mutual gains

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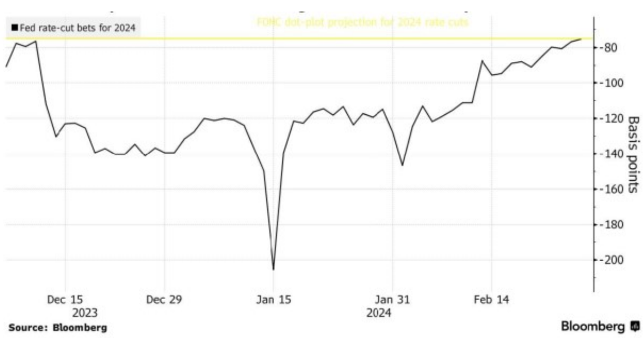
We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

Carey

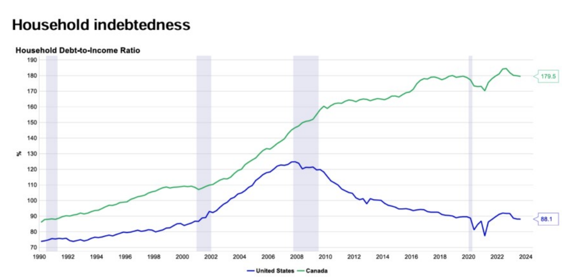
Coming In For A Soft Landing?

We're walking the economic flight tight rope. Keeping interest rates high enough to ease inflation while at the same time not holding them too high and for too long which would choke off consumer spending and push the economy into a recession. That is the biggest economic challenge facing many economies around the world.



Strong employment seems to be the catch 22 in this equation. Employment is so strong that a recession seems less probable and thus interest rates need to be kept higher. However, the longer interest rates stay high (or move higher if wages are forced higher because of the lack of people available), the more likely a "hard landing" (a recession) is. The "soft landing of the economic plane so it can take off again for a long multi-year flight" is what Canada and the US are wrestling with (as country specific examples) and you can see how the expectation of interest rate cuts in the US has bounced around within a very short period (see graph, above).

As I said last month, the Canadian consumer still needs to feel the pain of interest rate increases. This will happen since over $250 billion worth of mortgages come up for renewal in 2024 along with another $350+ billion in 2025. The US consumer doesn't face that predicament since they can lock in mortgage rates for up to 30 years.



What does that mean for you as a Canadian who relies on your portfolio for future or current retirement income? Not much really if you have a portfolio that is comprised of a number of companies doing

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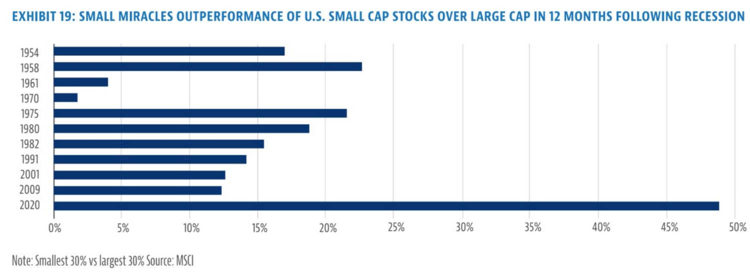
business around the world because what happens within Canadian borders will have little (to no) effect on those (nor will the results of a US presidential election this November).

PS. If you have a mortgage coming due within the next 1—3 years, we're here to help you navigate the choices you so you get the best fit for your situation. Send an email to Jen to get the conversation started.

Smaller Companies Are Ripe For Outperformance

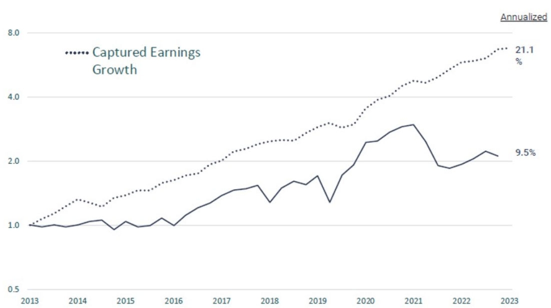
Large companies ("Large Caps") as a whole grow more slowly than smaller companies ("Small Caps"). This is just the way things work, from nature to business. Therefore investing in Small Caps will produce better long term returns than Large Caps. Today, from a fundamental basis, smaller companies as a whole are looking unusually attractive, from 2 main metrics. That is based on the price they are at in relation to what they have historically sold for and, how significantly cheaper they are than very large companies. Normally Small Caps are priced ~10% higher than Large Caps – however today they are 20% cheaper.



Here are some specific points that we haven't seen in decades:

1) Large Cap usually pay out much higher dividends than Small. The reason is that large companies are mature and thus don't have many places to spend money to grow their business further, so they payout their excess cash as dividends to shareholders. Small companies are usually spending much more on growing their business, and thus have much lower dividend percentage yields than large companies. However, today Small Caps as a group are actually paying more in dividends. We haven't seen that in over 20 years.

2) The earnings on Small Caps have been growing by over 21% / year for the past 10 years yet their share prices have only been going up by ~9.5% / year. This means the share prices are not rising as fast as the actual results of the businesses themselves. In the short term, this is investor sentiment at play, rather than fundamentals. In the long term, fundamentals eventually have the share price following the growth of the underlying business.



As an investor, the Small Cap space gives you a really open field to find investment ideas that the vast majority aren't even seeing or looking for. There are far fewer eyes scouring Small Caps, and thus undiscovered diamonds can be found. This isn't really all that surprising since people much prefer the easiest route possible.

Every large company we have today started as an idea several years ago. Smaller companies can turn in to much larger companies, multiplying their share price several times over. Small companies worth investing in are well past the start-up phase and well into their growth stage. They often run by what I'll call "Elon-like" entrepreneurs who originally started the business and are now the largest shareholder.

I want to point out that Small Caps aren't really that small. Small Caps range in "market capitalization" (what the market is pricing them at) from $1—$5 billion. That makes them small in relation to their Large Cap counterparts because the largest companies in the world today are worth well over $1 trillion. Currently our client portfolios are made up predominantly of Small and "Mid Caps" and we see a long runway of opportunity ahead.

Enormous Amounts Of Cash Piling Up

Balances in short term savings vehicles have swollen to unprecedented levels and the flow to them doesn't seem to be stopping. In January, $182 billion went into US money market funds (cash-like investments) in the first 2 weeks alone, topping the previous record inflow by 50%. I believe the 2 main reasons are: 1) the feeling of uncertainty in individual lives and the world in general (emotional response); and 2) interest rates are higher than we've experienced in a very long time.

When so many people have switched their views (feelings) so quickly, what does that mean? It's probably the wrong thing to do. History shows it. The last 2 times that cash balances reached parabolic peaks— the late 2008 / early 2009 during the global financial crisis, and in early 2020 when Covid hit us, it coincided with notable equity bull (up) markets. However today, with interest rates appearing to be on the verge of decline, even moving 1 step up, from a saving account or GIC to a very conservative bond portfolio, should produce a return that will far outpace those vehicles. As interest rates fall, as they inevitably will, the returns will increase.

DCA Takes The Hesitation & Regret Out Of Investing

If you are investing with a long period of time in mind, history has proven time and time again that the best time to invest is as soon as you have the money. However, knowing something and believing it so you'll actually do it are 2 totally different things. That is where Dollar Cost Averaging (DCA) can really help you.

DCA is simply investing a set amount every predetermined period of time and putting it on autopilot. The most common way to do this is

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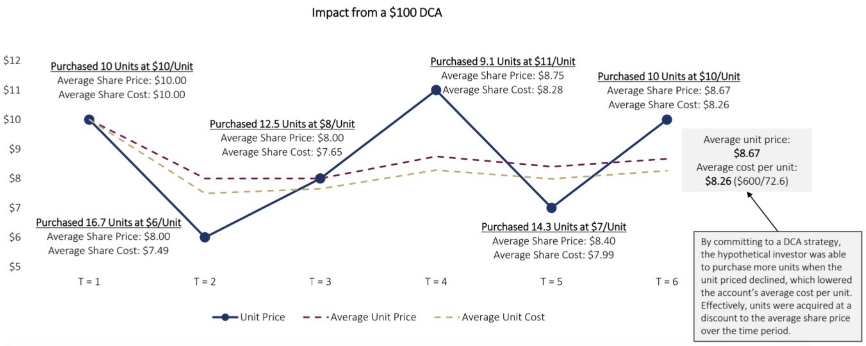
Simple Dollar Cost Averaging Illustration

Following a disciplined investment strategy will allow you to invest through the market's ups and downs without emotion, benefiting your portfolio when markets are volatile



EXAMPLES ARE FOR ILLUSTRATIVE PURPOSES ONLY AND ARE NOT INTENDED TO REPRESENT THE PERFORMANCE OF ANY CI FUND. The example assumes that $100 of units are purchased at each time period.

having a set amount of money automatically going into a RRSP, RESP or TFSA every month. With an investment that fluctuates in value, you actually benefit when the investment price goes down because you are buying more shares / units at lower prices. This eliminates guessing whether you have the timing right (which you'll never know anyway).

You can also apply DCA when you have a significant amount of money and are a bit skittish about investing all of it. Using DCA, you could take your e.g. $100,000 and have it placed in a high interest savings vehicle (which our clients are currently getting 4.53%). Then set it up so every week, 2 weeks or a month e.g. $1,000, $5,000, $10,000 etc. is automatically moved to a longer term investment vehicle. This has proven to work very well from a financial, emotional and "getting it done" perspective.

Getting The Best Exchange Rate On Canadian Dollars

In November 2007 the Canadian dollar was worth $1.10 to the US dollar. I bought a new car in the US in 2008 and the Canadian dollar was on par with the greenback. Less than 3 years ago the Canadian dollar value to the US was about 83 cents and today it's about 74 cents (it has been significantly lower, in early 2002 at ~62 cents). No wonder that spending any money in the US today is so expensive. The US of A is still a very popular place to travel to because of the wide variety of places to visit. Iconic cities such as New York to big sky places such as the Grand Canyon are calling many of us, so if you are heading there you'll need to change your Canadian dollars to US ones.

So how do you get the best exchange rate? First you have to be aware that there is a "spread" involved in this exchange. The spread is essentially what exchangers (banks and currency exchanges) charge to do the exchange for you. The spread at the banks is usually 1—3% depending on the amount. The spread at a dedicated currency exchange house is almost always lower. In fact, I've found that every time I've needed a foreign currency, a currency exchange is the best place to go. In the early 90's I was quite involved with buying US real estate investments for my Canadian clients. This is the 1st time I recognized how efficient and economical it can be to use a currency exchange.

If you don't need cash, however, your credit card is almost certainly going to charge you 2.5%. That isn't all that bad compared to using cash since 1) a credit card often has some kind of rewards or cash back program, offsetting part or a good chunk of that; and 2) a credit card is much less risky to carry than cash. How about ATM's in the country you're visiting? Try to avoid those if at all possible. The exchange rate is often way higher and they will charge you a fee on top of that.

Couples With A Significant Age Difference

What I mean by "significant" is couples who have an age difference greater than 5 years. In these cases it is more likely that the younger partner will be on their own than vice versa. This means the retirement income coming to the surviving partner will inevitably change. This could mean many years of reduced income. As well, often the younger person retires earlier than they normally would, to maximize the time they spend together in retirement. This usually means less income right from the beginning.

One of the first decisions for these couples is to determine when each partner should begin their CPP benefits. If the couples are roughly the same age, they'll usually take their CPP around the same time. It's usually relatively easy to determine what is best. However, with the wide age gap couple, there are more items to balance, including: 1) will the younger one still be working, 2) do they need the CPP income to fulfill their retirement income objectives, 3) starting CPP for the younger person or withdrawing more from RRSP's etc.

A common scenario is where the older partner dies and leaves a very large RRSP / RRIF. Now you have 1 partner having to declare all the income that needs to come from the amalgamated RRIFs as well as have 1 person now declare all other income sources. Before you would have been able to split income by as much as 50/50. When one passes on, 100% of the income is then claimed by the surviving spouse. That potentially means much more income tax to pay as well as potentially seeing your OAS reduced to clawbacks.

The best way to prepare for this kind of situation is with a Financial Planner who can help you picture what the younger partner's life could look like when their spouse passes. Will the housing situation change? Will you have enough to continue with what could be a long period of time without your spouse? How about not having your partner there to care for you should you need it? All of these questions help point to the right choices to make, for your unique situation.

Life Gems— Kanopy

It seems everything is on a subscription these days: streaming services for shows, movies and music. Even software, which you used to be able to buy a copy of, is almost always sold as a monthly subscription. In our office, we pay for multiple software subscriptions that we need to service clients and do research on and $150 / month is common for each of them. Kanopy is an app that can be installed on any Roku, Fire, Android and any Apple device and with the app you can stream any media that is available through your public library. Not all libraries use Kanopy (search your library in the app). If yours does, input your library card number and PIN and see what is available.

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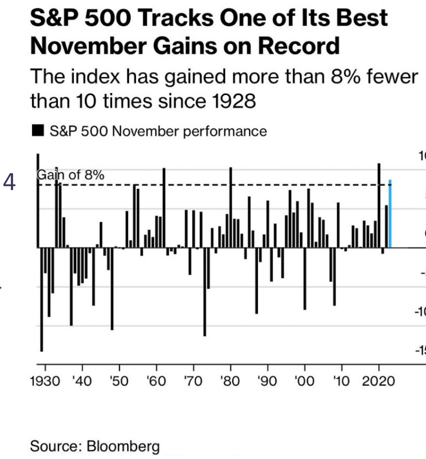

- The 7 largest tech firms include Apple, Alphabet, Amazon.com, Meta Platforms and Tesla. Trading at 49x profits (earnings), this group looks very expensive next to a P/E ratio of 17 for the average stock in the S&P 500. IPC Daily Update, Jan. 2024 #PriceDeterminesReturns
- Just like in the U.S., concentration of returns has been a big theme in Europe recently, with just 4 stocks accounting for 65% of gains in the benchmark since the start of the year. IPC Daily Update, Feb. 2024 #FutureLaggards
- In Oct. 2023 the yield for high quality (investment grade) corporate bonds was 6.1%. Historically, that (group) has returned 7.95% / year for the following 5 years. Manulife Investment Management, Dec. 2023 #TakeBondsOverGIC
- In October of this year, 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 #DoingTheWrongThing #EmotionsCostYou
- The question we often ask ourselves when a geopolitical event unfolds is whether the event in question is disruptive or destructive in nature. Historically, these events tend to fall into the disruptive camp: They may have short-term effects on the market, but very rarely have a material impact over the medium-to-longer term. Here are some stats: Since the 1940s, the average total drawdown during major geopolitical events has been approximately 4.5% and the number of days it takes to recover those losses is approximately 40 trading days. Manulife Investment Management, Feb. 2024 #ThisTooWillPass
- Mortgage interest costs and rent remained the biggest contributors to year-over-year price gains (inflation). Mortgage interest costs jumped 27.4% from a year ago; rent rose 7.9%. Excluding shelter costs, CPI rose 1.5% from a year ago. Policymakers have said they are concerned shelter inflation would keep overall price gains (inflation) elevated. IPC Daily Update, Feb. 2024 #InflationOnNecessities
- It's been fun watching TV commentators try to gauge the economy. For instance, a host will interview some over-indebted San Francisco office landlord on-air, teary-eyed and describing utter economic collapse, only to be followed by an airline executive who's raising prices, never been busier and threatening to sue Boeing for not delivering the billion dollars-worth of aircraft he needs to satisfy record demand. There's more than one business cycle, and while the trajectory of overall economic activity is generally higher, there are often parts of the economy that feel like a recession. Taylor Swift selling out 50,000 seats at $1,000 a pop doesn't look like a recession, but the guy retailing patio sets who just had two record-smashing years is now in dire straits. Ideas on the periphery of these cycles can make for excellent investments. Derek Skomorowski, Edgepoint Wealth, January 2024 #AlwaysOpportunitySomewhere

- The average price of a single-family home today in Japan is around 30—50 million yen (~$273,000-$455,000 USD). It was ~3 times higher than that in 1991. Japan Real Estate Institute #DeflationCanHappen
- In 1990, the cost of a gigabyte of data was $10,000 (in today's dollars) and today it is less than 1 cent. Upon its release in 1985, a Cray 2 supercomputer would cost you $32 million, and today you carry the computing power of hundreds of Crays in your pocket for about $1,000. Technology is a deflationary force. The Best Strategies for Inflationary Times (Neville, Draaisma, Funnell, Harvey, Hemert research paper) #TechIsGood
- It's really interesting how people get enamoured with an asset after it has increased in price significantly. Take gold as an example. Is gold a good long term investment? In 1973 an ounce was $68. Today it is just over $2,000. If you bought an ounce decades ago you would have received a 3% / year rate of return, which is about the rate of inflation. In other words, your money would be worth the same in todays dollars as in 1973 dollars. #BetterToBuyBusinesses
- If you are still working at any age between 60 and 69 and are in relatively good health, don't start taking your CPP or OAS unless you take that same amount and contribute it to your RRSP. Globe&Mail CPP article "..these Cdns wish they had waited"
- There are over 5,000 realtors in the Fraser Valley (population of ~600,000). In January there were 938 transactions (Fraser Valley Real Estate Board, Feb. 2024). Assuming 2 realtors were involved in each transaction, that means over 60% of realtors didn't earn anything (~1/3rd of realtors won't be involved in a transaction over a 2 month period). #1RealtorPer120
- Strawberry Hill Shopping Centre, a 340,00-square-foot retail asset on 35 acres in Surrey's Scott Road corridor, sold Dec. 14, 2023, to Strawberry Hills Shopping Centre Holding Inc. for $155 million. RioCan REIT acquired the property in 2002 for $58.3 million. Western Investor, Feb. 2024 (appreciation for his property was 7.3%/yr). #GoodButNotStellar
- Cheryl and I have an RV trip planned for late August through mid September. We have an overnight stop in Butte, Montana. The KOA campground there is $109 US which is ~$150 Cdn + taxes. #NotStayingThere #CampsiteCost=Motel