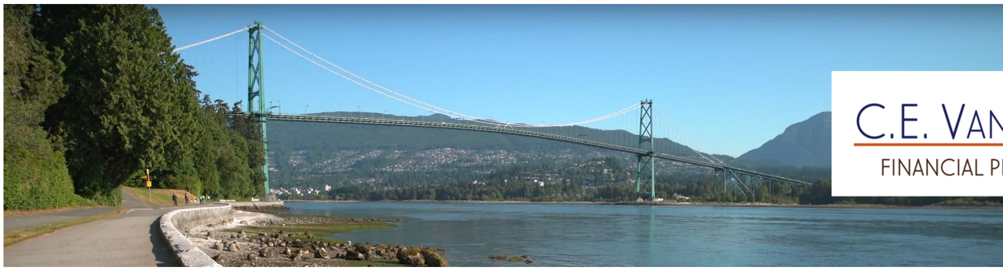

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mutual gains

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What Our 'New Normal' Will Look Like

As I have stated before, this 1st article will always be about where we are and what it means to you, going forward. So here is exactly that.

Normal economic activity and cycles are reasonably easy to chart. However, what we are currently dealing with and the lead up to this is way beyond normal, the extreme of which nobody could have predicted. How things can change so dramatically in just a couple of months.

We have been in a worldwide government imposed economic halt. Just typing those words seems surreal. Only a movie can portray that kind of image. The closest thing I can come to this in real life, with the same eerie feeling, was the day of 9/11. I remember it very clearly as Cheryl and I were heading across the border for our 15th wedding anniversary getaway. Military personal with full gear and arms watched you closely as you drove slowly by, to the US border crossing. Traffic on the highway was very thin,

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We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

Why Smaller Companies Should Not Be Ignored

Many of today's largest companies were not always big companies. They had to have a beginning and they needed to grow to be the businesses they are now. Think back 10, 20 and 30 years ago and I'm sure you'll be able to think of a number of companies that either were much smaller than they are today or they didn't seem to exist (or you simply weren't aware of them).

Many of the very large businesses (called large or "mega caps"; caps referring to "capitalization" meaning how much the value of their shares adds up to, in total) are household names today. These include, coffee (Starbucks, Tims), entertainment (Netflix), technology hardware (Samsung) and services (Microsoft, Google), brand names (Apple) and retailers (Walmart).

Most retail investors don't really look beyond names they are most familiar with, the ones everyone uses and talks about. It's those or a ground floor opportunity they hear about; the "sure thing". Those are usually from a friend or from an investment subscription that makes way more money selling subscriptions to starry eyed investors than from what they could possibly make on the investments they are touting.

While only paying attention to those, thousands of companies that are valued at a few hundred million to a couple of billion dollars are being completely ignored. Among them you will find highly profitable businesses that are leaders in their field and have very little competition.

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(Ups & Downs.Continued from page 1)

malls were closed... including Starbucks!? Who would have thought this all could happen? Our world changed after that day. We went into a new normal. That was surreal then and today it is being relived. This time though, the threat is a virus.

As has been the case in significant, never experienced before events, we'll work through what needs to be done. As is usually the case, it's being done with the help of massive amounts of help by governments. With everyone working together we'll get back to a new kind of normal. This "new normal" will have more people concerned about their personal space, a higher desire to ensure cleanliness, more online buying, a larger percentage of employees working from home, fewer people going out to get their haircut and potentially shorter line ups at Starbucks since so many have learned that making coffee at home is okay. These are only a few of the obvious new normals.

The other new normal has to do with government debt and this is sigificant. Governments worldwide have and will continue to spend unprecedented amounts of money to help their citizens feel as little financial pain as possible by pumping massive amounts of money into the economy. This is all being done with cash, cash that most governments don't really have.

Government debt can only be paid off in 2 ways; taxes and using the tool of inflation to make debt smaller in real terms. The saving grace is interest rates today are negligible. Inflation also isn't an issue. In fact, the pressure is pushing toward deflation. You probably won't see income tax increases in the short term however, the most likely outcome for the future is higher income taxes for all. How high could they go? The top marginal tax rate in BC was over 54% in the early to mid-90's when I was doing tax shelters for high income earners. Over the years it came down to the very low 40's range. Top marginal tax rates in Canada had already started to increase from there and the rate of increase is bound to accelerate. It did so fairly quickly during the 1960's and the 80's. The most dramatic increase in income tax rates was through WWII. The amount of debt being piled on is looking very similar to what happened through WWI. To me it seems obvious that you and I need to be prepared and plan for much higher income taxes. This will mostly be against those with healthier incomes and above average wealth.

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Most investment research professionals aren't paying attention to these companies either. It could be too damaging to their career. No investment professional wants to be performing below a market index, even for a relatively short period of time. They are afraid of being wrong which is very good evidence of why the majority of portfolio managers investment performance numbers are below the indexes they are so often measured against. (That is a whole other topic, where some of the largest banks are charging money to their investment clients for essentially doing nothing. I have some info. on this to show you what I mean. Just ask and I'll email that to you.)

When you have few eyes looking at an opportunity, you have a much better chance of buying something that is still of very good value. As these overlooked companies grow and buy up weaker competitors, their revenues increase, their profitably increases and through that the intrinsic value of the business increases. As this happens, eventually the wider investing public start recognizing the company's name. This pushes up the demand for its shares and thus, the price. Alternatively, it gets bought by a much larger company for a much higher price.

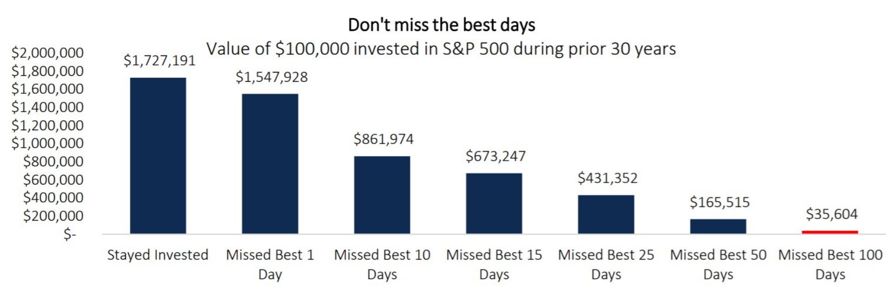
Today is a great time to be an investor in smaller companies. Historically, after significant market declines, smaller companies have recovered faster than bigger companies. One example is coming out of the dot-com crash and the 2008 financial crisis. Middle sized companies (mid caps) took 745 and 290 few days to recover respectively, from their market lows.

The obvious truth is smaller businesses are more nimble. They can adapt and change much faster than big companies and with that they can grow faster than big companies. These small to mid sized companies have moved well past the high risk start up phase. Their business models have proven to work and be sustainable for the long term. These business have obvious staying power. Along with that, they still have a huge market to tap into and therefore, have a long, clear runway for growth.

Quite simply, a portion of your portfolio invested in smaller businesses has proven to increase portfolio returns. That extra 1/2, 1 or 2% per year compounded can make a big difference to your portfolio and most importantly, your life.

Being Wrong In The Short Term Is Good

There are a lot of people out there waiting to invest money simply because they don't know if investment prices in aggregate will go down from where they are today. Most likely we have seen the absolute lows although, maybe we haven't? Who knows? Frankly, it really doesn't matter either way. Your risk isn't in your investment declining from here, it is missing the best days. We don't know if we've seen those or if they are still to come, either. You can only be assured of getting the best return possible by having your money invested.



Source: Morningstar, CI Investments. S&P 500 TR in USD from January 1, 1990 – December 31, 2019 using daily returns.

RRSP vs Non-RRSP, Which Is Better?

Occasionally I come across someone who says that contributing to an RRSP isn't very smart (or they simply don't like the idea). There is

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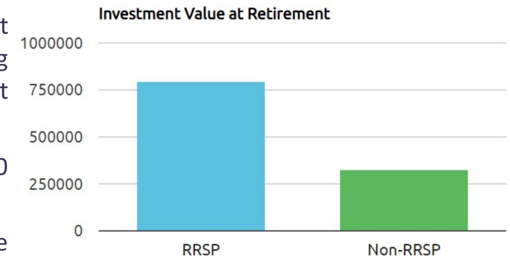
obviously more going on in this statement because it isn't what the evidence shows. My gut tells me that, more often than not, the person making the statement isn't capable or willing to put money aside on a regular basis. Why I say that is because it is so simply obvious that the benefits far outweigh the downsides. Here is what I mean:



1) A contribution to a RRSP saves you paying income tax. So, rather than having ie $10,000 to compound outside a RRSP, you have as much as $14,700 to work with inside a RRSP.
2) Within your RRSP, your money compounds tax free; your money makes money on the money it makes (compounding). Outside an RRSP, every dollar you make is taxed and your ability to compound is greatly reduced.

Yes, everyone knows the downside of contributing to an RRSP every year is that eventually have to withdraw it. That withdrawal means income tax needs to be paid. You only have to withdraw it slowly and pay tax on it slowly, though. This gives you more time to keep compounding all the other money, tax free.

Of course the RRSP wins; without much of a contest. But, since you are reading this, I'm guessing you already know that?

PS. If you normally do your RRSP monthly or top it up in February, I'd highly recommend making your full 2020 RRSP contribution today.

Can You Still Retire When You Planned? Probably

Once a portfolio experiences a meaningful decline, everyone seems to think that this will delay, what was a pre-set retirement date. This doesn't have to be the case. I must admit, as a Financial Planner who always wants to see expected outcomes, I'd advise delaying. The fact though is when investment markets have declined and prices are cheaper, a portfolio with a healthy portion of equities has proven to have better future returns. So, if a return of 6% per year was used as an input in the original retirement projections, a higher return can safely be projected now. Here is an example that was pulled together in January 2019:

A person who retired at the peak of the market in 2000 with a $1 million neutral balanced portfolio (50% equities & 50% bonds) and started withdrawing 4% of the portfolio as retirement income. By the end of of 2002 the portfolio was down by 30%. It climbed to $930,000 in 2007 to see it fall again to $690,000 in early 2009. By the end of December 2017 (~18 years into retirement) the portfolio was at $680,000. Doesn't sound like a great portfolio result however, that is half way into retirement and odds are that the original 4% amount will survive for another 30 years.

When doing retirement projections for our clients, we take into account what a portfolio decline would do to the financial projections; a portfolio stress. This way a client always knows that their original plans can remain, for the most part, intact.

Don't Take CPP and OAS At The Same Time

When you retire there are 2 sources of income most people get from the government, Canada Pension Plan (CPP) and Old Age Security (OAS). Many people start taking both as soon as they can but that is often not the best thing to do. If you don't desperately need the income, it is best to postpone both your CPP and your OAS income. The longer you wait the more monthly income you will get, for the rest of your life. If your income is going to drop in future years and your family shows a history of living long lives, then delay.

If you definitely need at least some of this money take your OAS and delay taking your CPP. Your monthly income from CPP goes up by 0.7% for each month you delay, to a maximum of 42% more. OAS on the other hand only increases by 0.6% for each month you delay, for a maximum increase of 36%.

There is the much hated wild card of OAS clawbacks. You'll have to take this into account if your retirement income is going to be over $79,000. This means, the higher your income above that amount, the less OAS you'll get. You don't have that with CPP, which is why taking OAS earlier may be better here too. I'll probably be taking both of mine at age 70. Of course, your whole picture should be looked at and adapted on at least an annual basis by your Financial Planner.

Tech Gems— Mesh Router

I love technology. I'm continuously in awe in with what it can do and how it always gets better and does so, very quickly. I think it was over 6 years ago I got rid of paying for satellite to use only streaming services like Netflix. As time has gone on, I've noticed the WIFI hasn't kept up. Shaw, the ISP I use, still gives a very basic Hitron router to it's customers. I've found that just doesn't do the job, despite upping the speed I pay for. I'm currently supposed to get up to 300 MBPS. They point out, optimally and when you are hard wired to their router.

I just added a pair of mesh routers to my home which will cover up to 4500 square feet. There are many out there but I bought the TP-Link Deco M9 for $250 on Amazon.ca (I got it within 48 hours). Set up could be done by a 6 year old, it's that seamless. So far I have both on the same floor where we spend most of our time. The WIFI signal is so fast and so strong I got a reading of 319 MBPS in my sound deadening drum room in my garage. With just the Shaw router I was lucky to get 80 MBPS down there and about 120 MBPS on the main floor. I also don't have to manually switch between 2.6 and 5 GHZ manually, as I did on the old Shaw router. The mesh router does that automatically to give you the best signal and speed no matter where you are in your home.

HHHmmm...

• It's no good simply buying assets just because their prices are down. A low price can be appropriate for a poor business. An investor needs to have the investigation skills, to distinguish the real value of assets in order to determine if they are truly on sale. Globe & Mail, April 2020 #NortelSeemedCheapToo #ItJustLooksCheap

• We tend to believe that we live in the most uncertain of times, but we do not. We will get through this as we have gotten through each of the past crises of our time and throughout history. From 1998-2018, we experienced the tech wreck, a terror attack, a global financial crisis, the European debt crisis, Brexit, and many infectious disease scares (H1N1, SARS, Ebola, and MERS) and the S&P 500 Index still climbed 7% per year. A $100,000 investment in the market in 1998 would today be worth over $400,000. Invesco, March 2020 #LongTermWins

• With $128 Billion in cash Warren Buffett's Berkshire Hathaway could afford by buy all of McDonald's ($125 billion), Boeing ($102 billion), Tesla ($97 billion), or Starbucks ($82 billion). BusinessInsider.com, April 2020 #BusinessOwnershipCreatesWealth

• "Speculators (gamblers) buy the trend; investors are in for the long haul - they are a different breed of cats. One reason that people lose money today is that they have lost sight of this distinction. Edwin Lefevre, "Reminiscences of a Stock Operator" #BeAnInvestor

• "The pandemic cut the fuel line to the engine." But if the fuel line is reconnected properly, "a rapid and vigorous rebound is possible." General Roberto Azevedo, WTO Director, April 2020 #VWUorLRecovery

• World oil prices hit their lowest level since 1986 at $10.10 US / barrel. Western Cdn Select oil is worth less than $0; people were paying $38.50 a barrel to people who would take their oil because storing it is getting more expensive every day due to it filling up fast. CBC, April 2020; IPC Jan. 20th Update #Economics101Extreme

• The WHO says there is no evidence that cash transmits Covid-19. The Bank of Canada has asked retailers to accept cash. Yet, paying with cash is seen as a risk of transmitting the virus from one person to another, that's why some retailers that remain open prefer not to accept it. Globe & Mail, April 2020 #FearOvertakesReason #JustDontTouchYourFace

• Our innate biology is wired to work against us at the exact time when we need our decision making to be at its best. Simply Wall Street, April 2020 #BewareYourBiases

• It can be easy for property owners to become swept up in the breakneck appreciation of their properties over the short term. Today is the ideal time for real estate investors to get back to basics and focus on methods of mitigating risk for the primary driver of value which is often overlooked: the property's net operating income. Western Investor, March 2020 #FundamentalsBasedInvesting

• What we are also witnessing right now is the world's largest remote-working experiment. Companies are gaining a better understanding the massive potential of this technology which will propel cloud computing, virtual collaboration software, and productivity to new heights. The long-term effects of this work from home experiment will potentially change how we work forever. Eric Bushell, CIO Signature Global Asset Mgmt, Feb. 2020 #FewerOfficeBuildings

• As companies pull production out of China, key frontier markets including "Vietnam, Cambodia, Myanmar, Philippines, and Bangladesh… India (where Apple has been getting more and more IPhone's made), Pakistan and Ethiopia are also part of the conversation. Vietnam is the best positioned simply because it's on the same shipping routes as China to the U.S." Adam Kutas, Portfolio Manager, Fidelity Investments #ExpandingGlobalProsperity

• According to the UN, extreme poverty has fallen by more than 1/2 since 2010 and child mortality by 1/3. Global life expectancy climbed from 69.5 years to 72.6 years during the period. The proportion of the earth's population living in countries where same-sex relationships are illegal dropped from 40% to 27%. Literacy rates are at their highest in history and never have as many girls had access to education as they do now. More than a quarter of the world's wealth was created in the last decade and while it's a fair argument that a disproportionate share of it accrued to society's upper echelon, it's also true that the globe's poorest citizens are significantly better off than they were 10 years ago. Dixon Mitchell, Jan. 2020 #RationalOptimism

• Halifax is the first city in Canada to exploit in-pipe power. In a 2014 pilot project, it installed a turbine — basically a water pump that runs in reverse — in a single pipe in a Halifax suburb. Since then, the 31-kilowatt turbine has been generating roughly enough electricity annually to power 25 homes and selling that back to the grid for about $30,000 a year. CBC, March 2020 #GreatEnergyIdea #EnormousPotential?

• The 3 major cloud storage providers, Microsoft, Google, and Amazon, all have extremely secure services, but we also have to be conscious of where that data is stored. Google does not have any Canadian servers, thus any data you store with them will be located in the US which can create privacy concerns. Both Amazon and Microsoft have Canadian data centres however, you may need to request that your data be specifically stored only in these locations if data residency is an issue for you. AdvisorTalk.ca April 2020 #CanadianClouds

• We are in a period of social justice where you are either labelled a victim or an oppressor simply by what colour your skin is, your gender, your economic status, your religion, your political leanings etc. #PointingFingers #SlipperySlope #DiscussionOverNameCalling

• During the Cambrian period, when most of modern life forms emerged, the climate was much warmer than it is today, averaging 25 degrees Celsius. Only at 3 other times during the past billion years has the temperature been as cold or colder than it is today. Patrick Moore, Confessions Of A Greenpeace Dropout #ChangeIsConstant #ReasonOverGroupThink #CalmVsFear

• We are more often frightened than hurt; and we suffer more from imagination than from reality. Lucius Annaeus Seneca (lived from 4 BC - AD 65) #GlovesAreOverkill

• If you always read what you mostly agree with you are feeding your confirmation bias. Knowledge, wisdom and truth is gleaned by challenging your thinking #CriticalThinkingNeeded