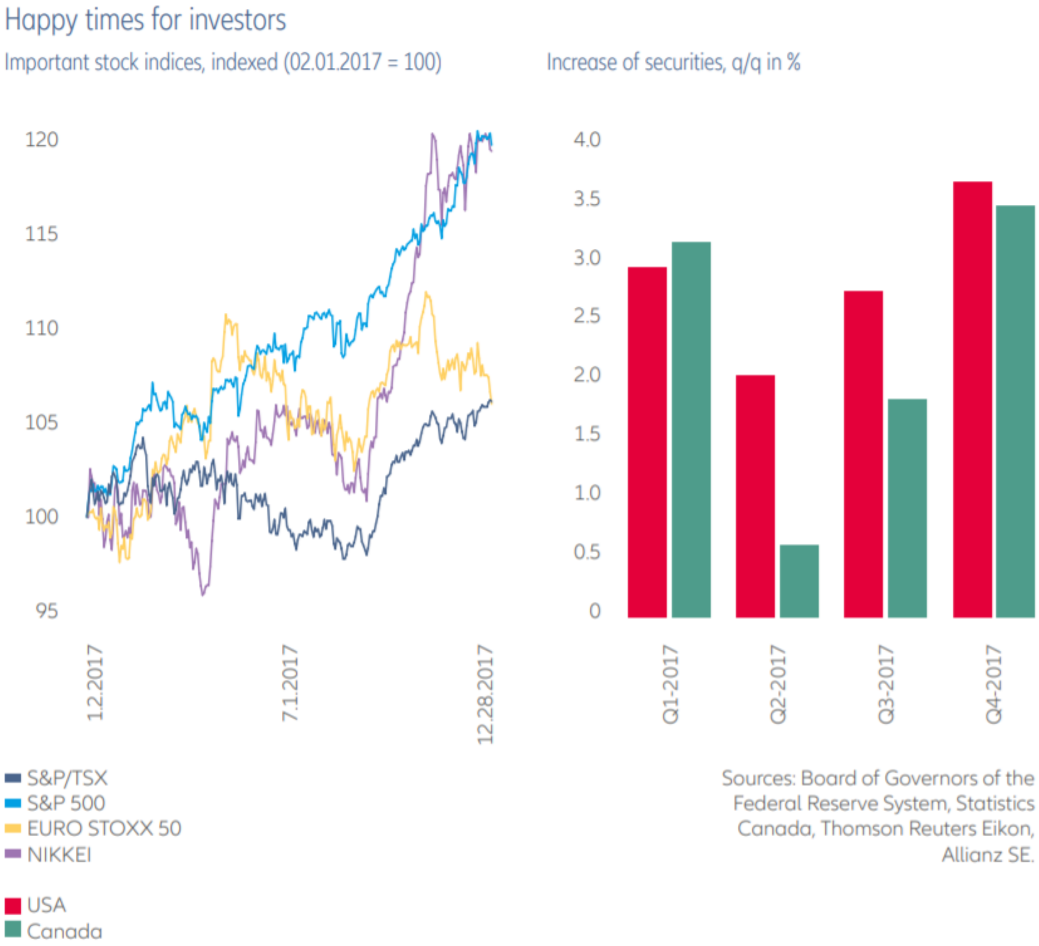
Asset growth in the US (+8.5%) was higher than in Canada (+6.5%), comparable to the average for the industrialized countries as a whole (+6.5%). However, notably, only about 8% of Canada's growth came from fresh funds; the bulk of the growth was due to changes in the value of the portfolio, whose share in growth has thus risen noticeably compared with the average for the last decade (85% in Canada).

All three of the major asset classes (bank deposits, securities, insurance, and pension) made a positive contribution to growth, with securities holdings achieving the most dynamic growth (+9.1% in Canada and +11.6% in the U.S).



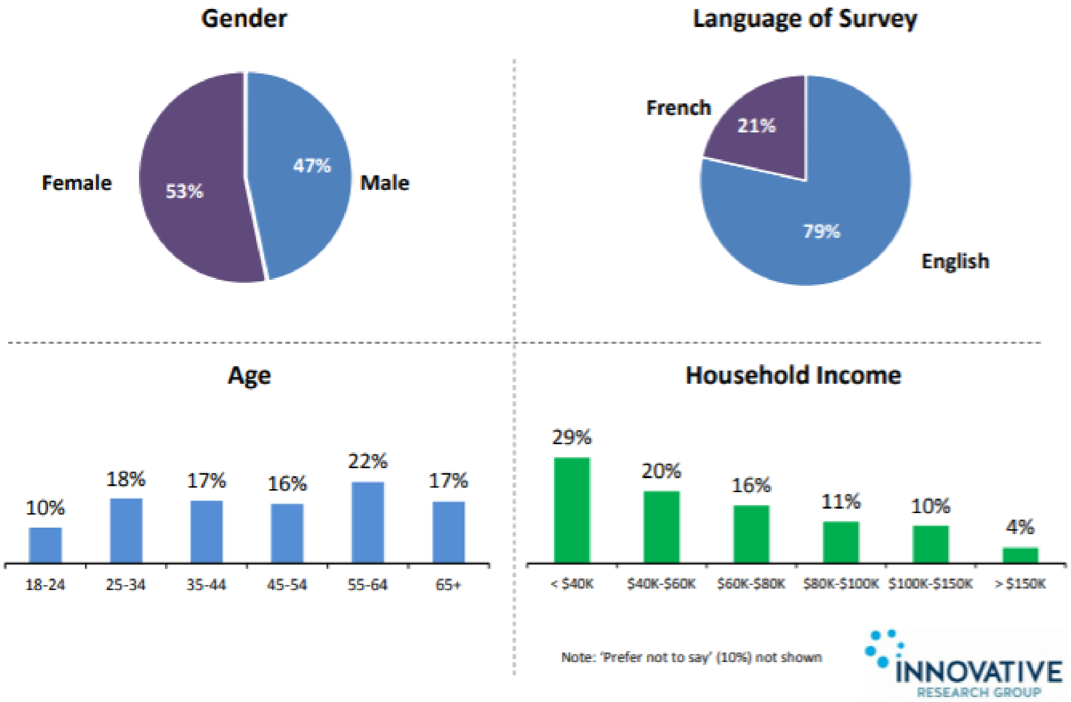
INVESTMENT PREFERENCES

The unexpectedly strong and broad upturn in the global economy led to new highs on many stock markets, including Canada's, during the past few years. Canada's benchmark index stood at around 16,200 points at the end of 2017, up 6% compared with 2016, and the figure is up to around 16,488 as of July 2019. This statistic can be compared to a similar up rise in its neighboring country, the US, which experienced a 9.1% increase in its index in 2017.

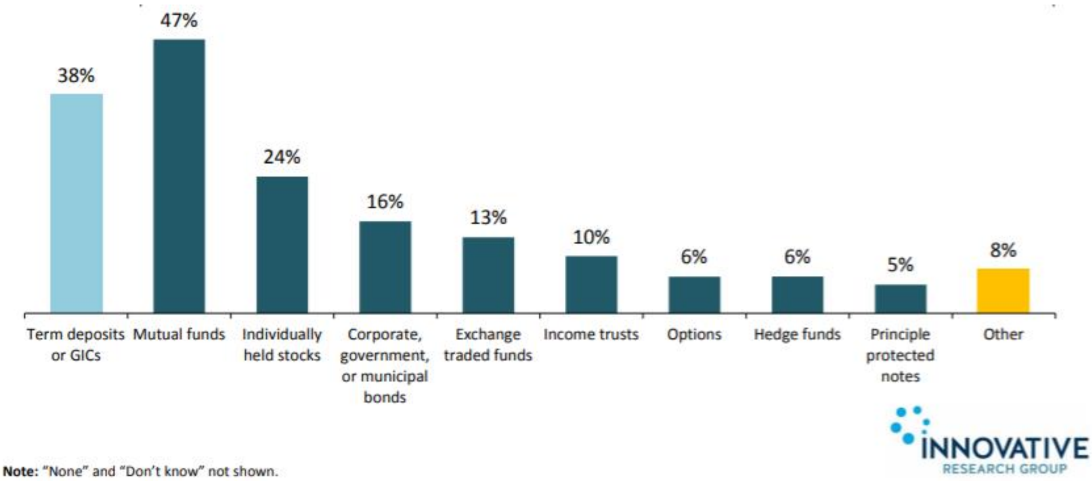


It is important to understand a market's investor in order to truly understand the local investment environment. The following information on Canadian investors is extracted from the *2017 CSA Investor Index Study*, which is an online survey that surveys on investment knowledge, investor behavior, and incidence of investment fraud among Canadians conducted by the Canadian Securities Administrators (CSA).

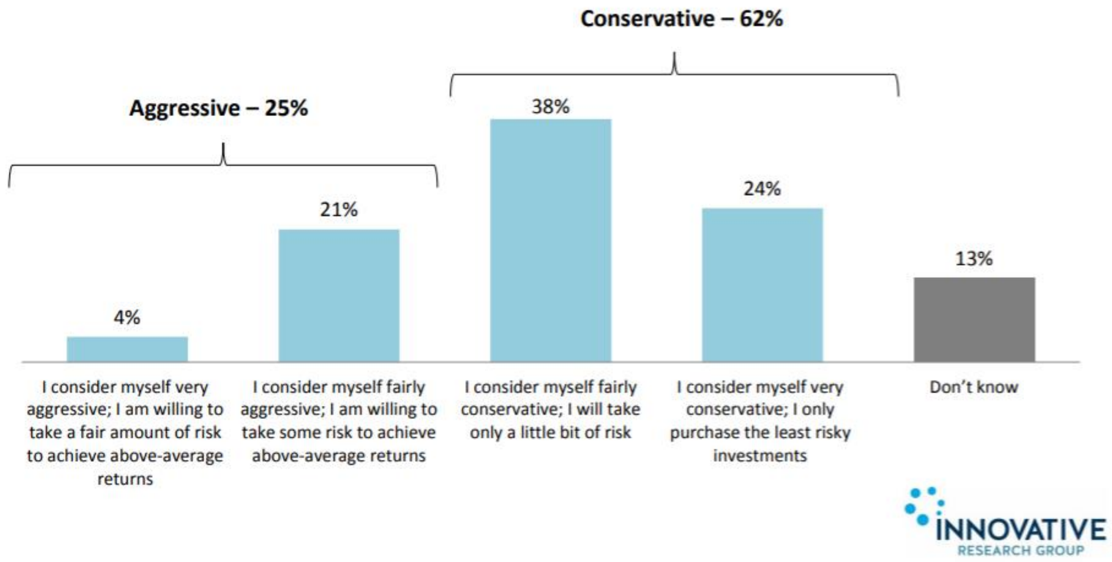
This survey consisted of a representative sample of 7,271 Canadians, 18 years or older. The samples were carefully designed and selected to reflect key regional and demographic distribution, and then used weights to ensure the survey reflect the country properly.



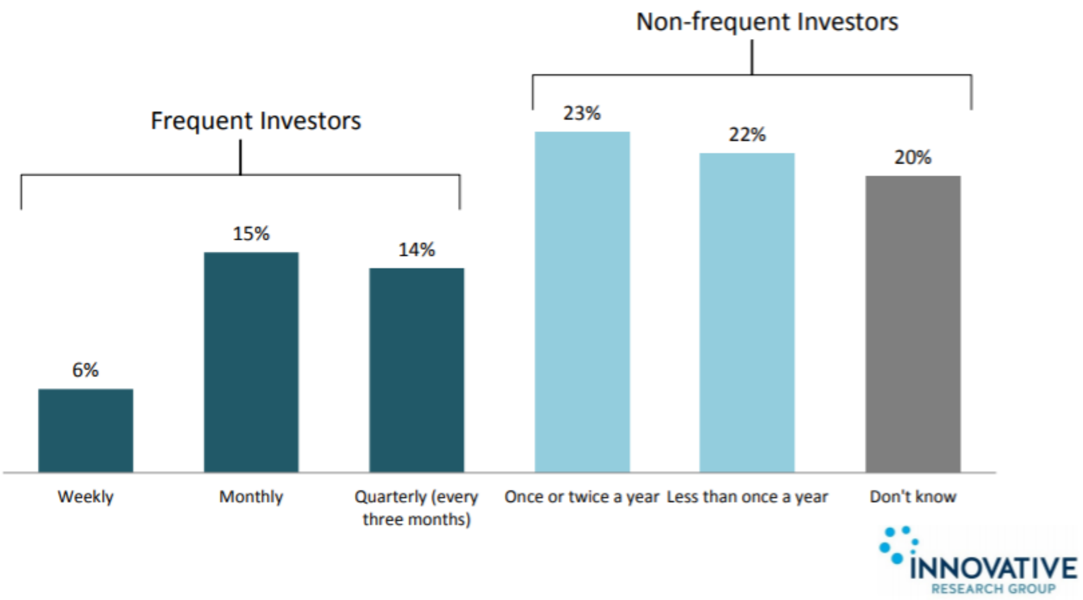
Nearly half of the respondent owns mutual funds, which makes it the most popular investment vehicles in Canada. Fewer than 40% owns term deposits/GICs, and 65% of those with savings selected at least one securities product. Popular vehicles following mutual funds are individually held stocks (24%), corporate, government or municipal bonds (16%) and exchange-traded funds (13%). Lying at the bottom of the investment choice list are options (6%), hedge funds (6%) and principle protected notes (5%).



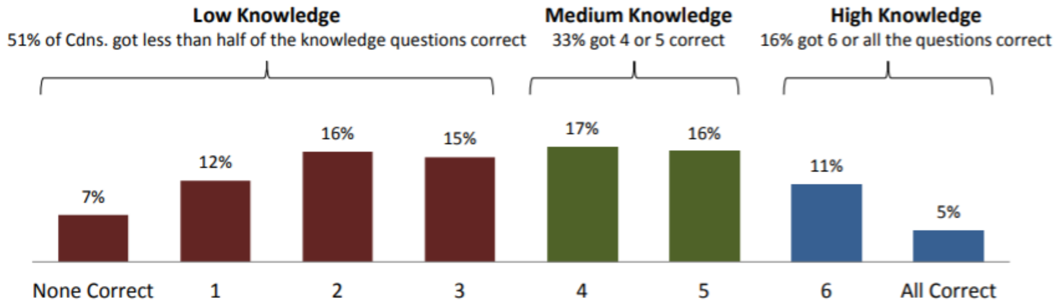
It is not difficult to identify, from the investment choice statistics listed above, that Canadian investors are comparatively risk-averse and conservative when it comes to investing (because the most popular choices are those that's often considered less risky). This point is proved again in another question where investors are asked to define their risk tolerance level. Of the investors who responded to CSA's survey, respondents are more than twice as likely to be conservative (62%) than aggressive (25%).



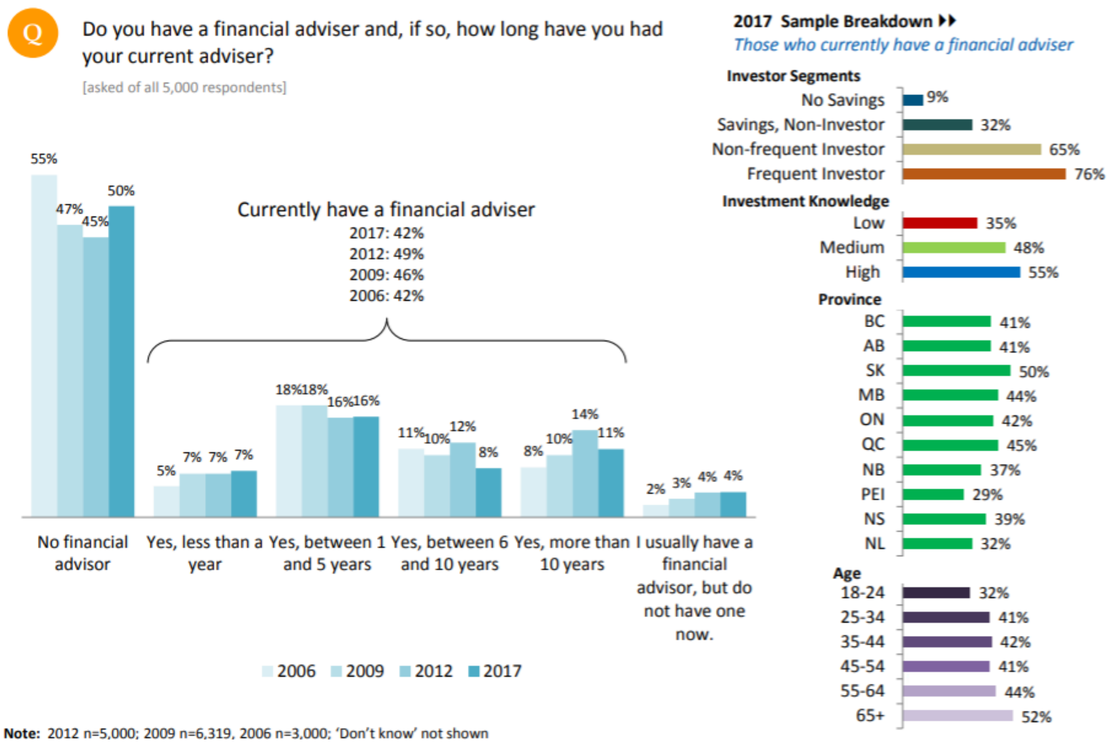
Knowing that mutual funds and bonds are some of the most popular Canadian investment choices, it is not surprising that most investors lie within the non-frequent investors' category (45% respondents invest once or twice a year at most). However, there are 21% that still buy investments at least monthly.



When it comes to investment knowledge, it is surprising that of the many investors that hold some type of investment, half of Canadians failed the general investment knowledge test. The test consists of seven questions that make up the Investment Knowledge Index, varying in areas such as simple compound interest, diversification, mutual fund returns, etc.

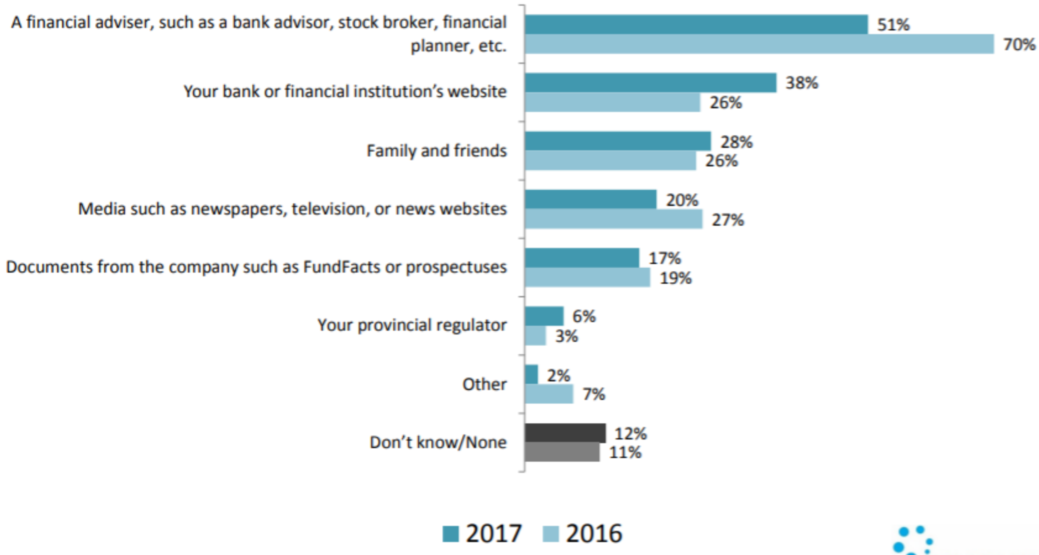


The lack of knowledge and the high volume of stock holdings may be why Canadian investors are very comfortable with using professional advice. 4-in-10 (42%) Canadians have a financial adviser, including 76% of Frequent and 65% of Non-frequent Investors, and 90% who has an advisor is comfortable bringing forward concerns and questions when speaking to them.



Note: 2012 n=5,000; 2009 n=6,319, 2006 n=3,000; 'Don't know' not shown

Notably, the proportion of Canadians saying they use a financial adviser decreased seven points from 2012 (49%) to the level same as observed in 2006. However, with that being said, financial advisers are still the most common source of information used by Canadian investors (51%). Other sources of information include a bank or financial institution's website (38%, up from 26% in 2012), family and friends (28%) and the media (20%, down from 27% in 2012).



Note: 2016 n=1,822

Sources used:

- https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/migration/media/economic_research/publications/specials/en/Allianz_Global_Wealth_Report_2018_e.pdf
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