CEV WEALTH
FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

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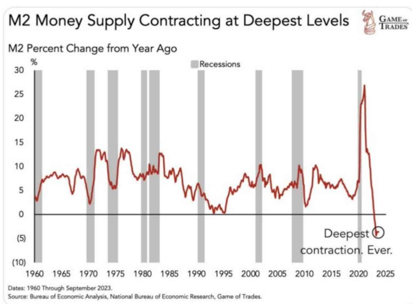
We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

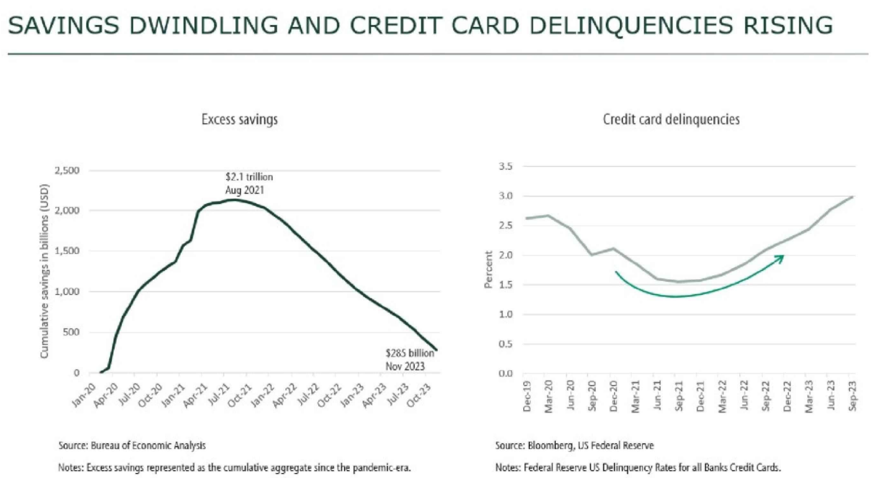
One Extreme To The Opposite Other

I've said it many times over the past few years. Governments around the world flooded the market with cash, through the tools of printing money and lowering interest rates to virtually 0% (making borrowing almost free) to deal with a world almost completely shut down for a time, followed by significant restrictions to free market operations. The purpose for this flood of money was to keep us out of a deflationary environment, which is really hard to get out of.



The 1 opposite side of that, which was (and is) very necessary, is the interest rate increases we have seen. This is making money relatively expensive to borrow. This helps decrease the supply of money. The less money there is in the system, the harder it is for people to buy goods, the less fuel there is for inflation.

As you can see from the graph, we have gone very quickly from an unprecedented flood of money to an economy being starved of money. The effects are starting to show with inflation now down to 3.1% (below the long term average). I'm surprised consumer pain hasn't been more obviously evident in Canada. However, the pain hasn't come through because of the amount of savings



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that have been stockpiled in recent years, due to Covid stimulus programs. There are however definitely cracks showing, in stats and some headlines.

Despite the significant fall of inflation, it looks like the Bank of Canada is keeping interest rates at current levels. Their projection is that inflation won't get down to their target of 2% until 2026. One of the things that needs to increase for inflation to fall further is unemployment, which has continued to be historically, low. Because of all of this, a small downward move in interest rates isn't expected until April 2024 at the earliest.

Of course, this is only Canada. A common emotional tendency would be to think that if we are seeing pain where we live (which I think will show and be felt more and more over the coming months), this will translate into negative ramifications for one's investment portfolio.

With bonds in particular, the opposite is true. As rates remain elevated, bond holders enjoy a very healthy interest yield. However, as rates fall, prices of bonds as a whole will rise (which is why you don't want to hold a GIC; you only get 1 upside). Equities (ownership of pieces of many businesses), particular ones that have a global reach and are leaders in their field that are by many financial measures, still very reasonably priced, should provide very pleasing returns over the next few to several years, as these businesses continue to expand.

PS. Currently, the market is anticipating a soft economic landing, which is why equity markets have been particularly strong through the end of the year and into 2024. I have a more pessimistic view of Canada's economic prospects because of historically high economic debt and endless deficits, productivity that has continued to decline and a very heavy reliance on the real estate market as Canada's main economic driver (to name only 3 concerns).

Over 30% Invested In 10 Companies

2020	
Apple	5%
Microsoft	5%
Amazon	4%
Google	3%
Facebook	2%
Berkshire Hathaway	1%
Visa	1%
Johnson & Johnson	1%
Wal-Mart	1%
JP Morgan	1%
Top 10 Holdings	**24.8%**

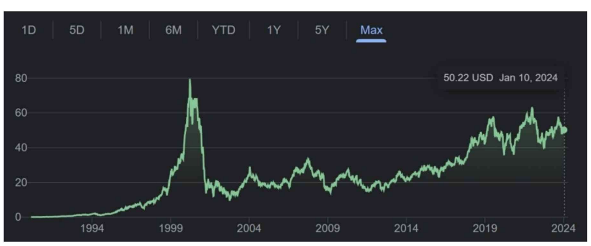
2023	
Apple	7.5%
Microsoft	6.8%
Alphabet	3.5%
Amazon	3.0%
Nvidia	3.0%
Tesla	1.8%
Meta	1.7%
Berkshire Hathaway	1.6%
United Health	1.2%
JPMorgan	1.2%
Top 10 Holdings	**31.3%**

This is the 1st time in history that the market value of 10 companies makes up this much of the entire S&P 500 index. We have seen concentrations that have been high, but nothing like this. In the 1980's the biggest companies by market valuation were IBM, AT&T and many large oil companies. The 2000's top companies included GE, Cisco, Walmart & Intel. The chart on the right shows what it looks like over the past few years.

What history shows us very clearly is that high priced companies don't remain high priced forever. Yes, these businesses were (or now, are) leaders in their field; however their valuation can become severely stretched simply by people buying a name, for the name alone.

It seems to sound good; however, the danger is that the only measure being used as a determination to buy is a feeling (and because other people are doing it). A big idea can magnify the error of this shallow decision making. Professional investment managers can get caught up in the same vortex. The vast majority simply don't want to look wrong so they do what all their peers seem to be doing. You can't excel in money management that way. In fact, buying in such a manner lays a high risk foundation, setting you up for permanent loss. It happened with oil in the 80's, tech in 2000, and will happen with the current AI frenzy.

Below is a chart from 1 of the market darlings in 2000, which today is still a very good company that is highly profitable. Yet, if you bought it below its share price heights we saw in 2000, you'd just now be breaking even. If your timing was perfect, you'd still be 37% underwater. Yet, if you bought at its true worth, you would have done OK. The price that is paid for a business matters. It mattered in 1929, 1940, 1970, 1980, 2000, 2020 and it matters more than ever today simply because the market (the index) is at another extreme.



There is opportunity in the midst of the extreme. What has been created in this is compelling value amongst a plethora of smaller companies. These are often overlooked and today they are almost being ignored. This makes for a great place to find businesses that are growing rapidly yet their share prices don't reflect that fact. Our client's portfolios (and mine) are made up of between approximately 25—100 of them (and some of these you'll definitely know).

Start Looking At Your Mortgage Renewal Now

In 2024 and 2025, 2.2 million mortgages are up for renewal. This is almost 50% of all mortgages in Canada. If you have a mortgage that has a fixed rate, I'm sure you know when it comes due. You may be concerned about what your mortgage payments might be when it comes time to renew. With mortgage payments making up as much as 32% of a family's gross income, the ins and outs of the lowest monthly expense and flexibility of payments is something you definitely want the upper hand on.

This means getting the wheels in motion before you get a letter from the bank your mortgage is currently with, so you aren't squeezed into taking what is simply available. However, you may just want to go with your existing bank. I get it, it's easier. That however puts you at a significant disadvantage. Banks love their customers who have a laissez-faire temperament. They've done it for years by paying virtually 0% on chequing and savings accounts, and they do it continually with mortgage renewals. Getting signed on to a mortgage rate update with a mortgage broker is a good 1st step in not being taken advantage of.

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You'll want flexibility in payments (eg being allowed to not make payments for a time), particularly since the economic environment going forward may make your job less certain. As well, with interest rates appearing to be cresting, you'll want to take advantage of falling interest rates as much as possible. Currently a 5 year rate is 5.69%, which may seem like a steep increase from a sub 3%. With inflation much lower than it was a year ago, assuming the usual path of interest rates following, that 5 year rate could be well below 5%, 5 years from now. That means a 5 year mortgage payment of $3,107 (@5.69%) could be $2,908 or even lower. A current 5 year variable mortgage at 6.3% will see lower and lower payments with each cut of interest rates.

Have you seen the interest rates on terms ranging from 6 months to 4 years? At 7.95% to 6.47%, respectively, these don't make much sense to me. The only case in which this would benefit you would be if inflation turns around to the upside and interest rates continue upwards. I've always been in favor of a variable rate since, outside of an "inverted yield curve", where short term interest rates are higher than long term rates, the variable rate, over time has proven historically to give the biggest savings (albeit you do take on some financial pain and if you have a variable rate, you are definitely feeling that now).

Of course interest rates are only 1 part of the decision making. That rate does depend a bit on your situation, so the best thing to do is get a mortgage broker working on your behalf. They'll assess your situation with an eye to your future over the next 5 years (in conjunction with your Financial Planner) and from that, they'll see what could fit best for you. It won't cost you anything since a mortgage broker only gets paid if they find you the best package. (Although, if you aren't yet working with a Financial Planner, that actually should be your 1st step, above all others since they oversee your whole situation and hopefully know you best in that regard.)

Use An ALDA To Save Tax On Your RRIF Withdrawals

This has been a long time coming. ALDA's (Advanced Life Deferred Annuities) are finally available (after 4 years of being announced in the 2019 Federal Budget). They allow retired clients to delay withdrawals from a RRIF until much later in retirement. If you are one who doesn't need all (or even some) of your minimum RRIF payout, an ALDA may be something that will help to: 1) reduce your income tax, 2) reduce or eliminate OAS clawbacks, and 3) increase the longevity of your retirement income.

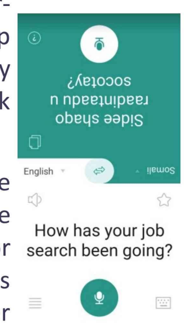
To do this we move up to $170,000 from your RRIF to an ALDA. This will reduce your minimum RRIF payout by 4 to 8% on that $170,000 (~$6,800 to ~$13,600). As an example, a 71 year old who moves $170,000 from their RRIF will be getting a guaranteed monthly income at age 85 of ~$4,900 from their ALDA.

For many years the financial industry has been pushing the government to reduce the minimum monthly amount required to be paid out of a RRIF. The ALDA does that, preserving assets until later in life while reducing taxable income and potentially avoiding OAS clawbacks and the GIS, earlier in retirement. With interest rates at elevated levels, the availability to finally be able to use an ALDA is perfect timing.

PS. If your Financial Advisor isn't letting you know about financial planning tools like this, perhaps a change to a new advisor is in order?

How To Secure Yourself Against Financial Fraud

It used to be that the only way to get your credit rating was to submit a request and pay a fee. Today, you can be notified quickly (and for free) anytime that someone tries to apply for a credit card or loan in your name. I currently get emails from 2 different services (Borrowell and Credit Karma). These both report to me their own proprietary credit ratings, regularly. This helps stop the growing instances of identity theft and financial fraud. As well, when you login these, it will show a current list of any outstanding credit facilities that you have open and the current balances. With so much technology being available to work against you, I'd highly recommend a tool like this to protect yourself.



As another security practice, I'd highly recommend not using a debit card unless it is absolutely necessary (and only at the largest of retailers). The only place I've used a debit card over the past several years is at Costco in the US (they don't take Mastercard). Virtually all other purchases I make are with a credit card. First, because you either get cash back or points for using a credit card. However, more importantly, the risk of loss is virtually zero with a credit card (I've had fraudulent charges on my credit cards many, many times with $0 lost. This isn't the case with a compromised debit card. You may remember the movie "Catch Me If You Can" – a personal memoir about former con man Frank Abagnale who has been working with FBI for over 40 years and author of "Scam Me If You Can". His view on debit cards is, "… certainly and truly the worst financial tool ever given to the American consumer." (Because of the fraud risk; he doesn't have a debit card).

New "In Trust Accounts" Tax Filing Requirement

An informal "In Trust" (IT) account is something many parents have at some time set up for their kids. It could be money the parents have set aside for their kids but didn't want it with the handcuffs an RESP has. Often it is for kids who have received financial gifts and / or simply a place to squirrel away money they may have earned through odd jobs.

Most people have relatively small amounts of money inside these In Trust accounts. However, if you have $50,000 or more accumulated in such an account in 2024, you are now required to file a trust tax return for it.

Life Gems— Talking Translator

Cheryl and I are part of a "Community Group" which has been helping a young refugee family from Somalia get integrated into Canadian society. A vital tool for communication with this family is a translation app. I've used Google Translate in the past but found it cumbersome. Talking Translator is better than Google Translate (and many other translation apps) in that you can do "talk to text" rather than have to type out what you want to translate. As well, with TT the screen is split, with 1/2 being upside down, facing the other person. That allows 2 people to be using 1 phone and while 1 talks the other can see the translation and respond easily.

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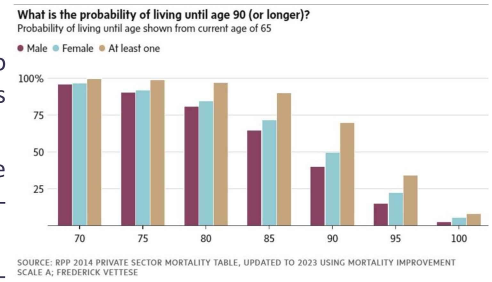


- For bond investors, the next year or so could represent a once in a generation opportunity to capitalize on outsized return potential for the asset class.... the possibilities for future returns have rarely ever looked this good. IPC Daily Update, Nov. 2023 #BondsOverGIC

- If the market is right about 150bps (1.5%) of interest rate cuts by the end of next year, we could be looking at a 7.05% yield (interest) + 9.3% capital gain = 16%+ total return. Fidelity Investments, Dec. 2023 #GICIsEasyToBeat

- Financial academics like using volatility as a proxy for risk (largely because it's so easy to measure), but that has the perverse effect of implying that an asset becomes riskier when it drops in price—the exact opposite is how a rational buyer thinks about a lower price (on a quality investment). Morningstar, Jan. 2024 #BuyWhenOnSale

- In October (2023), individual investors in the US sold $15.6 billion worth of stocks, marking the largest monthly outflow from equities since 2021 and undoubtedly contributing to the sudden bulge in money market fund balances. Unfortunately, they did so right before the S&P 500 posted its 18th best month since 1950 and the second best November in more than 40 years; December was pretty good too. Dixon Mitchell, Jan. 2024 #PublicUsuallyWrong

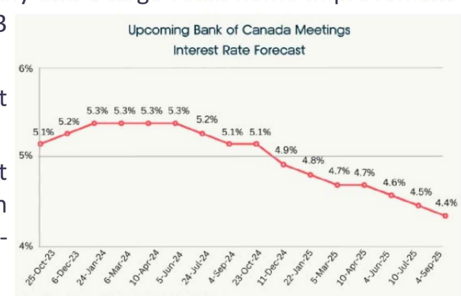
- "At this time next year, portfolio managers will look back and realize the best investment strategy for 2024 was to follow Taylor Swift's advice in the song from her 1989 album: 'All You Had To Do Was Stay'...invested" - said David Kostin, Chief U.S. Equity Strategist for Goldman Sachs Group, Nov. 2023 #DoingNothingIsBetter

- (The Late) Charlie Munger has been a long-time investor in China. He persuaded Warren Buffett to invest in car manufacturer BYD in 2008. Munger has since called this one of the best decisions that he's ever made. He claims the BYD founder, Wang Chuanfu, is a genius, and says he's better at making things than Elon Musk. Morningstar, Nov. 2023 #AWiseMan

- Electrification doesn't only need many rare earth minerals but it also needs lots of trees for power poles. In North America, there are 2 companies that dominate in this space. Dixon Mitchell, Dec. 2023 #GrowingMarketLittleCompetition

- Benjamin Graham, the father of value investing, once said, 'In the short run, the market is a voting machine. But in the long run, it's a weighing machine.' The 1st is based on what people feel at the time. The latter is based on what will prove to be true. Make decisions on truth rather than feelings. #ThoroughThinkingWins

- Companies can substantially increase their profits over time. Never mind technology stocks. Over the past decade, even unglamorous firms such as one ? that makes construction and mining equipment, a 100+ year shipping company and a large retail home improvement chain have more than doubled their per-share earnings. Morningstar, Dec. 2023 #SharePriceFollowsEarnings



- India is currently the world's 5th largest economy and is projected to become the 3rd largest economy, ahead of Japan and Germany, by the year 2027. #IndiaWillExcel

- In Peachland BC it is estimated there are 195 active short term rental properties as of August 2023, yet in 2021 there were only 2,665 households. This means 7.3% of housing is short term rentals. (What if all of these were available for long term rental for locals or went for sale as principal residences)? Western Investor, Dec. 2023 #SoonToChange

- Real estate Statistics are closely guarded by the major real estate associations, with licensed agents holding on to information deemed proprietary. It's a different story in the U.S., where sales statistics, property tax information and a myriad of other datapoints about a property are readily available to the public. "Canadians are some of the worst-served consumers of real estate when it comes to public data related to real estate. I think it's the worst in the developed world," said Ross McCredie, principal of McCredie Investments (Recent purchaser of Sutton Group Realty Services Ltd.) Western Investor, Dec. 2023 #ChangeComing?

- Worksafe BC says that occupational disease caused by asbestos exposure is the number 1 cause of workplace deaths in BC. Between 2002 and 2022 there were 1,168 fatalities. Peace Arch News, Dec 2023 #SilentKiller

- "...couples who initially reported that they "pool all money" were significantly more likely to still be together 12–14 years later than were couples who initially reported that they "keep all money separate." American Psychological Association, Nov. 2023 #2BecomeAs1

- "Parents are good at preparing the money for the person, they are often less good at preparing the person for the money." Jess McGawley, Darrington #ThisLoveIsDetrimental

- A good bet in economics: the past wasn't as good as you remember, the present isn't as bad as you think, and the future will be better than you anticipate. Morgan Housel, Nov. 2023 #OurMindsFoolUs #WhatWeBelieveIsOftenWrong