CEV WEALTH

FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

ISSUE NO. 229 September / October 2025

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.

Avoiding Recession To Keep Growing

The US and Canada are currently walking down a log, trying not to go into a recession. The balance is keeping interest rates low enough but not too low so as to increase inflationary pressures. Both central governments have been holding interest rates steady (so far). Canada may be forced to lower interest rates sooner because our economy is weaker than the US. This is evident in our 6.9% employment rate. I've read that expectations in the US are for 3 interest rate cuts (which Trump would love); however the US inflation is more than 1/3rd higher than Canada's. (Ironically, in contrast, Japan will probably raise interest rates because its economy has been so strong).

Recessions and inflation are both things that investment markets don't like. The worst of these is a combination of the 2, where prices are rising when people are being laid off, an economic environment called stagflation (stagnant economy with inflation). We haven't seen this since the 70's.

What if the Bank Of Canada's Tiff Macklem loses his balance while walking this log? That risk will be felt most by those who are the most likely to be laid off and need their jobs to meet their living expenses (including their mortgage payments). They are the most at risk of breaking something because they will be falling the hardest and most awkwardly.

From a portfolio perspective, those who hold highly priced investments (which include the MAG-7) are at the highest risk of experiencing more downside than what one would be normally comfortable with. "The bigger they are, the harder they fall". I do want to be clear though that I am not predicting this. Rather, I am simply pointing out the areas where the highest pain is most likely to be felt should things not go as planned.

I'm also not saying that a 70's like environment is in the cards. If though it does play out that way (it wouldn't surprise me), I am very confident our client portfolios will hold up very well. Why can I have such confidence? The vast majority of those dollars (over 80%) are steered by investment teams that follow an investment discipline that has over 50 years of history. It was adhered to in the 70's and produced very pleasing

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results when "the market" was flat for most of that decade.

Those Who Think & React With News Do Worse

We serve as a Financial Advisory office for approximately 130 households & charitable organizations, all of which have differing needs. Attached to these are personalities that are very unique. Each thinks, acts and trusts similarly; however, there still are differences when considered holistically. Despite that, the differences in portfolios are at the core, quite the same. However, there are some distinct differences when looking at longer term performance between 1 core personality compared to another.

I've compared similar (or virtually identical) client portfolios and found that there can be quite a difference in performance between one client's portfolio versus another. How can that be if 2 portfolios are the same investments? A very good question and it is something that made me want to dig a bit deeper and frankly, all I had to do was think through my conversations (and when they happened). It came down to how much confidence they had in their portfolio, how they seemed to get caught up in the news of the day, etc. Here are some broad points showing the kinds of reaction (or inaction) that I've noticed and the effects on performance.

Amongst The Lowest Performance: When there is even a relatively mild downswing, I get a call or an email. When things are uncertain, despite a client holding cash, they wait until things feel better to them. Communicating concern to me when their portfolio has declined, or when something is happening in any part of the world. Wanting to hold more conservative investments despite not needing the money for any particular purpose. Being too conservative for the investment timeline (e.g at age 65 not realizing that their money will probably be invested for another 25+ years and that only a small amount will be needed each year as a source of income).

Amongst the Highest Performance: No decision delays; heeding advice that they should invest the money they have or reallocate to something else. Investing money on the sidelines whenever things around the world (based on current news) seem precarious. Simply staying the course. Trusting in what I'm telling them without hesitation.

I'm not saying any of these things in isolation will affect one's portfolio a lot. I'm also not saying that I don't want any communication when things don't feel right to you or trusting without evidence. Quite the opposite – since that is the road to learning more about yourself and how your portfolio is being managed, making you a better investor. What I am trying to point out and make vividly clear (and recognizing in yourself if it applies) is something that has been studied and data gathered on, for years. That your actions or inactions of a peer are one of the biggest drivers of success or failure. We are often our own worst enemy when it comes to making financial decisions; making your portfolio perform as best it can, within the portfolio parameters that have been initially set.

The part I work everyday to fill is to offset the potential angst, uneasiness, uncertainty, etc. that one may feel at any particular time. I do so by regularly sending out details about why we own what we own, and continually pulling data from history to see what that shows. History may not repeat itself but it rhymes. I say 'why we own what we own', because I am invested in very much the same things as my clients are. Thus, when I'm giving advice, I have done or am doing, the same thing.

FOMO Is Emotional Decision Making

FOMO, the "Fear Of Missing Out," is the anxiety that is created by seeing someone benefit from something when you aren't. Some of us are more prone to this emotional decision making than others. This can lead to impulsive decisions, risks you wouldn't normally take, and a very high probability of losing money and regretting the decision you made.

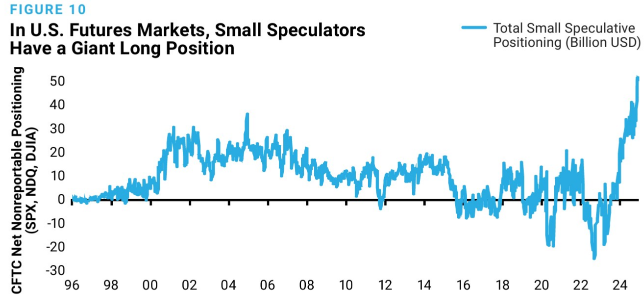
FOMO overrides rational thinking. Instead of looking at things fundamentally and with wisdom, you are driven by the fear of missing out; of not keeping up with someone else and looking stupid. It is a form of peer pressure that is just as insidious as the kind you may have experienced in your younger days.

This makes your investing much riskier than you may realize. It almost always means buying high and then selling low when you've seen that you've lost a lot of money (or holding on for many years after a decline so as not to fully admit you made a mistake).

Usually I get a FOMO flavoured conversation or email from someone whose financial plan is way behind where they want to be. The idea of being able to speed the up the process or catch up to where they want to be is highly tantalizing. Again, that is emotional decision making and it usually ends in crash and burn. The longer the trend goes and the more you feel that you are missing out, the closer you are to ruin if you give in.

There are so many investment opportunities out there. Not succumbing to FOMO might be the most important investing skill. Having a highly disciplined investment decision process with a whole team involved has proven to be the surest way of getting you to where you want to go in the long run. A well diversified portfolio in our office has at least ~45 different holdings in a wide range of industries and countries. Over many years, this has proven to provide very pleasing returns in the long run. With 38 years of experiencing all kinds of mistakes, either personally or through others, I am convinced that history

FIGURE 10



Source: Bloomberg, L.P., Picton Mahoney Asset Management Research. Jan 1996 to Dec 2024.

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definitely rhymes. Discipline, patience and wisdom are definitely invaluable and timeless.

PS. The chart on the bottom right on the previous page shows we are in "rarified air" of the amount of small speculators there are. I'm guessing these are mostly younger people who were too young or not even born and have never seen the other side of the knife.

Making That 1st Home Purchase Happen

The government has continually tried to make home ownership more accessible to residents of Canada. The 1st of these is allowing for 30 year amortizations for all 1st time home buyers. Instead of making payments over 25 years, you can stretch them over 30 years. This helps in reducing monthly mortgage payments.

2ndly, you don't need as much as a down payment when you are a 1st time home buyer. If a purchase price of a home is $500,000 or less (home meaning condo in some of the more expensive areas), you only need to put down 5%. Home ownership is definitely workable despite what you may read. I have seen evidence recently of this by 2 young single people who I'm relatively close to. Both bought or are buying condos in White Rock which isn't the cheapest jurisdiction by any stretch and as far as I can surmise, didn't get any help and are buying it on their own income (which is quite average). They had a goal and made it happen. You can too.

Need ideas of how to get on this path and make home ownership a realty for you? We love seeing people (young to older) make their goals and dreams happen. I'd start with reading our FHSA blog post and then, get in touch with our office.

Save Up To 51% Using A Spousal RRSP And Pay $0 Tax Withdrawing It

Spousal RRSP's were originally put in place before a retired couple could split their pension (and RRIF) income. Spousal RRSP's simply put dollars into the lower income earning spouse so when they had to start drawing out of their RRSPs (by converting them to a RRIF), the family income would be more evenly distributed.

However, since 2007 we have been able to split pension income. This has made a Spousal RRSP much less useful. However, here is one strategy where you can get a RRSP tax deduction on the higher income earning spouse's income, save 51 cents in tax for every dollar contributed and have your very low or no income spouse withdraw it and pay $0 in tax.

1) The very low or $0 income earning spouse opens a Spousal RRSP (it's in their name but their high income earning spouse gets the tax deduction).

2) A e.g. $15,000 Spousal RRSP contribution saves the higher income earner up to $8,025 in tax.

3) Withdraw the $15,000 after 3 full calendar years. Lowest income earner pays $0 tax.

The end result is you have saved up to $8,025 of income tax (based on the highest tax bracket). You can do this year after year after year if you want to, saving up to $8,025 in tax every year. The downside is that the higher income earning spouse is using up valuable RRSP contribution room. This does limit your ability to save for your future years. However, this can be used strategically to achieve another, shorter term goal. Of course, this can be 1 of many financial strategies. Anything like it of course should be used as part of a complete, cohesive financial plan.

Putting Your Money Where Your Heart Is

Warren Buffett has said many times that we in North America (and any other developed country) won the "Ovarian Lottery". What you have achieved isn't by your own achievement. The biggest part of what you have is the fact that you were born in the right place. In that context most would say those in Ukraine didn't win. Neither did many born in Africa. Even the sunny places that so many of us travel to for leisure are countries where the people didn't win the Ovarian Lottery. However, you and I did.

I'm sure you recognize this every day. So what are you going to do to pull up the person or group of people who didn't, those you have empathy for? Be intentional about doing something, no matter how small you think it is. The easiest thing quite frankly is simply to choose a specific thing that tugs at you (and if nothing does, find that thing) and support it financially.

I'd recommend setting something up so it is done regularly (monthly or annually). Of course, giving cash is the easiest and it may be all you can do. Do you have investments that have gone up in value? Donating a part of those is financially even more beneficial to you since you won't pay tax on capital gains when you give those investments. It is an easy way to donate and I use this for virtually 100% of my own charitable donations.

Life Gems— Clear Estate

Most people I know have named a family member (and often 2) as their Executor. Recently someone I hadn't talked to in a long time told me her sibling will be the Executor of their mother's estate. She was concerned since this family member Executor will probably charge the full 5% (which is allowed by law). Most Executors (members of the family) do this for free simply out of duty. However, it can be a time consuming process requiring some administrative gifts and thus payment is reasonable no matter who does it.

There is a modern alternative to this often, very labour intensive process. Clear Estate is an online platform where you work with a team of professionals to take care of part or the full estate settlement process. Their packages run from ~$5,000 to 1.75% of the estate depending on what you want them to take care of. This can be a great alternative to having a family member do all or part of it. You get the power of technology combined with third party, unbiased expertise in a cost effective package. I'd particularly recommend it if you think there may be tension among the family should your family member Executor be seen as self-serving or not considered competent.

HHHMMM...

• A hallmark of bubble tops is when bears (those who think markets will fall) are few and far between. Today though, currently 40% are cautious. Near the peak of the tech bubble (1999), this reading was consistently under 15%, and borrowing to invest was increasing. #ReadingTheSigns

• Google's share of search traffic dropped below 90% at the end of 2024, the first time it dipped below that threshold in 15 years. #NothingLastsForever

• Delta airlines, under CEO Ed Bastian, has been one of the most successful airlines in the world and has done so by offering one of the most robust employee profit-sharing programs. This was started in 2007 while it was emerging out of bankruptcy, playing a part in helping keep out unionization by improving morale. This year profit sharing amounts to $1.4 billion for its 100,000 employees to split. In the 9 years that Bastian has been CEO, Delta has shared more than $10 billion in earnings with employees. #EmployeesTreatedAsOwners

• Without government funded support, we wouldn't have GPS, Lasik surgery, microchips, MRI scans, cell phone touch screens, QR codes, mRNA vaccines, and many other products that we use every day and take for granted. The internet itself was born in the US military, and even the development of Google's search algorithm was originally funded by a government grant. #GovernmentFuelingTech

• U.S. citizens have benefitted massively from the fact that most things can be made more cheaply in most other countries because wages are lower. Yes, this has cost the U.S. a few million jobs, but it has also allowed virtually all Americans to live much better than they would have if they had been limited to buying U.S.-made goods. #GlobalTradesBigPicture

• Best Buy Canada employs about 10,000 people, making it one of the largest retailers based in BC. That compares with staff counts at other BC headquartered companies: Lululemon Athetica Inc. (39,000), Save-On-Foods (22,000), Aritzia (more than 8,300) and London Drugs (more than 9,000). Best Buy's Canadian division is far outpacing their US operations in sales growth. #SellersOfGoods

• US$209 billion in the U.S. versus US$4.2 billion in Canada. That is how much has been raised in each country in venture capital (small business ventures). The U.S. economy is roughly 13 times larger than Canada's, yet America raised 50 times more venture financing. However, Canada has 85% of the world maple syrup market, sells a lot that it pulls out of the ground and has an economy that is all about buying and selling real estate, making us feel wealthy so Canadians continue spending and piling on personal debt, right? #InnovationLiftsAllBoats

• Vancouver has the 3rd highest "tech talent concentration" behind the San Francisco Bay Area and Seattle. These workers earned an average of US$80,339/year in 2023. Vancouver also leads North America in its concentration of software engineers in the tech industry, as well as its population growth of those in their '20s and '30s. #WestCoastTechCorrider

• Government figures show the cost of building the average home in Canada has increased 58% since 2020 and could rise further, thanks to U.S. tariffs. #HousingCostPressuresContinue

• Amazon has rolled out same day delivery fresh, perishable groceries along with all other goods to 1,000 US cities. It will be to 2,300 US cities by the end of 2025. Prime members would pay $0 for delivery for orders over $25. #ADifferentMouseTrap

• In 1960, at the height of the steel industry, Pittsburgh was home to 600,000 people; today, the population is a bit more than 300,000. #IndustrySpecificCities

• Average asking rents in Canada fell 2.8% to $2,119 in March. Rent for apartments in Toronto was down 6.9%, the 14th consecutive monthly (??) decline in the city, which also recently implemented restrictions on short-term rentals. #RubberBandSnapBack

• The Canadian economy lost the most jobs (40,800) since January 2022, and excluding the pandemic, it's the largest drop in 7 years. The decline was concentrated among youth ages 15 to 24, who are usually among the 1st to experience a labor-market downturn. Their unemployment rate reached 14.6%, the highest since September 2010 outside of the pandemic. The employment rate for youth fell to the lowest since November 1998, excluding the years impacted by Covid-19. #IWas18In1981

• A couple of months ago I went to Starbucks close to home (South Surrey) on a Friday. On the Saturday I went to Starbucks in Blaine USA. Here's a Starbucks reason not to go to the US. 2 tall dark coffees and a cheese danish in Canada is $8.77 Cdn. Same thing in virtually any Washington State Starbucks was $15.60 Canadian or 78% more expensive. Most of this was from higher prices and only partially from the exchange rate. #WhyTheDifference?

• E-Circuit and Panasonic Alkaline batteries purchased at a dollar store are 30-60% of the cost of Duracell and Energizer batteries yet last ~90% as long as those 2 name brands. #MoreBangForBuck

• Short exposures to menthol for 6 months prevented cognitive decline in the mice with Alzheimer's and, what is most interesting, also improved the cognitive ability of healthy young mice. #AreMentholDrinksComing?

• Most of what people call "conviction" is a willful disregard for new information that might make you change your mind. That's when beliefs turn dangerous. #NotLikingTheTruth

• Economic history shows that 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. #FactVsFeelings