CEV WEALTH
FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

ISSUE NO. 217 / September / October 2023

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.

Carey

"The Market" Is Really Off Kilter

There was a group of 50 companies in the 60's and early 70's called the "Nifty 50". Many people at that time were convinced that these 50 companies were 1) so good nothing bad could happen to them and 2) so good that no price was too high to pay for their shares. If you owned them you would be fine.

However, that definitely wasn't the case. In 1969, if you invested all your money in these 50 companies, 5 years later (in 1974) your total investment would have decreased by over 90%.

Why did that happen? Because, contrary to what people believed, the opposite was true: No company is so good that it can't have negative things happen within the business and no company is so good that its shares can't be highly over-priced and dangerous.

There is a similar belief out there today, making the market as a whole, look expensive. At the same time however, there is a lot of pessimism among the broader public. Why wouldn't there be? Interest rates go up so much, so quickly, causing debt payments (e.g. mortgages) to increase substantially and prices on things like for food, seem to be going up relentlessly. Many haven't lived this since the early 80's and many more have never lived it. So the easiest thing to do when nervous is simply keep your cash in a bank account. It sits there, waiting for things to look better. That could be a long time coming.

However, among the uncertainty, as always, there is an abundance of opportunities to be found in both bonds and equities. I was told by one of the portfolio management (PM) firms we work with that the last time such a low percentage of cash was held in the portfolios they manage was in 2011 (which was followed by 6 straight years of 9 to 33% annual returns in a globally balanced portfolio).

I'm not saying that this will happen over the next few years. What this does show though, is that today there are many investment opportunities in bonds and equities; they are priced very attractively and the selection is quite good. (Personally, I wish I had more cash to put in my own portfolio so the PM teams who are turning over rocks can take advantage of what good things they find).

Probabilities & Preparation Over Predictions

Here is a fact for you: The broad US equity market, as measured by the S&P500 has produced an average annual compound rate of return of ~10% /

(Continued on page 2)

(Continued from page 1)

year for the past 90 years. However, the returns on an annual basis are rarely between 8 and 12%. In any given year, the return is usually much better and sometimes much worse. As well, the average bear (down) cycle has lasted 286 days while upward moves have been 1,011 days (~2 yrs, 9 months). Simply put, there have been 3.5x more up than down.

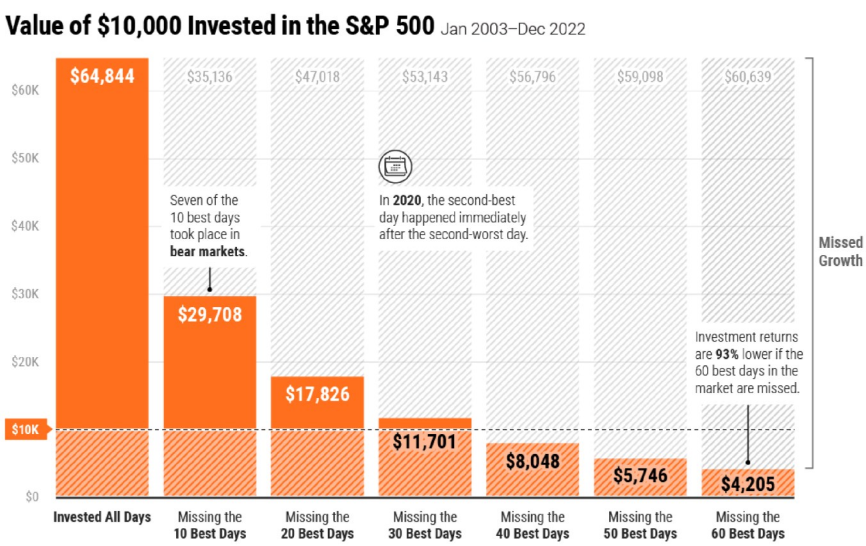
Based on those simple bits of information alone, if you stay invested, your portfolio will increase in value more times than not. The logical and probability weighted outcome over a period of years, is that you will be much better off by investing without trying to predict what will happen in the short term. You may look wrong in the short term but that is the price you pay for looking right in the long term.

This is the simplest form of "non-predictive decision making". This is where you don't try to make a prediction on the short term, but rather look at the most likely outcomes and hold a portfolio based on those. Predicting an event and making decisions based on that prediction is simply a bet. The alternative and more likely way you will do well over the long term is by holding a portfolio that will produce pleasing returns if the best of the outcomes happen, but doesn't do badly if the worst of those happens.

It's well-understood that being in constant fight-or-flight drastically reduces the potential for rational and sound decision making. In such a state, when faced with new information, our lizard brains find it more difficult to distinguish between what is important and significant versus what is noise. Lyrics from my all time favorite band (RUSH) point this out in the song "Vital Signs":

"The impulse is pure, Sometimes our circuits get shorted, By external interference, Signals get crossed, And the balanced distorted, By internal incoherence."

Non-predictive decision making is not only the best way to manage a portfolio but it is also the easier approach because there is no need to try to predict. We take our emotions (our own worst enemy) out of the equation. Our client portfolios (and my own) are concentrated to take advantage of what we know while at the same time diversified to protect against what we don't know.



Staying Invested Is Obviously The Best For You

During uncertain times and more often when investment prices are declining, we often question the logic of staying invested at the moment and just as important, if money that is on the sidelines should be invested. There are stacks and stacks of stats that show that anything other than staying invested is simply making a guess based on our emotions. We are trying to filter through hundreds and thousands of data bits that our confirmation bias wired brain, is trying to prove that we are right in not wanting to be invested.

The chart on the left is quite simple. If you miss even the 10 best days, by not being invested (or not investing new cash), your portfolio (or that new cash) will, if decades upon decades of market history continue, leave you with less than 1/2 the money you could have had.

The natural tendency is to wonder, "if I can avoid the worst days, maybe the numbers on the left would be much different". In theory that sounds really good and plausible — however, what do you think you are thinking after 1 big decline day? You'll wait and see what happens. You do this because you are wired to 1) not want to look wrong, and 2) lean heavily to your survival instinct sabotaging your ability to take advantage of the best days, which are almost always followed immediately by the worst days.

Make Retirement Easier (Part 2)

The more you accumulate, the more retirement income you can produce for yourselves. This point should seem obvious. However, knowing it and making it happen are separated by a chasm which can be easily narrowed by a wide factor of things. What I'm going to breakdown here is one of those. It's the "I deserve it" rationale for anything you may want to spend your money on today.

I talked to someone a little over a year ago who had bought himself a new BMW convertible. He did this a couple of years before he was planning on retiring. He didn't have the cash to pay for it so he borrowed for it. I must confess, I cringed when he told me this, but he said that he thought he deserved it (which every person who has worked most of their life, can say, right?).

(Continued on page 3)

Everyone is control of their own financial future and I'm not making a judgment call here. What I do want to show is how much that choice can cost in retirement income — for the rest of your life— so you can make a reasoned choice.

There is a new car that you would love to have and it will cost you $40,000. You have enough cash to pay for it upfront, but you decide to finance it over 5 years at an interest cost of 5%/yr. Your monthly payment would be $754.29. Now, suppose you invested that monthly amount instead, which grew on average at 8% per year? After 60 months, you would have $56,248.64 in your account. That's $16,248.64 more than the cost of the car. Your car is now 5 years old and probably isn't nearly as great as when you first bought it. Further, that $56K will probably give you over $250 / month of extra retirement income, not for 5 years but rather for the rest of your life (for a total of $105,000) and you may very well still have the original $56K (depending on how well it was invested). So how much did that car really cost?

FHSA: The 1st Step For Non-Home Owners

Do you ever hear someone do something and you think to yourselves, "Why would they do that?" I do, and I think it is because I spend a lot of my time "advising" people. When I hear about someone doing something that appears to be hasty, I get that Non-Eagles "uneasy feeling". I'm guessing you might ask yourself many times the same thing, "Why did they do that? It doesn't make much sense".

I get allergy shots almost weekly, and the nurse who does this for me mentioned her son's partner had received a reasonably sized financial gift from a family member and that they were looking for a Financial Advisor. I passed on my contact info, and said that I could probably help them. Long story short: I was told they simply went into the bank and made an RRSP contribution.

It is estimated that a millennial who rents would need to save 8 times their salary over the course of their career to be able to retire at age 68. Meanwhile, peers who own a home would need to set aside 5.25 times their salary and would be "retirement ready" at age 65 (assumes a starting salary of $60,000 and contributions of 10% of salary / mth starting at age 25. Calgary Herald, July 2023

This couple doesn't own a home and I've been told they are working toward making home ownership a reality. As well, she in particular, is well educated and probably has high future income earning potential. So was the RRSP contribution the best thing to do? Maybe, but only if they 1) Move $16,000 ($8,000 each) to FHSA's this year and every year they don't own a home (max. 5 years). 2) If their income is going to be higher in future year, they shouldn't use the tax deductions for RRSP contributions nor for FHSA contributions until their income is high enough. What is high enough? This can't be determined without a conversation with a Financial Planner who will work and advise them, for the long term.

Our Offer: If you have any family members, 19 years or older, who don't own a home yet but who probably will be doing that within the next 15 years, our office would love to help them along. I've worked with some clients closely for many, many years. It feels very good to look back at how much better I know them and to see how their lives have progressed. As it has been said, "If you love what you do, you'll never work a day in your life." That is why I continue to do what I do and I'd love your help in making the next generation's lives better.

Want To Go Back To School? Here's How

Almost everyone is familiar with the RESP and what it does for your kids (or grandkids). However, what if you want to continue your own education? That is where the Life Long Learning Plan (LLLP) can help.

The LLLP is a government sanctioned tax free withdrawal from your RRSP for education purposes. You can withdraw up to $10,000 / year for a total of $20,000 completely tax free; however, you must repay that money over 10 years (although you do not have to start paying it back until you have not been a student for 2 years). The idea here is that hopefully, the additional education will increase your income, allowing you to pay back your LLLP withdrawal rather painlessly. Also, the LLLP withdrawal doesn't have to be for you, solely. You can withdraw money from your own RRSP for your spouse's education. (It can't be for your kids, though. That is what the RESP is for.)

Before you make a LLLP withdrawal, you must be enrolled in, or have received a written offer to enroll in a qualifying program that runs for at least 3 consecutive months. Also, it must be for "full time" education. "Full time" simply means at least 10 hours a week on course work.

If you are familiar with the RRSP Home Buyers Plan, you'll see that the LLLP is quite similar. Both programs allow you to use money in a RRSP for some of life's big expenses. I haven't seen it used much with our clients, but it is one of those tools that is there if you need (or want) it. Just another way that RRSP's aren't just for retirement.

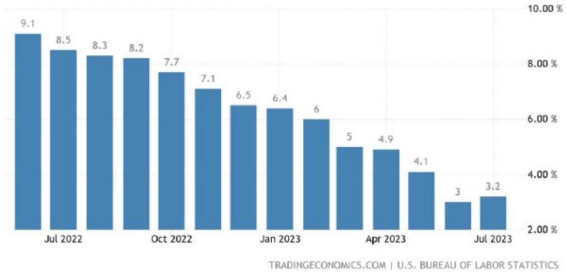
Life Gems— VolunteerHub.com

I've volunteered sporadically, starting in my early 20's, and have been involved in many serving needs since then. Although I have been in a bit of a hiatus, other than acting as conduit for accepting donations of investments "in kind" for a few charitable organizations. (This is where donors gift their investments very tax effectively. Cheryl and I do this ourselves for our own donations.)

I recently signed up with an organization so as to help move the household belongings of those who are in a high risk living situation. I get emails for when there is a move scheduled. On www.VolunteerHub.com I have the ability to see the details and sign up for the dates and times that I can fit into my schedule.

If you are thinking about how you can serve the community around you, you'll want to create a profile on VolunteerHub. It seems to be the go-to portal for many charitable organizations (e.g. Ronald MacDonald House, Habitat For Humanity, Meals On Wheels, many Food Banks etc.).

HHHMMM...



• Since 1971, there have been 9 extreme highs and 9 ultra lows when investors were the most optimistic and the most panicked (investor sentiment). The average 1 year return following when people were the most optimistic, produced a return of +3.5%. 1 year following when people were highly pessimistic about the future, the average 1 year return following that was +24.1%. JP Morgan #FeelingsAreFickle

• 2022 was the worst year in history for holding a combination of equities and bonds (a balanced portfolio). #WeDidRelativelyWell

• Since 1983, the average price of a U.S. house has risen nearly 500%. The stock market has also seen tremendous growth. The S&P 500 index has risen over 2,800% during that same period. Federal Reserve Bank of Saint Louis, July 2023 #BusinessOwnershipCreatesWealth

• Canadian and U.S. regulators have both proposed new rules that will force banks to hold larger cash reserves, because of the risk they see with the mortgages they hold. This might force banks to issue new stock to raise cash or return less money to shareholders — possibly the reason why U.S. and Canadian bank stock prices are lagging. #BankShareHeadwinds

• For over 40 years interest rates have declined. This made it easier and easier to invest profitably, borrow, spend and run a business, so much so that less skill was required to do all of these. Now it is getting harder and harder. #WhenTheTideGoesOut #WhoWillSurvive?

• 3 of the 5 big banks in Canada (BMO, TD & CIBC) allow "negative amortization". This is when a fixed payment doesn't cover all of the interest on a variable rate mortgage. The unpaid interest simply gets added to the principal. This is happening because of how much interest rates have risen. Desjardins analyst Royce Mendes estimates that more than 20% of the mortgage portfolio of the big 6 Canadian banks had a repayment period greater than 30 years in the first quarter, up from roughly 2% one year ago. Reuters, June 2023 #TipOfTheIceberg

• Home purchase applications in the U.S. are at their lowest in almost 30 years, as the rapid rise in interest rates has left many unwilling (or unable) to move. IPC Daily Update, Aug. 2023 #ForcedToStay

• In the UK, economic growth has been slower, and inflation higher, than all of its major country peers. Inflation peaked at 11.1% in October 2022 and is still sitting at almost 4x their target, at 7.9% in June. IPC Daily Update, Aug. 2023 #Stagflation

• CRA now charges 9% interest on any late payments for income taxes owed. Life In The Tax Lane, Sept. 2023 #InDebtToCRA

• Failure to handle psychological denial is a common way for people to go broke. You've made an enormous commitment to something. You've poured effort and money in. And the more you put in, the more that the whole consistency principle makes you think, "Now it has to work. If I put in just a little more, then it'll all work." Charlie Munger (Warren Buffett's very wealthy business partner). #JustifyingAMistake

• Canada needs 5.8 million homes to be built by 2030 to reach affordability, yet we are on pace to build only 2.8 million. CMHC, Aug. 2023 #HousingShortage

• At the end of 2022, BC's debt was hovering at around $94 billion. By 2026, it is expected to be 42% higher ($133 billion). BC's credit rating was downgraded by ratings agency S&P Global because the financial outlook is "negative." They say they lowered BC's credit rating because "the province's commitment to fiscal consolidation continues to waver." Cdn Tax Payers Federation, May 2023 #OutOfControl

• Someone close to me has a neighbour family who no longer lives in their original principal residence. They bought another one, but claim they still live in this house more than 50% (despite not doing so) so as to skirt the empty home tax. In the meantime, the house sits empty (except for the occasional time they make an appearance). #HowManyMoreLikeThis?

• Many cities have begun allowing multi-unit residences in residential neighbourhoods. In Victoria, according to city councillor Chris Coleman, 7 months after the regulatory change, not a single application has come forward from a detached house owner willing to turn their private land into a multi-unit rental complex. Aug. 2023 #PeopleAren'tConvinced #DoingNothingIsEasier

• In 2023 we have seen 5x more forestry acres burned compared to 2003 (another year of significant wildfires). In 1992, British Columbia invested 4.7% of its budget caring for renewable resources (forests, water, fish, wildlife etc.). By 2022, it had been cut to 1.1 per cent, the worst in over 50 years of budgets. Western Investor, July 2023 #NotOnlyClimateChange

• Many restaurants, coffee shops etc. have tipping defaults that start at 18% and go up from there. Tipping now includes many take out food places, where you are requested to pay a tip, even before any service is given (there is a Seinfeld episode in here somewhere). Expectation of receiving something promotes entitlement, not gratitude. Being asked for it creates irritation. #YouCanSay0"

• I see a lot of Teslas (mostly) charging in parking lots with their drivers seemingly sitting idle (or sleeping) while waiting for their car to charge. I read a recent report that productivity is continuing to decline in Canada. I don't think this is helping stop that. Personally, I could really use more hours in my day to get all the things I want to get done. #IsTimeCheap? #GiveMeYourTime

• 3 things I've noticed about today's drivers that weren't there even just a few years ago: 1) When stopping at a traffic light, often more than a car length of space is left before the stop line or another car 2) Either drive very far left of the lane or right of the lane (often driving right on or over the line), forcing others to honk 3) When the light turns green I often have to remind the car in front of me of that fact. #AMildRant