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.

Carey

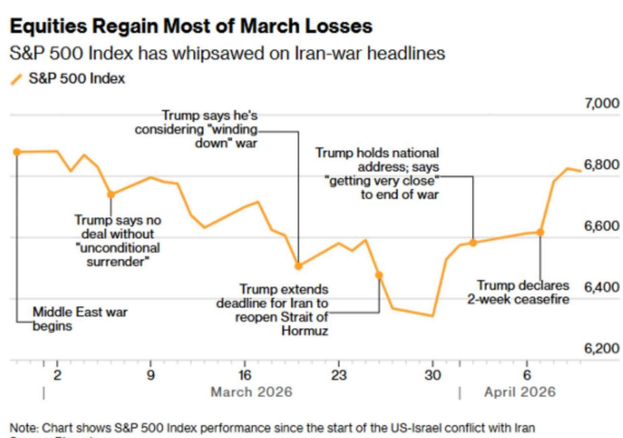
The World Seems Chaotic, Yet...

It's been just over a year since Trump first started throwing all kinds of tariff threats at various countries around the world. Fear was launched big time. Many believed that the future looked more uncertain than it ever has. Markets (investment prices) reacted with significant downward pressure. The rhetoric seems to have subsided; however, tariff threats still pop up sporadically.

Of course, troubles never disappear. More recently, the USA wrestling with Iran has increased energy prices significantly, stoking inflationary concerns. Glimmers of a resolution have come, gone and come back again (and disappeared again… what is happening currently depends on the day), making us all wonder how this is all going to end.

Despite all of that, the investment markets are well above where they were 1 year ago and have even recovered from the most recent turmoil. The tariff bombs continue to be threatened, but now they seem to be just sprinkles of rain on ever lengthening spring days.

It has been said that "the markets climb a wall of worry". It has done that in spades again.



As we have seen, through our own experiences, what has gone on around us, as well as our observations of history outside of those things, there are timeless truths, based on what seems to be replays and rhymes of experiences and events:

- ⇒ There is always something to be concerned about.
- ⇒ What we experience in the moment always seems worse than anything similar we've experienced before it.
- ⇒ The world has a lot of moving parts. A few of these breaking down or 1 burning to the ground at any given time has relatively little long term

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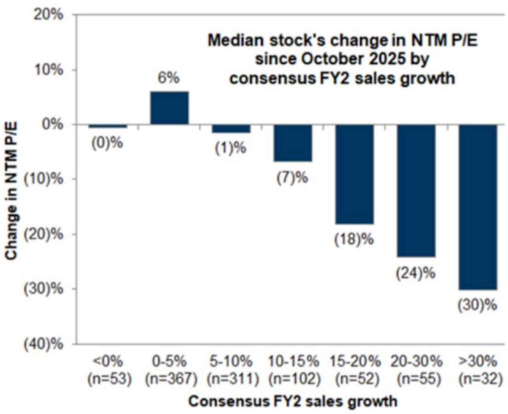
effect on the rhythm of life of the 8.3 Billion people in the world.

⇒ We are wired to be scared and flee because that has helped us to survive predators and enemies.

⇒ Emotions are a bad driver for good decision making, and often deceive us by convincing us that we are being rational.

Get There Faster AND Pay Less

If you could fly to anywhere in the world, and have the flight be 30% shorter than all others, yet cost you 30% less than travelling the way most people are travelling, would you? I think most people would, if they knew about the opportunity and that opportunity was legit but only came up every 20 years or so.



That is the kind of investment environment we are currently in. Companies that are growing their sales at a 30%/year rate can actually be bought for less than those growing at a much slower clip. In fact, the ratio between price and growth gets more out of balance the better the company is doing. In other words, the more a company is growing their sales, revenues and customer base, the cheaper it actually is.

We haven't seen anything like this in many years. As far as I can remember, the last time it was like this was in the late 90's. That is when the vast majority of investment money was chasing stories and names rather than investing on a fundamental basis. It doesn't seem as obvious today as it was back then – however, hindsight is always much clearer to see.

This is the perfect environment for a shrewd and rational team of buyers of businesses. They thrive in this. The 3 investment management firms to which we allocate our client portfolios have a strong, long history of disciplined investment allocation, buying shares in companies for prices well below what they calculate them to be worth. They do this through proprietary insights which they glean through thorough analysis and development of a thesis on the business. This kind of process and decision making is more valuable today than it has been in many years because through it:

1) Risk is reduced by not paying too much for a business. Paying too much is the biggest and most widely made investing mistake.

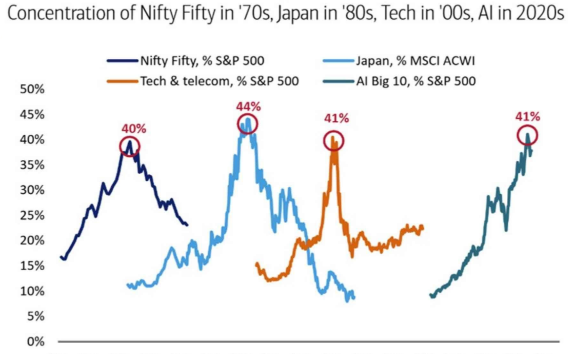
2) Sticking to this investment approach (despite it looking wrong sometimes), has shown to produce very pleasing long term returns.

PS. I'll be in Toronto in mid-May (as I am at least once a year), meeting with various partners of the investment management firm we use for most for our clients' portfolios. They provide one of the most consistent returning investment mandates in Canada and they do it through a disciplined investment approach, practiced very successfully since the early 70's. They are the only firm in my close to 40 years of being a Financial Advisor, in which I would feel completely confident in having 100% of my own money invested with for the next 30 years.

Is The S&P 500 "The Market"?

The S&P 500 is the most widely recognized stock market index. So much so that it is often called "the market". Many people believe you should simply buy this "index"; you'll be fine doing so. You are spreading your money across 500 businesses which make up this index so you have broad diversification. Also, because investing in an index is one of the cheapest ways to invest, you've ticked off 2 of the most common, smart investing boxes. Sounds good so far but… there are some risks you need to be aware of. Below are the list of those:

Concentration of Nifty Fifty in '70s, Japan in '80s, Tech in '00s, AI in 2020s



Concentration Risk: With the AI trade pushing up the price of some of the largest companies in the world, you now would have ~40% of your money invested in a handful of very expensive companies, when compared to the price of all of the other companies in the world.

Valuation Risk: The higher the price you pay for a company, the higher the potential for loss. Paying too much for the shares of a business is often the highest precursor to losing money. There are other indexes (e.g. Russell 200 and MSCI All Country World Index) that are much cheaper.

Rosy Expectations That Could (and will) Go South: Expensive companies are often "priced for perfection." When there is even the slightest disappointment, or more so, a world shaking event like a war or global economic event, the price of the highest priced business usually fall the furthest and many can take 10 - 20+ years to get back to the price they were at.

The Diversification Illusion: January 2000 to December 2009, the S&P Index was flat. Anyone holding the index would have had a 0% return for 10 years. At the same time, smaller companies averaged ~8%/year and international companies produced returns averaging ~7%/year. If you invested in the emerging markets you would have enjoyed double digits (~10%/yr) for 10 years. The biggest reason for the poor S&P

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performance? Simply put, having a concentration in companies that were too expensive and which people paid too much for.

Paying More For Growing Slower: Smaller companies generally grow their businesses faster (and in time, can end up being the biggest companies because of that). Yet today the larger the company, the more expensive it seems to be from many historic valuation measurements. Over the past 100 years, a portfolio of smaller companies would have grown 5 times larger than an S&P 500 portfolio.

Buying the Good, Bad & the Ugly, all together: Personally, I just can't blindly buy the shares of companies that aren't worthy of my investment dollars, let alone pay to much for a piece of a business.

When I get enquiries from clients concerned that "the market" is high, expensive etc. I always say, "you don't own the market". Hopefully, after listing these points, that statement is much clearer. If not, let me know and I'd be happy to explain further.

Investments That Don't Fluctuate In Price Are Often High Risk

We all look at our investment statements. Sometimes we're thrilled that the numbers we see are higher than what we saw before. However, when those numbers are less than previous statements, we become concerned, anxious or maybe at the very least, not look at it anymore hoping that things will get better.

Financial product sales organizations recognize that, and many try to capitalize on that broad distaste of financial uncertainty. They do this by putting together and promoting an investment that can provide consistent returns with no indication of a change in value. The big selling point is, "Own this and you won't see your money show a value less than what you put in." This kind of 'private' investment (one that isn't invested in publicly trades securities) can come in many forms. The one I see the most is a mortgage pool or some kind of debt tied to real estate. More broadly speaking I'm talking about a debt obligation of some kind (you are lending money with the promise that you'll get interest paid to you). Other forms of this kind of private investment are in a pool of real estate or buying shares of 1 or more private businesses. The one thing these all have in common is the appearance that the the actual value of your investment doesn't change in price. The fact though is it is just an appearance. That stated current value can often be way below that.

The biggest time in recent history where this was realized was during the Great Financial Crisis which started in the Fall of 2008. People and institutional investors lent money on property through various financial instruments, only to see property prices fall precipitously. When you lend $100,000 on something that ends up actually being worth only $70,000 you'll get back only 70 cents on the dollar. However, because there is no day to day pricing (like there is in the stock market), the value of your asset is relatively unknown until an actual buy and sell takes place of a similar asset. The actual value is simply not reported to you right away. As well, because there is no public market in which you can sell your asset, you can't get your money out. Plus, you don't actually know what you own a piece of. This lack of liquidity and portfolio opaqueness often exacerbates the losses that will eventually be realized.

I've seen as well as been involved with all kinds of 'private' investments over my 35+ years of being a Financial Advisor. Many investors as well as advisors are attracted to these private investments because it seems to give a stable return. It gives the appearance of immunity to change in market pricing. Yet, the reality is, that non-fluctuating investment has way more risk than is realized. You believing something to be safe doesn't make it so. Faith needs substantial evidence before the truth of it can stand. In the private investment area, we are seeing many significant fault lines which will make many people feel the truth painfully.

Living Like There Is No Tomorrow (Neglecting Longevity Risk)

In mid-March I read a National Post article about a 30-something woman who expected to die quite prematurely because of various medical issues. Believing that her life had a short timeline, she went on a bunch of trips, some of which included her parents, her grandmother, her sister and a couple of friends. She also bought gifts for people, treated people to meals, went to concerts she always wanted to see etc. Bit by bit, she ticked off bucket list items while draining virtually all of the money she had accumulated. Today, she is still around and quite confused on what to do next.

This is an extreme case of living like there is no tomorrow and finding that the expectation made was incorrect. However, many people do this without that high probability of dying prematurely. Every dollar from every month's earnings are spent. They too live like there is no tomorrow. However, their chances are much higher that there will be a tomorrow and many, many more after that.

What if you live an average life span? What if your life's length is longer than the norm?

Regret can come from living too loosely just as it much as it can from living too frugally. Like anything in life, you have to prepare for the worst outcome, yet hope for the best outcome. When riding a motorcycle, that means dressing as such all of the time. This means full protection jacket, pants, gloves, boots and of course, helmet. This can mean not being as comfortable and free in the warmer months, but it will save you from the potential pain (possible death) you could experience should the worst happen (the 'live for today' riders, wear t-shirts, shorts and flip flops, and ride 120km/hour after a pint or 2 of beer).

In Financial Planning that means balancing saving for tomorrow while living the fullest life possible today. The smallest action that can be taken in this regard is simply setting aside a relatively small amount of every pay cheque, and investing for the long term. As we do retirement planning for our clients, we continually walk this fine line of balance. This is most important for our clients who are retired, where we continually monitor, re-calculate and re-project how much they can safely withdraw from their portfolio. We want them to have all the money they can on a monthly basis yet not have to worry about running out of money.

Life Gems– Maan Farms (Abbotsford, BC)

Cheryl and I walked by the wine tasting at our local SaveOn Foods on a very recent Sunday where they were serving up some of their wine made from various berries and fruit. Wine not made from grapes? That isn't really wine and it's going to be sweet. My favorite drinks are strong, dark coffee, a hoppy IPA (for those who don't know, that is "India Pale Ale "beer and good quality red wine (made from grapes), and I'm a bit snobbish about all 3. However, the man pouring it was very affable and I was intrigued. Wow! These are so good. We tried 5 types; strawberry rhubarb and raspberry were my favorites, and none of them at all sweet. In fact, all had a slight bitterness, much what you would get from an IPA. Go to their farm in Abbotsford (very close to the Costco) and you can taste all of these (and more). And that is just the tip of the iceberg. They often have events there, the current one being their "Tulip Forest" (you should buy tickets ahead of time). PS. You can find their wine at 200 private liquor sores in BC & Alberta, as well as at Save On Foods & some Superstores.

HHHmmm...

• The S&P 500 Index (a broad US stock barometer) produced its biggest monthly advance since 2020. As well, the NASDAQ 100 (the largest Intl. companies) logged a 13 day winning streak, which is the longest string of daily gains in nearly 13 years. All of this despite the conflict in Iran, higher oil prices and higher inflation pressures. #ClimbingWallOfWorry

• If you obsess over anything, it should be for risks that do permanent damage, and care little about risks that do temporary harm, but the opposite is more common. #HumanNatureOverride

• In each of the past 46 years, the S&P 500 has had a yearly pullback, averaging a **13.68%** drop from its high to its low. 38 years of those 46 years have had positive annual returns with the average annual return since 1980 being 12.2% #RuleOf72 (72 divided by average return = years it takes money to double).

• Seeing a large decline in an investment can make people hold on to it even if it can be shown that it isn't worth investing in today, at this lower price. Selling it would mean admitting that a mistake was made, and human nature wants to avoid that. #ThinkDon'tFeel

• The greatest value a Financial Advisor can provide is not in choosing investments, but rather through behavior modification. The biggest mistakes people make are emotional, not technical. Counselling and coaching helps make better decisions, more consistently, over a long period of time. Studies have shown that can add about 3%/year in returns. #PriceVsValue

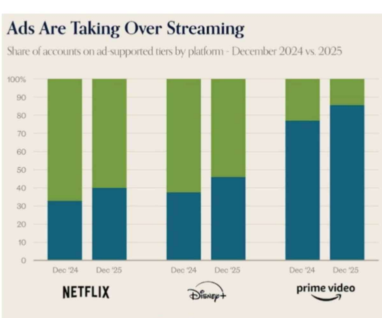
• Pessimism always sounds smarter than optimism because optimism sounds like a sales pitch while pessimism sounds like someone trying to help you. #OptimismWins #ViktorFrankl

• Domino's Pizza was one of the best performing stocks in the S&P 500 Index from 2009—2019, returning 48%/year over that 10 year period. This was all under CEO Patrick Doyle, who has been the Executive Chairman of Restaurant Brands Intl since 2022, when he started executing on the same playbook he'd written for Domino's. #ManagementDrivesSuccess (same thing with the world's biggest coffee brand?)

• Canada's housing affordability (chart on the right) is based on the percentage that mortgage payments take of the median income. We have seen a few peaks since 1980, with the previous highest peak being in 1989/90. Affordability has been improving – however we are still currently well above the ~50% that makes housing affordable. #PriceAdjustmentPeriod

• Housing prices in the Lower Mainland are down 3.8% year over year and 16% below their 2021 peak levels. #MoreReadjustmentYearsComing

• CRA uses AI and calls it "Charlie The Chatbot". It seems this intelligence can only handle the most basic tax questions because when the Auditor General tried it out as a part of a larger probe of the CRA's call centres, they found it could answer only 2 out of the 6 trial questions correctly. #AIIsn'tIntelligent



• When I was growing up we had cable TV. What we wanted to watch was continually interrupted by a series of ads. Then came Netflix, Apple TV etc. which had no ads. Now, these platforms have ads too, unless you pay quite a bit more to not see them. It seems that we now have a different form of cable TV. #Ads&LineUps

• Mark Twain famously observed that "it ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." Finance is a superb example of this truism. #QuestionEverything

• If something is impossible to know you are better off not being very smart, because smart people fool themselves into thinking they know while average people are more likely to shrug their shoulders and end up closer to reality. #ProfessedExperts

• Read fewer forecasts and more history. Study more failures and fewer successes. #MistakesTeachMore

• When you want to help people, you tell them the truth. When you want to help yourself you tell them what they want to hear. Thomas Sowell #LoveIs #LoveDoes

Carey