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.

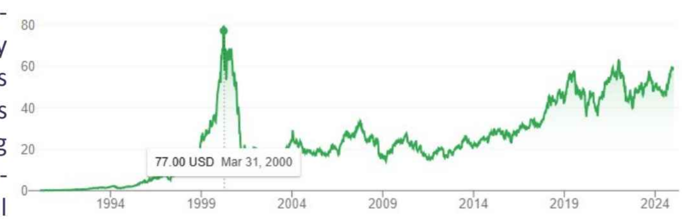
The Risk Today Vs 25 Years Ago

Remember when Y2K was a concern when we were sliding from 1999 into 2000? To me, that seems so much more recent than 25 years ago with us now being 25% into the "new" Millenium.

Back then, we were riding a massive tech wave. Some of the biggest names which people wanted a piece of included Cisco, Intel, Verisign and Nokia. I often had clients request that 100% of their money be invested in 1 particular name. The Canadian investment darling at the time was Nortel.

In March 2000 thousands of investments hit their price peak. Within 9 months the prices of tech stocks (and many others) fell by more than 50%. By year end 2000, even many large and highly profitable businesses had share prices that were down by 90%. Why? Because within a very short time there were fears of recession, and money was pulled very quickly from the businesses that were highly (and often insanely) overpriced from a pure business valuation perspective. The reason people bought shares of these businesses when all things seemed great was simply because of the business's name. The reasoning (I use that term loosely here) is that "Everyone is buying it and it is going up in price therefore I should buy it". There was no consideration or even a question about what the business was actually worth. Buy made. Risk taken.

Today, the "have to own" names of the era, have share prices that are below (some well below) what they were 25 years ago. That is despite being profitable businesses and still among the leaders in their field. Why? The answer is simple. The price paid for the business was way too high, well above what the business was worth.



The risks today are not who is leading a specific country, where a particular economy is going, a war, a pandemic or anything else that can cause upheaval or people to panic. The most important risk and more important today than it has been in 25 years (and the one you have control over), is in the answer to this question. "What are the businesses that I own pieces of, actually worth?".

The reason so many sell in highly charged times is because they have no idea what the businesses they own are actually worth. They are buying the popu-

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larity of a name rather than a business. If that is done, you will most likely lose. However, if you own a diversified portfolio of high quality businesses, run by skilled management teams who own a piece of the business along side of you and are paying a fundamentally low price for that ownership state, the only risk you face is that "the market" may panic and sell for emotional reasons. However, the price of these businesses will soon return to what they are truly worth. That was true in 1900, 1925, 1950, 1975 and 2000. It is also true in 2025.

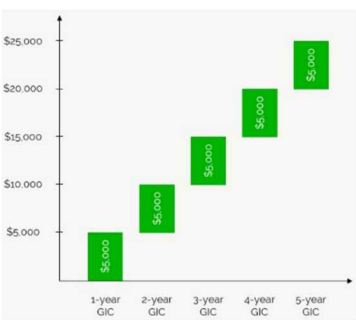
What To Do With Falling Interest Rates

<u>Looking for a new home (1st home or upsize?)</u> - I've heard and read about people saying they are waiting until interest rates fall before buying. Interest rates have already fallen (a lot) and if you are a 1st time buyer, waiting longer can be a mistake. Waiting for the optimum time (the lowest interest rates) will probably have you bidding against way more people. On top of that, home buying activity starts to heat up in March and builds through June. You have an increasing amount of buyers during those months so get out there sooner rather than later if you are planning to make a move.

<u>Money in savings accounts (or GIC's coming due)</u> - Interest rates have fallen for mortgages and they have for deposits. We used to get our clients a High Interest Savings Account @ 6%/yr. Today it's barely 3%. Inflation is at 2% so if you are in a 33% tax bracket, you are breaking even. As interest rates continue to come down (and the longer they stay down), more and more people will be seeking alternatives. Just like the rush of home buyers competing against each other for a home when all the stars are aligned, people with cash in savings accounts and maturing GIC's will look for alternatives. A diversified portfolio of bonds or better still, a well-balanced portfolio of equities and bonds should produce a better long term return (e.g. 6—7% / year) than simply lending your money to the bank at lower and lower interest rates. You don't want to be looking for a new place for your money after rates have hit rock bottom since that is when a lot of the money wil already have been reallocated and the prices for these investments will be much higher.

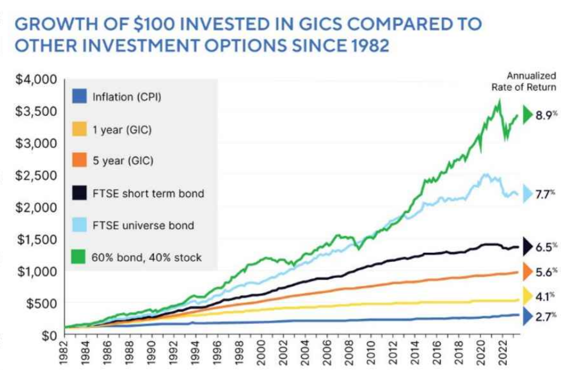
Why Rolling Over GIC's Makes No Sense (There Is A Better Way)

There are so many people who have tens of thousands and even hundreds of thousands of dollars in GIC's. The common strategy for a "GIC Portfolio" amongst some Financial Advisors, is what is called "GIC Laddering". This has one's money spread out into 1, 2, 3, 4 and 5 year GICs. If you have $100,000, you would try to have $20K in each of those time frames. Generally 5 year rates are higher so you want that – however, you also want money coming due regularly. Illiquidity (not being able to access your money) carries 2 main risks: 1) What if you need your money now? and 2) What if inflation is higher (especially much higher) than the interest rate you are earning? Being locked in means you are locked in to losing money.



The thinking behind GIC Laddering is that you can have 20% of your money mature every year and lock in at the highest prevailing interest rate at that time. However, let's walk through this. You are coming up to a maturity date, with 20% of your money set to be freed up from its chained up state. Your money is free on that 1 date before you lock it up for another 5 years (or even 1 if you so choose). You are in a perpetual cycle of having your money locked up.

A much better strategy would be to have this same money broken up into 5 different investment pools. The 1st is in a High Interest Savings Account. It doesn't change in value but rather earns the best rate of interest you can get (currently ~3%). The next you invest is Short Term Bonds. The interest rate on them is generally higher than GICs. They fluctuate a bit but you're looking at this in place of a 2 year GIC that you can't get your money out of so who cares if it fluctuates a bit. Following that (your 3 year GIC replacement) is a large portion of bonds with a smaller mix of high quality equities. Your 4 year bucket would be a "Global Balanced" vehicle. The 5th would be a conservative equity portfolio.



Source: Statistics Canada, Bank of Canada, FTSE Russell, MSCI. 60% Bond 40% stock portfolio composed of 60% FTSE Canada Universe Bond index, 40% MSCI World Total Return Index (CAD).

The reasons why this is a so much better way to structure your money are:

1) You are very well diversified, which means taking the least amount of risk you can for each stated investment period.
2) If you need cash, it is readily available via the High Interest Savings Account. You will get 100% of it plus interest on any given day.
3) If you want more than 20% of your cash, you can have it. In fact, you can have 100% of it back in your bank account within 48—72 hours. In other words, no liquidity risk. Nothing is locked up. The only price you pay is accepting a bit less than you originally invested should it not be an opportune time to sell.
4) Over time, you should earn a much better return than a Laddered GIC portfolio. Currently the best rate on a 5 year GIC is 3.5%. Interest rates on shorter terms are even lower. That has proven so easy to beat in the long term particularly since you are virtually breaking even on the Laddered GIC strategy, when inflation and the income tax you have to pay on the interest is taken into account. Wisdom says, it is much better to "own" (invest) in things rather than to "lend" your money out (GIC).

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PS. There are also Principal Protected Notes that are often available where you can have them and participate on the upside of a set portfolio to a maximum amount on the upside while still having your principal guaranteed. I believe there are better ways to do things – however, it's better to have more investment tools (such as this) to choose from than just be stuck on 1 or 2 choices. Minimum term is 2yrs + 2 days.

Using The RRSP Contribution Room You Have (Even When Retired)

A RRSP contribution is the only large, one-time tax deduction against taxable income you have. If you want to reduce your income tax bill (for 2024), the RRSP is by far the most effective, easiest and quickest way to do that. For every $1,000 you contribute to your RRSP you will reduce your income tax by $200 to $535 (in BC). On a $20,000 RRSP contribution you will get back up to $10,700 in tax. You've turned $20,000 into $30,700 instantly just by doing it.

The maximum RRSP contribution you can make for the 2024 tax year is $31,560. If you have earned income in past years, you could have more than that available as a tax deduction. This is because what you don't use one year gets added to the next year (and so on). This can leave you with tens of thousands if not well over $100,000 and even $200,000 of RRSP room. If you are in that position, you could be letting a lot of tax deductions slip away (we should talk ASAP).

On top of the tax savings (and depending on your stage in life), you could temporarily increase any Child or Family Benefits that you receive (or you could start receiving these $'s if you aren't). Or you could reduce / eliminate OAS "recovery payments" aka "clawbacks (if you receive OAS). This is additional money you wouldn't have if you didn't do the RRSP contribution (adding another ~20% of savings).

There is only 1 reason you may want to accumulate RRSP room and that is for offsetting a potential huge tax bill on the sale of an asset that has grown in value (eg rental property). Since this "capital gain" adds to your earned income, the percentage savings on the RRSP contribution will be larger than what I have laid out above.

If you have RRSP contribution room and you won't be 71 by the end of 2025, I'd highly recommend checking with us ASAP to see if making an RRSP contribution makes sense (either before March 1st for the 2024 tax year or by Dec. 31st for the 2025 tax year). We'll give you an estimate of what you'll save and tell you if it is worth doing or not.

Do You Have The Best "Worst Story"?

Before there was GoFundMe people had to put in place plans to deal with a catastrophic event should it occur in one's life. Today it seems that this backstop isn't always insurance but rather GoFundMe, where people tell of their predicament and money flows in. It seems if you have a story to tell that screams tragedy and is emotionally charged, your chance is higher that you will get the money you need quite easily (and often it seems, you'd get a lot more). If you can't sell your story because it doesn't quite match up to some of the best of the worst stories, you'll be left in dire straights.

I have a strong philosophic view that we should take care of ourselves using prudent methods but also recognizing that we shouldn't try to insure against every possible risk; it is good for us to have to rely on people to meet specific needs. Crowd sourcing platforms like GoFundMe have been a good conduit for filling a big need – however it definitely shouldn't be used as your sole protection. The best options to insulate against significant risk are:

1. Life Insurance— pays out a lump sum in the event of the death of a family's income earner. This money can easily be used to create a monthly income to replace the income that is lost by that death.
2. Disability / Income Replacement Insurance— when an income earner loses the ability to work, be it from a physical or mental issue, up to 67% of their working income could be paid to them through this insurance, until age 65. I know many people who get paid this.
3. Critical Illness Insurance— cancer, stroke and heart attack are the 3 biggest critical illnesses, where this insurance will pay out whatever amount you have insured for. Once you experience or are diagnosed with a critical illness, you'll get a cheque.

   There are of course, many things you can insure for; however these 3 are by far the most important. Your income needs, debt levels and overall capacity to absorb a financial hit are the driving factors in determining the level of your need for any of these insurances.

PS. Some insurance companies offer a "Refund (Return) Of Premium" option on specific kinds of insurance. This means that if you don't claim on your insurance, you will get up to 100% of the premiums paid, refunded back to you. I have had this on my own disability insurance coverage for many years (and have received refunds, as have many of our clients).

The Rule Of 10 & The No Buy Challenge

It's January and although many people are refreshing their bank accounts after the normal spending period running up to Christmas, it is only a matter of time before one's spending needs a rule to follow in helping better discern when a purchase should be made (or not).

Those of you who watch kids or grandkids in sports (hockey particularly) will really understand how The Rule Of 10 works. It is like the 24 hour rule before a parent can approach a coach. It provides for a cooling period, a time to let your emotions subside so a rational action (or non-action) can be decided on. The Rule of 10 is similar but for potential purchases that are right in front of you. It gives you time to reflect on how the purchase (and its costs) will make you feel in 10 days, 10 weeks and even 10 years.

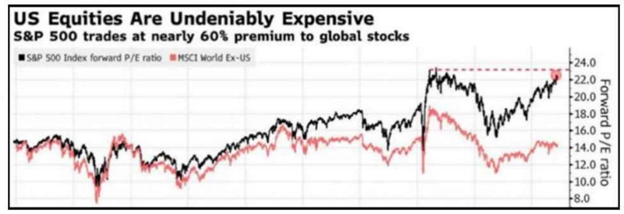
This cooling off time frame should be 1 day for every $500—$1,000 of proposed spending. For the larger amounts, a 2 week maximum should be plenty for most people. However, that would include putting the issue out of your mind rather than keep trying to convince yourself how good this purchase would be. I've heard so many stories of people going on a holiday and come back owning a time share. That is a highly emotional buy, yet so many of us do that for so many small things and those smaller things can add up. Use the "Rule of 10".

Challenge: Starting today, don't buy something for at least days 5 days (or more). I've been told this is hot on TikTok right now. Don't buy anything non-essential. Just pay your bills, buy groceries, etc. I know others who simply cut out alcohol. What are you going to do?

Life Gems— The Conqueror Virtual Challenges

Jen from our office has used this with her son Ben and loves it. With www.theconqueror.events you are doing a walk anywhere close to home and converting it into a virtual walk through a world renowned city (or a Harry Potter or Star Wars world, etc.). While you walk (or run), you can see your virtual surroundings using Google Street View. What you see are the actual surroundings if you were physically in that far off place you chose. So much more to dive into than what I wrote here so, if you need something to encourage you to get out and walk, we're hoping this will help by the catalyst that creates a long term, healthy habit, with a tool that makes it a "want to do".

HHHmmm...



• The Magnificent 7 combined are worth ~35% of all the 500 large US companies included in the S&P 500 Index. We've seen this kind of "lots of money pushing up the price of a very few companies" before. It never has ended well #IsThisTimeDifferent?

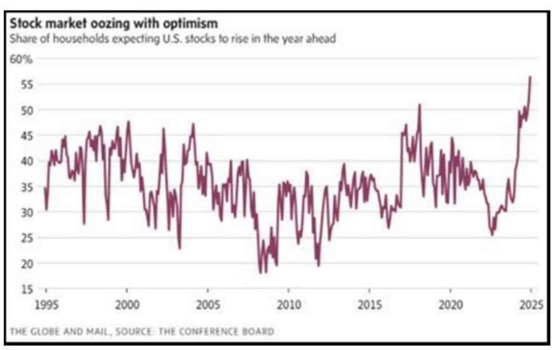
• US Investment Grade bonds are still trading below par and the interest (coupon) rates are above historical averages. In other words, you can still buy a high quality US bond for below the price it was issued at and get higher than normal interest on it. The price of the bonds will slowly go up in price as the bonds get closer to their maturity dates. #Interest+CapitalGains #BetterThanGIC

• "Cash is always a bad investment. When people said 'cash is king' a year ago, I mean, that's crazy. Cash wasn't producing anything and it was sure to go down in value over time. It's like oxygen. You want to be sure it's around, but you don't need to have excessive amounts of it around." Warren Buffet (8th richest man in the world)

• Berkshire Hathaway (Warren Buffett's investment conglomerate) at the end of November 2024 was sitting on $325 Billion of cash which is more than what 478 companies combined, of the S&P 500 are valued at.

• Over 2024, the Canadian dollar fell nearly 8% against the US dollar, hitting a 20 year low of C$1.44 from C$1.33 at the start of the year. Currency watchers predict the loonie could weaken further in 2025, with projections ranging from C$1.45 to C$1.50. #TravelCanada

• In 1981 the US's GDP was about 10% higher than Canada's. In 2023 it was 43% higher. In 2025 it is expected to be close to 50%. We haven't seen that in my lifetime (over 60 years). #DecreasingStandardOfLiving



• When I sense that people are feeling very optimistic I get uneasy and when there is a strong air of pessimism I tend to feel much more optimistic. #CounterToTheCrowd

• Amazon made more than 60% of its $47 billion operating profit (1st 9 months of 2024) through its cloud business, powering the most popular services such as Netflix, Apple and Uber which are locked into lengthy contracts. #ShoppingIsASmallPart

• In Japan there is more office space being used than just prior to Covid. In North America, companies are moving from desk rotation (where employees share desks as they work different days) to getting more space so everyone has their own desk. #OfficeSpaceDemand

• Replacement cost for a home in Edmonton is reported to be $242/sq ft (not including the land). Why does it seem that building costs are so much cheaper than in Vancouver where it's ~$400/sq ft? #LabourCostDifference

• "When your children are mature, have them read your Will before you sign it. You don't want your children asking 'Why?' in respect to testamentary decisions when you are no longer able to respond." Warren Buffett #LetYourWillBeKnown

• In October 2024, TD Bank pleaded guilty in the USA for failing to prevent money laundering by drug cartels and other criminal organizations. Why aren't Americans and Canadians alike saying this is not OK, by closing their accounts at TD en masse and moving to another bank? #ComplacencyBreedsEvil

• There are so many critiques against Millennials, but why does it seem to be that people within a particular age group (mine) are the most likely to talk on their phone loudly on speaker while grocery shopping, or watch a video at Starbucks and not think to wear earbuds or headphones? #YouKnowYouAreOldWhen

• Thanking or leaving it up to the Universe is believing that the inanimate and thus without intelligence Universe, which is the sum of all matter that miraculously came about by randomness, has control over outcomes. #TrustInChaos #*1in10*^{2,685,000}Probability