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.

Interest Rate Uncertainty & Angst

In August we saw the worst investment market downdraft in quite a while; however it was so short lived, before I could send an email out summarizing what was happening, things were back. Broadly speaking, investment markets were down over 10% then virtually right back to where they originally were, all within about a week. In fact, within 13 days we went from "oversold" (extreme pessimism) to "overbought" (extreme optimism). You can see that in the chart above.

What triggered it? In a nutshell, various stats that suggested that many major world economies were going into a recession, led by the US. However, market participants then realized that if this is the case, interest rate cuts would be coming sooner. So, as quick as the concern was lit in people's mind, the fear fire was doused.

The enduring fact remains that since 1980, the US's S&P 500 stock market index has ended up positive at the end of each year, 82% of the time. During nearly half of those years however, there has been a downdraft of at least 10% which many find uncomfortable.

We will definitely see more times like that, as the US and Canada in particular, walk the fine line of bringing interest rates down fast enough so as not to trigger a recession but also not too fast, which could mean having to jack up interest rates again, within a relatively short period of time.

Adding to the angst is the forthcoming highly publicized US election on November 5th. In July I read that there was an unusually high level of anxiety among the US voting public. This was before Biden stepped out of the race.

This is and will prove to be an emotional wave that will dissipate as history has shown. Over the medium to long term, elections have no effect on financial market performance. The things that determine financial outcomes are: growth of the economy, interest rates, inflation, and most importantly, the earnings that companies generate.

So how does that relate to you and your portfolio? If you have an investment

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management team that factors in the many negative things that could happen when determining the intrinsic value of the investments that they are buying (or currently hold) on your behalf, then nothing really. The undercurrent of angst does however relate strongly to how you react to the sentiments. One's actions on specific parts or the whole of a portfolio is the largest variable when it comes to long term investment portfolio performance. So, if you have concerns, it is always best to get information and insight rather than simply react to feelings.

Should I Invest My Cash Now?

This is a common question, one with an undertone of fear and apprehension. If you get caught in inertia and don't do anything, "you still have made a choice" as the RUSH song Freewill states. This inertia will end up costing you more than you know or will ever care to admit. History has shown that time and time again. Here are 4 examples to put the facts down on virtual paper.

The Key Details For All 4 Scenarios: Annual investment = $50,000 Time Horizon = 10 years Investment = A Global Equity Fund

The Scenarios:

1) "Perfect Timing" Paige — Through skill or luck, Paige adds $50,000 to her investment every year but happens to do it during the month the year's low is hit. For example, in 2020 the fund bottomed in March, so this was the month she invested. In 2018, the fund bottomed in December, so in went her $50K. She miraculously timed it correctly every year for 10 years.

2) "Worst Timing" Wesley - He unfortunately had the worst timing and invested $50,000 during every month the fund peaked each year.

3) "January Each Year" Jasmine— She likes keeping things simple and methodical. Every year she invested $50,000 at the end of January, ignoring everything else.

4) "Monthly" (Dollar Cost Averaging / "DCA") Matthew— Matthew has a tendency to spend so he listens to Carey Vandenberg, his Financial Advisor, and forces himself to save and learn to live off the rest of his income". He does this by setting up an automatic investment of $4,167 / month.

Investor	Total Invested	Ending Market Value (12/31/2023)	Annualized Return
Perfect Paige	$500,000	$808,802	9.1%
January Jasmine	$500,000	$784,057	8.2%
Monthly Matthew	$500,040	$759,274	8.2%
Worst Wesley	500,000	$723,810	7.6%

Who does the best? It should be no surprise that Paige with the Perfect Timing wins. What might be surprising though is that the advantage is relatively small, giving her 3.15% more money than the next best scenario. Even Worst Wesley ended up with a respectable 7.6% / year over 10 years, handily beating any GIC that was available over the past 10 years.

The 1 commonality between each of these investors is that they consistently added money to their investments each year and didn't get caught up in their own fear or the fear created by media and the masses. Source: Morningstar, January 2014—December 2023

Why Smaller Is Better (being only 5" 7" tall I'm not stating a biased claim)

Smaller companies often get swallowed up by larger companies. 2 recent examples of this are Canadian Western Bank is in the process of being bought by National Bank while Sleep Country Canada is being purchased by Fairfax Financial. The shares of both CWB and SCC were trading at well below the price their take over companies offered to buy their shares at. If you owned the shares of either of these 2 companies, you would have enjoyed a significant bump up in the price you were holding them at. The purchasing companies obviously think these companies are worth more than they were originally trading at. Owning an undervalued business is a proven risk reducer and currently it is smaller companies that offer the best value in today's market. The returns are poised to follow.

This "smaller is better" applies to your investment management team (firm) as well, since only smaller firms can take advantage of these under-valued "small" opportunities. Why? Investment management firms who are responsible for hundreds of billions to trillions of dollars are forced to invest in companies that are really large. CWB is valued at ~$5 Billion while the market is pricing Sleep Country Canada at just about $1.2 Billion. If an investment firm manages $1 Trillion in investor assets and the typical holdings is 4%, the firm would have to buy all shares of the company and it would take them a very long time to do it if they wanted to get them at the undervalued price. A smaller firm, managing $50 Billion could stealthily accumulate shares without the market really realizing it. Then they could simply wait for a buyout offer, knowing they own something that is worth much more to a much larger company.

Large companies can dominate an industry and squeeze out a smaller player in the same industry. In the investment management business however, larger ("scale") isn't always an advantage. In fact, it can actually be a hindrance when trying to capitalize on the many smaller companies that are currently highly undervalued and ripe for being taken over. As well, smaller companies can usually grow their businesses much faster than their larger competitors, giving those who own them in the interim the opportunity to grow their investment faster, even before a potential buyout by a larger company.

TFSA Mistakes To Avoid

Mistake #1: Many people have the impression that TFSA's are simply a savings account and often put in and take out money continuously. However, they should not be used as such since there is really no advantage to using them this way. The power of the TFSA is in its long

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term tax-free compounding. We have clients that have put the maximum of $95,000 into their TFSA's but have over $150,000, even with relatively conservative investments held hold within it. That is all tax-free growth which can be taken out tax-free.

Mistake #2: If you put too much into your TFSA you are penalized 1% per month on the overcontributed amount. This can also be triggered if you withdraw money from your TFSA and then, in the same year, put the money back in.

Mistake #3: Many people think a TFSA contribution is better than a RRSP contribution. If you can put $95,000 into a TFSA you have $95,000 working for you. However, that same $95,000 contributed to a RRSP can give you up to $46,456 in tax savings. I'd rather have $141,456 invested than only $95,000, particularly if you have time to compound that. Even if you have to pay tax when you start withdrawing from the RRSP (as a RRIF), you would most likely still be better off.

OAS (& GIS) Are Like Family Benefits (& EI)

We all want to get as much money from the government as we are entitled to. The most popular way of doing that is through any tax saving opportunities that the government gives you. Tax savings is one of the things that we strive to maximize for our clients. Along with that is trying to avoid (as much as possible) Old Age Security (OAS) clawbacks. Nobody likes receiving a certain amount of OAS every month one year only to get it reduced because the government says your income is too high.

One thing to recognize though, is the OAS is not like your Canadian Pension Plan (CPP) benefits. We as income earners in Canada contribute to CPP. This is much like putting money into our own RRSP. You put in a certain amount and thus you get a certain monthly income out of it. OAS is different. None of us contribute to it. It is a monthly benefit for those whose income is below a certain threshold. Currently, if you earn over $90,997, the OAS you receive will be clawed back. Simply put, the higher your income is, the lower your OAS benefits will be.

Most government benefits are set up this way. The Guaranteed Income Supplement (GIS) is paid to those whose income is as little as $28,752. Child benefits for families with dependent children is also based on income. The higher a family's income, the less paid out in child benefits. So is the case with Employment Insurance. If you earn an income through gainful employment, you don't get EI. In other words, your work disqualifies you from receiving EI money from the government because you earn enough on your own.

What I'm trying to point out here is that OAS is paid out of general revenues and is an income tested program like so many others in Canada and around the world. So, if you are having your OAS clawed back and are doing everything to minimize it, don't be discouraged (or angry) that you are getting less than you used to. However, we always are working to arrange your financial affairs so as to get as much as possible for you.

PS. Ironically, if you move out of Canada your taxable income can be as high as you want and you get full OAS (no clawbacks).

Pre-Planning Your Retirement Days

Financial Planners help in getting you to a place where you can live comfortably off of what you have accumulated during your working life. However, the change from working to retirement can be a significant one. From your early to mid-20's you work 36 to 40 hours or more and that doesn't include commuting time. So, having most of your week being used for a few decades to having all time to yourself can ironically, be hard to deal with. My experience is that for men this can be a more difficult transition than it is for women. Here are a couple of ideas so as to make that life change easier.

Ease into retirement: Personally speaking, this is going to be my path and it's going to be a several year transition since I love having many things to do. I don't golf and get bored easily from simply doing entertainment or leisure activities. One of my fulfilling activities is helping people get from a point A to point B and walking along with them through it. You however may prefer to move on to doing something to replace the job you have been doing for many years. If so, transitioning into retirement by working less and less and filling your non-employment time with other activities is the best way to make the change seamless.

Fill out a calendar: start with one week and be as detailed as possible of how your week will be filled. Make sure you have things that give your life purpose rather than simply trying to entertain yourself the entire time, because the latter may not give you what you need. I alluded to the fact that men have a harder time at retirement since often their work is tied to their identity. Women on the other hand usually have closer personal relationships and thus being involved in those fulfills that purpose. I'd suggest a Financial Planner can be an objective coach in helping you lay it out.

Don't Claim Donations Every Year

If you donate to a handful of charitable causes and it amounts to a few hundred to perhaps $1,000—$2,000, those donations will cost you less, if you keep accumulating them for a few years and claim them all on 1 tax return. I'm going to use an example of someone with $100,000 of taxable income; however, if your income level is lower or higher, the numbers work out to be close to the same as these.

If you donate $100 in any given year and claim it on your tax return, you'll save $19 of income tax (19%). On $300 the savings is $86 (28.7%). $500 of donations gets you $177 back in tax (35.4%). The percentage of savings increases a bit as the total amount of annual donations increases. When you get to several thousand dollars, you are saving ~45%. In other words, each donation dollar is only costing you ~55% of what you actually donate.

CRA allows you to carry forward donations for up to 5 years so you technically can claim your donations every 5 years to maximize your tax savings. I'd only recommend that however, if the amounts are relatively small, as I've laid out.

Life Gems— Gaia GPS

I've had this app on my phone for quite a while and didn't really use it. That was until Cheryl and I were trying a short trail, just before dusk, in Arches National Park just outside Moab, Utah (which is the time I wrote this; while sipping a can of IPA from Fort Collins, CO. at Devils Garden, the only campground in the park. But I digress…). This app opens and shows where you are without any cell service. I could see when we were on the trail and as we wandered off it, which was more than once. It was getting dark so we headed back the same way we came. With just a lot of sand and sage brush and bunches of short trees, it was easy to get off the trail since it wasn't clear where the trail actually was. Gaia GPS showed us where we went off and brought us back again. I wouldn't go on a hike without it.

HHHmmm…

• Ray Dalio, founder of Bridgewater Associates, has a net worth of $15.4 billion (Forbes 121st wealthiest in the world; Jimmy Pattison #272 @ $9b; Mark Cuban #571 @ $5.4b). Despite providing a 11.4% / year return from 1991 to 2022, Bridgewater's Pure Alpha fund has struggled over the past 4 years, losing 4% during this time. InsiderMonkey, July 2024 #ShortTermAnomaly

• If your portfolio manager is incentivized (through bonuses) to outperform a particular index, they see risk as not matching the index's performance and therefore will take on more risk to beat the index, yet your objective is trying to get to your point B, which is about not permanently losing your money. #ManagingForYouOrThem?

• Southwest Airlines is the largest US domestic airline, bigger than American, Delta and United. It was started and led for many years by Herb Kelleher (died 5 years ago). He ran it under a very successful model (which included 1 class of service and no assigned seats) which was different than any other airline. This focus made Southwest profitable for 47 consecutive years, until Covid broke the string. This is a record that is unmatched by any other airline in the world. During that time, all 3 of its main competitors went bankrupt at least once. It is now under new leadership and they are trying to make it more like other airlines. Fortune, August 2024 (full article: https://bit.ly/4g79vZo) #FollowingTheCrowd

• In many ways, A.I. is comparable to the technology bubble. It's a wide-reaching technology that promises to fundamentally change the way the world works. Many say it's different this time because the companies are "real" or profitable. This implies that the companies from the tech bubble were not, and yet many were, such as Microsoft, Amazon, Intel, Adobe, Cisco, Texas Instruments, Comcast and Qualcomm. They still thrive today, but they took a decade or more to meaningfully surpass their late 1990s/early 2000s highs. Edgepoint Wealth, July 2024 #WhatYouPayMatters #10+YearsToBreakEven

• TD reported its 1st quarterly loss in over 2 decades due to $3.0 billion in penalties having to be paid for U.S. money laundering investigations. TD shares have declined 9% this year while the S&P/TSX Financials sector is +7.9%. I read today one portfolio management firm I'm familiar with is buying while another has sold all their TD holdings. IPC Market & Portfolio (Daily) Update, Aug. 2024 #WhoWillBeRight?

• Jaguar, Skoda and Absolut vodka used to be money losing businesses that were run by government. They are now independent businesses that are profitable. #NotSurprised

• According to recent statistics, the average annual income for Canadian seniors is approximately $60,000 per household. This includes all sources of income, such as government benefits, private pensions, and personal savings. Single women tend to have lower retirement incomes and are at higher risk of financial insecurity in retirement. MSN.com Aug. 2024 #NotOurFemaleClients

AGE	ACTUARIAL ADJUSTMENT	ANNUAL AMOUNT (MAX.)	
70	142%	$23,253	+42%
65	100%	$16,375	
60	64%	$10,480	-36%

• Surveys suggest that some 40% of retirees fear retirement more than they do death. CI Global Asset Management, July 2024 #Doesn'tHaveToBe

• CPP can either pay you up to 42% more or 36% less than the popular CPP start age of 65. #GetAdviceOnWhen #TakingMine@70

• When you put gas in your car, you are paying carbon tax and the federal excise gas tax. In most provinces, you also pay provincial gas taxes. If you live in Vancouver, Victoria or Montreal, add a transit tax on top of that. Ottawa is also charging you extra GST on top of the other taxes. We are all paying tax-on-tax. Many provinces are doing the same. This tax-on-tax is costing Canadians $595 million this year. Canadian Tax Payers Federation, Aug. 2024 #StopTaxOnTax

• Since 2015, Trudeau added 108,000 extra bureaucrats. That's a 42% increase in people in 9 years (has the population increased 42%?). Those extra people are costing Canadians more than $10 billion / year. Canadian Taxpayers Federation, Aug. 2024 #GovernmentWaste

• More than 40 countries have established a "Truth & Reconcilation" commission, tasked with discovering and revealing past wrongdoing by a government, in the hope of resolving conflict left over from the past. Wikipedia #TheHumanCondition

• The problem isn't so much what people don't know; the problem is what people think they know that just ain't so. Will Rogers #SeekCounsel #ListenToUnderstand

• If you believe that our life is random and came into being by chance, then morality or what we deem is evil is only our subjective opinion on what we like or don't like; society simply chooses to determine what is evil and what is good. #What'sYourWorldView?