

Investment Insights

What's the Path to a Trillion?

With the market's run over 2024, Warren Buffett's Berkshire Hathaway became the eighth U.S. company to join the trillion-dollar valuation club.

It's worth reflecting on just how large a trillion truly is, even compared to a million. Consider this: A million seconds is about 12 days. A billion seconds is just under 32 years — roughly a third of a lifetime. Yet, a trillion seconds is around 32,000 years — more than all of recorded history!

What is the path to a trillion? For companies achieving this milestone, success didn't happen overnight — building substantial wealth takes time.¹ Buffett's accomplishment has been nearly six decades in the making. When he took control in 1965, Berkshire was a struggling textile mill valued at around \$22 million.² Its growth has been the result of time, compounding and perseverance, with profits reinvested into new investments, allowing the company's value to substantially grow. Even Nvidia, a member of the trillion-dollar club and frequently in the media spotlight, has been quietly building its business for almost 32 years, though it largely flew under the radar just a decade ago.

It's a perspective worth remembering as we begin a new year: meaningful growth is often measured over decades, not merely months or even years.

However, many investors can become preoccupied with the short term. Today's challenges are no exception: Canada's declining productivity and lagging economic growth continue to be prominent issues. There are growing concerns about how far equity markets have advanced. Yet, longer-term investors shouldn't overly fixate on what might happen tomorrow, as this can derail long-term plans and is often unpredictable. Consider how much has changed in just one year: we shifted to a falling-rate environment, expectations of a hard landing evolved into a soft landing, inflation largely tempered and, despite many existing challenges, the markets continued to advance.

While the double-digit market returns witnessed in 2024 have been exciting, they are a reminder that growth in both markets and economies is rarely linear. Viewing investment timeframes in terms of decades highlights the profound impact of time on compounding growth. Investing \$100,000 today at an average annual rate of return of 5 percent, a fair expectation over a full market cycle, would yield around \$115,000 in 3 years. Yet, over 6 decades — mirroring Buffett's perseverance — it would grow to nearly \$1.9 million!

Maintaining a longer-term perspective can also remind us of the potential for renewal. Just a decade ago, Canada was recognized for having the "world's most affluent middle class," admired as a model by the U.S.³ While the tables have since turned, economic cycles inherently bring peaks and troughs. Yet, over time, markets and economies often demonstrate a remarkable capacity for growth and progression, sometimes in surprising ways.

Where will we be in a decade? While the future is never certain, participating in the investing journey is one of the best ways to position ourselves for success. There's never any guarantee of what tomorrow will bring, but the only way to miss out on the growth potential is to sit on the sidelines. Here's to a new year, the next decade — and beyond!

1. <https://www.visualcapitalist.com/berkshire-hathaway-1-trillion-club-how-long/>; 2. <https://www.berkshirehathaway.com/letters/1985.html>; 3. <https://www.nytimes.com/2014/05/01/upshot/canadians-have-plenty-of-concerns-but-also-a-sense-theyre-better-off.html>



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Welcome to 2025! Our front page story poses the question: *Where will we be in a decade?* Some things are likely to continue: our relentless drive to innovate, evolve and grow. Take a look at *TIME* magazine's best inventions list for some perspective: today's list is packed with tech marvels reshaping the way we work and play. But rewind to 2005, and the "cutting-edge" inventions included airless tires, a one-time-use camcorder and a folding piano: <https://content.time.com/time/covers/0,16641,20051121,00.html>

We've come a long way in just two decades. Here's to new milestones, growth and prosperity ahead — not just in our investments, but in all aspects of life. It continues to be our privilege to support your wealth management.

Elias *Bonnie*

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Debunking the RRSP/RRIF Myths

For investors of all ages, RRSP season is an ideal time to revisit the tax advantages of this important retirement savings tool.

Since the start of the millennium, participation in the Registered Retirement Savings Plan (RRSP) has declined, dropping from 29.1 percent of contributing taxpayers in 2000 to just 21.7 percent in 2022. While the introduction of the Tax-Free Savings Account (TFSA) in 2009 may be partly responsible, persistent misconceptions about the RRSP likely play a role. Let's address some of the common myths:

Myth 1: Non-registered accounts are better because only income/gains are taxed. A common belief is that a non-registered account yields better outcomes since only income and gains are eventually taxed (with favourable tax treatment for dividends and capital gains), whereas RRSP withdrawals are fully taxed at marginal rates. While it's true that the full withdrawal (usually from a Registered Retirement Income Fund (RRIF)) is taxed as income, what is often overlooked is the initial tax deduction at contribution. Remember that a \$30,000 RRSP contribution is equivalent to an after-tax contribution of \$18,000 at a marginal tax rate of 40 percent. If your tax rate is the same at the time of contribution and withdrawal, you effectively receive a tax-free rate of return on your net after-tax RRSP contribution (chart). In many cases, even if your tax rate is higher at the time of withdrawal, you may be better off compared to a non-registered account due to the effect of tax-free compounding over long time periods.

Myth 2: It's better to invest in a TFSA than the RRSP. The RRSP generally yields a greater benefit if you expect a lower tax rate in

Easing Interest Rates & the Great Mortgage Renewal

Over 35 percent of Canadians hold a mortgage¹ and in 2024 and 2025, more than 2.2 million mortgages have been facing renewal.²

The Bank of Canada (BoC) rate reductions over 2024 have been welcome news for mortgage holders, though many still face the prospect of higher interest rates at renewal. This is because a large number of these mortgages were issued when rates were at historical lows. In August 2021, the CMHC five-year fixed rate fell to a low of 3.2 percent.³ While rates have since risen, it's worth recalling that they remain well below the highs of the 1980s when rates soared to 21.75 percent!

What does this mean for borrowers?

For most Canadians holding fixed-rate mortgages, rate changes won't affect payments until renewal. However, consider that even a small increase in rates can lead to substantially higher costs. For example, a two percent increase on a five-year, fixed-rate mortgage of \$330,000 — the average value of a new loan in Q2 2024 — could lead to over \$100,000 in additional interest costs over the life of the mortgage (see chart).

If you or a family member has a mortgage coming up for renewal, it may be an ideal time to reassess your options.

Has your financial situation changed? If your financial circumstances or

retirement. In practice, many contribute to their RRSP during higher-income working years and withdraw when income is lower in retirement, leading to an advantage for the RRSP. Of course, there may be situations when the TFSA is a better choice, such as if you have a higher tax rate at withdrawal or face recovery tax for income-tested benefits like Old Age Security.



Myth 3: Having too much in an RRSP/RRIF will result in a large tax bill at death. While the fair market value of the RRSP/RRIF at death is generally included in the terminal tax return and taxed at marginal rates, there may be ways to mitigate the potential tax burden. This includes a tax-deferred rollover to a spouse or financially dependent (grand)child. Another way to manage the potential tax bill is to engage in a "meltdown strategy," making withdrawals earlier when your tax rate may be lower than you expect at the year of death. For more information, call the office.

RRSP vs. TFSA vs. Non-Registered Account (Illustrative)

	RRSP	TFSA	Non-Registered
Pre-tax income contribution	\$30,000	\$30,000	\$30,000
Tax on income @40%*	—	(\$12,000)	(\$12,000)
After-tax contribution	\$30,000	\$18,000	\$18,000
Growth: 30 years @5% annual return	\$129,658	\$77,795	\$77,795
Tax on liquidation of account @40%**	(\$51,863)	—	(\$11,959)
Net after-tax proceeds	\$77,795	\$77,795	\$65,836
Gain vs. non-registered account	18.2%	18.2%	—

*For the RRSP, assumes tax deduction of 40% is claimed to net taxes to zero. **Assumes capital gains for the non-registered account, taxed at a 1/2 inclusion rate or 50%.

Impact of a Two Percent Increase in Mortgage Rates (Illustrative)

5-Year, Fixed-Rate Term	Mortgage Rate:		Difference
	3.2%	5.2%	
Mortgage Amount	\$330,000	\$330,000	—
Amortization Period	25 Years	25 Years	—
Monthly Payment Amount	\$1,595.77	\$1,957.04	\$361.27
Total Interest Cost Over 25 Years	\$148,731.40	\$257,112.05	\$108,380.65

goals have shifted, adjusting your mortgage could better align with your needs. With rising living costs, you might consider lowering payments by extending the term length or amortization period. On the other hand, if you have extra funds, paying down the mortgage faster could help offset the effects of higher rates and lead to lower overall interest costs.

Should you reevaluate your mortgage terms? This may be an excellent time to reconsider the options available. You may want to reassess whether a fixed or variable rate better suits your situation: fixed rates offer stability, while variable rates can provide savings if rates decline. Additionally, consider term length: shorter terms provide flexibility by not locking you into a long-term commitment, especially if rates decline. Reviewing payment frequency or amortization period can also impact both the speed at which you pay down the mortgage and the total interest paid over the loan's life. If you're thinking about refinancing or switching lenders, be sure to understand any associated fees or penalties.

If you need support or would like a more in-depth discussion, please call.

1. www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/finalic-well-being-mortgages.pdf; 2. <https://www150.statcan.gc.ca/n1/daily-quotidien/240814/dq240814d-eng.htm>; 3. Canadian Mortgage & Housing Corporation, Stats Canada T: 34-10145-01.

Equity Market Concentration Perspectives

What does concentration mean for the equity markets?

With the bull market's run, largely driven by a handful of tech giants, there's been increasing attention to the growing concentration of stocks in the U.S. equity market. Over the past decade, the "super-caps" — companies now boasting trillion-dollar valuations — have outpaced the growth of their mid-cap and small-cap counterparts. Their high concentration, coupled with valuations that appear stretched by historical standards, has sparked ongoing discussion — with some market pundits even going so far as to warn of an imminent "lost decade" for U.S. stocks.¹

However, here are three perspectives worth consideration:

Concentration is more the norm than the exception. A historical look at the top 10 stocks in the S&P 500 over each decade since the 1950s suggests that market concentration is more common than we might assume. In the 1950s and 1960s, the top 10 stocks consistently made up about one-third of total market capitalization. This concentration jumped to more than 40 percent in the 1970s during the era of the "Nifty Fifty" stocks. Although it dipped below 20 percent in the 1980s, it climbed back to nearly 30 percent by the early 2000s.²

Equity market concentration is not unique to the U.S. Canadian markets are not impervious to market concentration. Canada's top 10 holdings make up around 43 percent of the total index, as measured by the MSCI country stock market ETFs.³ In fact, among G7 nations, most are more concentrated than the U.S. (graph, top).

New Year Financial Reminders: FHSA Carryforward Rules & Bare Trust Reporting

As we start a new year, here are two notable reminders.

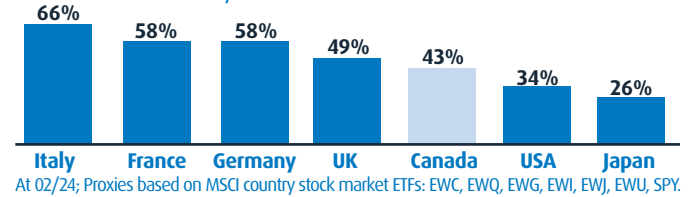
FHSA Carryforward Rules — If you or your family members have opened a First Home Savings Account (FHSA), be aware that the carryforward rules differ from other registered accounts. With FHSA annual participation room of \$8,000, any unused amounts can be carried forward to the following year, but only to a maximum of \$8,000 and subject to a lifetime limit of \$40,000. This differs from the TFSA and RRSP where unused contribution room is carried forward indefinitely (or age 71 for the RRSP) — there is no limit.

Take, for example, an individual who opened the FHSA in 2023 and contributed \$4,000. In 2024, the FHSA would have \$12,000 in participation room — \$8,000 of new room for 2024 and \$4,000 carried forward from 2023. If they do not contribute in 2024, they would have \$16,000 of participation room in 2025 — not \$20,000 — as only \$8,000 carries forward from 2024. This is important as the Canada Revenue Agency (CRA) applies a penalty of one percent per month on excess contributions. A \$4,000 over-contribution would incur penalties of \$40 per month or \$480 per year.

Bare Trusts: Exempt From the 2024 Filing Requirement — There has been much confusion surrounding the trust reporting rules that came into effect last year, complicated by a last-minute reversal by the CRA in late March 2024 that exempted bare trusts from filing for 2023. Since then,

G7 Countries: Top 10 Holdings as % of Total Stock Market Capitalization

Based on MSCI Country Stock Market ETF Data



Concentration may be an indicator of bull markets. An interesting analysis suggests that significant increases in market concentration have generally not led to dramatic bear markets.³ Instead, bull markets have often continued following periods of rising concentration associated with the onset of a bull market. Looking at over 200 years of U.S. stock market history, seven distinct eras were identified, each marked by waves of innovation from commerce and railroads to the digital age. Throughout these eras, certain sectors maintained dominance, with high levels of stock market concentration often persisting for extended periods — in many cases multiple decades.

Based on these perspectives, increasing concentration is not, on its own, a harbinger of an imminent bear market. At the same time, this isn't to suggest that the rapid gains of recent times can be expected to similarly continue. Indeed, we likely find ourselves in a period where strategic securities selection is even more important — and this is where our work as advisors shines through. These perspectives are intended to provide a more balanced view of market concentration: as technological innovation drives new waves of growth, the trend in concentration is likely to continue.

1. <https://awealthofcommonsense.com/2024/10/3-stock-market-returns-for-the-next-decade/>;
2. <https://awealthofcommonsense.com/2024/02/is-the-u-s-stock-market-too-concentrated/>;
3. <https://globalfinancialdata.com/200-years-of-market-concentration>

draft legislation has been introduced that more clearly defines beneficial ownership arrangements subject to the reporting rules. If this passes, trusts with a fair market value of \$50,000 or less throughout the tax year will be exempt from filing. If all parties to the trust are related, the exemption rises to \$250,000 if only certain assets are held, such as GICs, stocks, bonds, mutual funds or ETFs. This will apply to bare trusts with years ending December 31, 2025, and later. For the 2024 tax year, bare trusts are exempt from filing.



Start Now To Make 2025 Less Taxing...

Contribute to the RRSP. The RRSP deadline is **March 3, 2025**, for the 2024 tax year, limited to 18 percent of 2023 earned income, to a maximum of \$31,560.

Fund your TFSA. The **2025 TFSA annual dollar amount is \$7,000**, bringing the eligible lifetime contribution limit to \$102,000.

Split income, save tax. Review your family's potential tax bill to determine if there are income-splitting opportunities. For ideas, call the office.

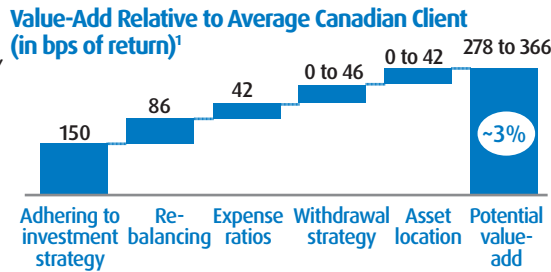
Get organized for tax season. While personal income tax returns will not be top of mind for a few months, why not organize your records before crunch time approaches? This may prevent medical expenses, donations, business charges and other receipts from being overlooked or unclaimed.

Perspectives on the Value of Advice

In today's investing landscape, the range of low-cost options has expanded significantly, giving investors more choices than ever before.

While cost is an important factor, it's not the only consideration when making sound investment decisions. We believe that true value goes beyond just low fees. The goal is to provide you with personalized advice and comprehensive support that aligns with your unique circumstances to achieve long-term success. Here are a handful of ways we put this into practice:

Managing investments — We offer tailored investment solutions based on your unique goals, risk tolerance and stage of life. This approach is proactive and hands-on, focusing on strategic asset allocation, tax-efficient asset location, risk management, rebalancing and tactical withdrawal strategies. One study suggests these practices can potentially boost an investor's net returns by around 3 percent (chart).¹



¹Based on <https://www.vanguard.ca/content/dam/intl/americas/canada/en/documents/gas/advisors-alpha-infographic.pdf>; bps = basis points, where 1 bps = 0.01%.

Building wealth — Investment returns are important, but regularly saving is equally important. Part of our role is to encourage disciplined savings and investment habits, which can substantially increase wealth over time. Households working with an advisor for 15 years or more have been shown to accumulate 2.3 times the assets of those without advisor support (chart below).²

Staying on track — In challenging market times, we are here to help navigate uncertainties and stay focused on your longer-term goals. This includes providing behavioral coaching and ensuring you have a solid financial plan in place. A study of nearly 120,000 U.S. investors found that a well-structured plan can be key to staying the course. During the 2020 pandemic, when the U.S. stock market fell 34 percent in just 22 days, over three-quarters of investors who were previously on track with their financial goals remained on target, even though their portfolios typically declined by 16 percent (and, for those who held on, quickly recovered).³



<https://cirano.qc.ca/files/publications/2020RP-04.pdf>; Pollara Research Strategic Insights 2020

Beyond investments — We are here to meet your evolving needs beyond investing, including goal planning (such as planning for a first home or child's education), investment tax planning, retirement, estate and legacy planning, business building and succession and intergenerational wealth transfer. This also includes access to a network of experts who can provide specialized support where needed. We are committed to being a resource for you, offering education and insights on factors impacting your wealth so you can make informed decisions. This newsletter is just one of the ways to provide you with actionable insights that can help improve your financial position.

We know that as an investor you have many alternatives available to you. Thank you for the continued trust you place in us to support your wealth management journey.

1. Vanguard, 2023; 2. <https://cirano.qc.ca/files/publications/2020RP-04.pdf>; 3. <https://morganstanley.com/articles/stock-market-crash-financial-planning>



With the compliments of...

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