

Investment Insight

Balancing Perceptions

When Tiger Woods won his fourth Masters Tournament in the spring, he ended an 11-year drought, creating not only a moment that went down in golf history, but also a lesson in unpredictability. Indeed, it is challenging to predict what will happen and when, and this applies not only to golf.

This unpredictability extends to current financial climates, with the extended bull market run being unexpected by many. Despite sluggish economic conditions, the first four months of the year saw equity markets on an upward trajectory. But these are unprecedented times. Never before have central banks held rates at low levels for such lengthy periods. While the role of a central bank is not to stabilize markets, the markets have been calmed by decisions to hold interest rates steady.

There are many ways in which investing mirrors the game of golf. "High percentage" golfers always consider the risks versus return before playing any stroke. Likewise, a well-constructed portfolio takes into account the same types of factors. Investing, like golf, is a game of patience and persistence, filled with many mental challenges.

One challenge that can affect golf performance is the impact of perception.

Those familiar with the inset optical illusion know that the middle circles are exactly the same size. Psychologists at Purdue University used this illusion in a putting green to make a golf hole appear larger or smaller by projecting circles of light around it. When people perceived the hole to be smaller, they were less successful in putting.



Similarly, perceptions can drive investor behavior. Are there ways in which you allow outside perceptions to influence the way you invest? For instance, are you quick to compare portfolio gains to those of today's market darling, without considering quality, risk or diversification? Or, during volatile times, do negative media reports tempt you to make changes instead of allowing a portfolio the time to grow?

The discipline and patience needed to putt a birdie may be something we can apply to our own investing style. Bringing this sharpened focus is a great step toward mastering our own plans. Stay the course and pursue your game plan with confidence and persistence. Fore!



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To My Clients:

The breakdown of U.S./China trade talks in the spring brought volatility back to the equity markets. It is worth repeating that volatility plays a common role in investing. Consider that almost 60 percent of annual returns on the S&P/TSX Composite Index have been year-over-year changes (gains/losses) greater than 10 percent. Corrections are a normal part of the markets and staying invested is important.

Here's to many days filled with sunshine. Have a relaxing summer!

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Federal Budget Recap: Something for the Young & Old

In late March, the federal government tabled their final budget prior to the election in October. While it was a collection of many different initiatives, here are some changes worth noting that may impact you or your loved ones. Specifically, these proposals target the young and the old.

The Young: Housing Affordability

While many children may be hoping for support from the bank of mom and dad when purchasing a home, if this isn't part of your financial plan, the budget may offer some relief in two initiatives:

First-Time Home Buyer Incentive — A qualifying first-time home buyer with household income under \$120,000 per year may be entitled to receive incentives of up to 10 percent of shared equity on a newly constructed home (5 percent on an existing home). No monthly ongoing payments are required but the buyer must repay the shared equity mortgage upon re-sale of the home. The participant's insured mortgage and the shared equity amount cannot be greater than four times annual household income. The program is expected to begin in September.

Home Buyers' Plan (HBP) — As of March 20, 2019, the available withdrawal limit under the current HBP is proposed to increase to \$35,000. Under the current rules, a first-time home buyer can withdraw \$25,000 from their Registered Retirement Savings Plan (RRSP) on a tax-free basis. Access will be extended to those who experience a breakdown of marriage or common-law partnership, even if they do not meet the first-time home buyer requirement.

Seniors: Retirement Support

There was also some good news to help seniors in retirement:

Automatic CPP Enrollment — Starting in 2020, Canada Pension Plan (CPP) contributors who are 70 years old or older will be automatically enrolled to ensure they are receiving their benefits. Currently, an application must be launched in order to receive benefits and some have missed out because they apply late or not at all.

Advanced Life Deferred Annuity (ALDA) — Currently, an annuity purchased with registered funds must commence annuity payments by the end of the year that the holder reaches age 71. The budget proposes to allow up to 25 percent of a registered holding* to be used to purchase an annuity that begins payments at the latest by the end of the year in which the holder turns 85, for a lifetime maximum of \$150,000 (indexed to inflation). This may present a tax-deferral opportunity, allowing retirees to keep more money in their registered plans for longer, and may support those who are worried about outliving their retirement income.

Improved GIS — For low-income seniors, the budget proposes to increase basic earnings exemptions to \$5,000 per year (from the current \$3,500) for Guaranteed Income Supplement (GIS) benefit eligibility beginning with the July 2020-21 benefit year. Earnings exceeding \$5,000 per year up to \$15,000 per year will receive a partial exemption.

For greater detail on Budget 2019, please get in touch.

*Including RRSP, RRI, Deferred Profit Sharing Plan (DPSP), Pooled Registered Pension Plan (PRPP), and defined contribution Registered Pension Plan (RPP). Note that at the time of writing, this initiative has not been enacted into legislation.

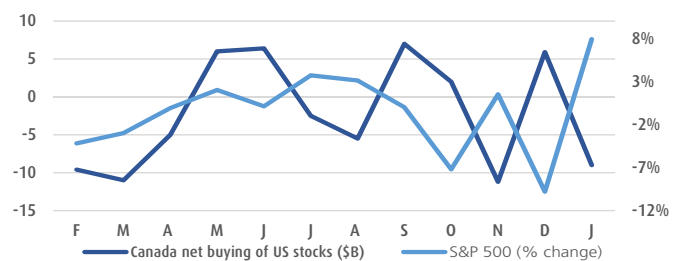
During Volatile Times, Sitting Still Can Be Difficult

During your summer vacation, are you looking forward to relaxing and doing nothing? For many of us, sitting still can be difficult. No more is this true when it comes to investing during periods of market volatility. After all, as humans we are hardwired to want to take action in times of vulnerability. We're all familiar with the phrase: "don't just sit there, do something!"

However, a recent Globe & Mail article highlighted that some investors may be their own worst enemies during periods of market volatility. During the equity market volatility we experienced in 2018, Canadian inflows and outflows into U.S. stocks lagged market performance (see chart). Investors put funds into investments after gains in the markets, lagging the market by about a month, and sold investments after market drops, resulting in performance chasing.

Timing the market is difficult because equity markets are largely unpredictable. Never has this been more true than with the most recent extended equity bull market run. For years now, many market commentators have been calling its end. Of course, there may be good reasons for selling securities, such as rebalancing to

Canadian-U.S. Equity Flows vs S&P 500: Feb. '18 to Jan. '19



Source: "Investors are their own worst enemies", Globe & Mail, T. Shufelt, 3/27/19.

restore asset allocation or taking gains after a long bull run. But if the decision to sell is simply in response to rises or declines in the market, many investors may be better off by just staying put.

Renowned investor Warren Buffett once described his investing style as "lethargy bordering on sloth." Perhaps there may be some good investing insight hidden in those restful summer vacation plans: go ahead, don't just do something, sit there!









Canada's Growing Household Debt Rate

Do Canadians have a growing debt problem?

Recent figures indicate that Canadians on average have a debt-to-income ratio of around 178 percent (Q3 2018).¹ This means that Canadians owe \$1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income (net of taxes).

According to the Organization for Economic Cooperation and Development (OECD), we place 8th in the developed world for high indebtedness.² Comparatively, when looking at our neighbours in the U.S., debt levels peaked at around 116 percent prior to the credit crisis of 2008, but are now under 90 percent.

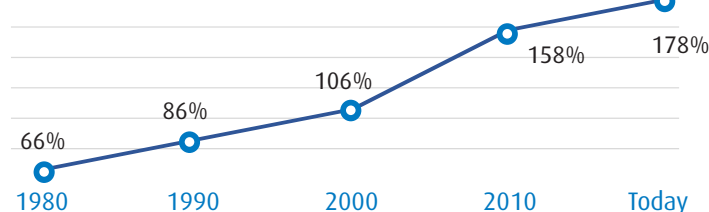
OECD: Top 8 Developed Nations by Estimated Household Debt*

1. Denmark		281%	5. Sweden		186%
2. Netherlands		243%	6. S. Korea		186%
3. Norway		236%	7. Luxembourg		183%
4. Australia		216%	8. Canada		181%

*% of disposable income; <https://data.oecd.org/hha/household-debt.htm>, at 04/19.

In Canada, the ratio has risen over the decades. Consider that just 30 years ago, household debt was only around 86 percent (see graph). Some have called Canada's rising debt figures disturbing, while

Growth of Canadian Personal Debt-to-Income Ratio³



others argue that this assessment might be overly harsh since the ratio lumps in those with significantly high mortgages (in cities like Toronto or Vancouver) and doesn't factor in a household's assets or the ability to pay off that debt load.

Regardless, Canadians (individuals, corporations and even the government) have never been so indebted and we face longer-term consequences as our debt will eventually need to be repaid. When interest rates start to rise, these debt obligations will become more costly. However, one reason why central banks have kept rates low is to encourage spending and stimulate sluggish economies. The paradox? Low rates make borrowing more affordable, and have pushed up housing prices, making us more indebted.

1. <https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036>; 2. OECD ranking 2018; 3. Source: Statistics Canada.

Less is More: Finding Zen in Your Finances

Marie Kondo, a Japanese organizational consultant, has developed an almost evangelical following by helping people transform their lives through decluttering. Beyond her seemingly complex folding techniques, one of the central tenets of her teaching is to keep only those belongings that "spark joy".

While we may not think of the everyday administrative aspects of our finances as sparking joy, there may still be a lesson learned from Kondo: Less can be more. Here are some tips to help you apply this practice to your financial life:

1. Consolidate accounts — Consider the benefits of consolidating multiple bank or investment accounts where possible. This can lead to better asset allocation, improved tax efficiency, easier administration, and no "orphan" accounts forgotten over time.

2. Set up a simple organizing system — If you don't yet have files set up for your paper documents, start by sorting through documents and creating broad categories, such as bank, mortgage, utility bills or contracts. Once you've checked for accuracy, create folders or storage for each set of papers.

3. Organize digital files — Paper clutter has evolved into electronic clutter. Similar to a paper organizing system, create folders and ensure consistency in naming digital files, such as "Account_YY_MM_DD".

4. Purge — Purge older and unnecessary paper documents on a regular basis by shredding to prevent identity theft. The Canada Revenue Agency advises keeping tax-related documents for six years. Archive older digital files to free up disk space.

5. Organize the way you transact — Be systematic about the way you make payments. Automate where possible to avoid late payment penalties. Organize payments to avoid missed payment due dates, such as requesting a change in credit card payment due dates to coordinate across various cards. Consider dedicating credit cards to certain types of purchases, such as one solely for online shopping. This can help to simplify cancellations in the event a card is compromised due to fraud.

6. Handle email more efficiently — Most people receive hundreds of emails each week and it isn't uncommon for emails to be missed, including important bills or notifications. Consider setting up an email account dedicated to your finances separate from one used to communicate with friends and family. This can help to free up a personal inbox or improve its security. Email filters can be set up to sort important emails, automatically filtering out those you are copied on or separating marketing material for reading at a later time. Unsubscribe to marketing emails that you don't read.

In the Pursuit of Happiness

This past spring, Magic Johnson stunned the basketball world by abruptly stepping down from his role as President of the Los Angeles Lakers. While fighting back tears, he announced his resignation, stating that he wanted to go back to being who he was before taking on the job. It might seem absurd to some — how could anyone earning millions, along with the title and prestige of running the organization that made him a star, possibly be so unhappy?

It is a question that researchers continue to investigate: what drives our happiness?

Despite the oft-repeated adage suggesting otherwise, there is indeed an intrinsic link between money and happiness, but the research might surprise you. Will you be happier if you make \$1,000,000 instead of \$100,000? Research would argue: not really. However, studies have suggested that there is a measurable amount of money at which point happiness “maxes out”, but it may be quite a bit lower than you think. In 2010, Nobel Prize winning behavioural economist Daniel Kahneman suggested that the magic number was around US\$75,000 of annual income. Beyond this amount, people didn’t report any greater degree of happiness.¹

Another study published this year in the Harvard Business Review showed that after achieving a certain level of income, “time affluence” — having enough time to do the things you want — has become the new secret to happiness. Today, people who are willing to give up earning more money in favour of regaining time reported higher rates of general life satisfaction.²

Of course, it is my job as a wealth manager to help improve your financial position. I also

hope to free up time that would otherwise be spent managing your finances to give you the freedom to pursue your happiness. But this extends beyond managing your investments. Here are some questions I sometimes ask to uncover additional areas in which to provide support for you or your family:

Family — Are you planning on helping family members, such as a student pursuing post-secondary education or a (grand)child purchasing a home? How will you support parents as they age? Will you need to protect your assets for your family?

Work — Have you planned for unexpected changes to employment? How will illness or disability affect your needs? Do you need to finance a small business and how can it grow?

Lifestyle — How will you protect yourself and your family in the event of unexpected illness? How do you envision your retirement? Have you planned for extended longevity?

Legacy — How will you be remembered? Do you wish to give back through charitable donations? How will you transfer your wealth in a way that is fair to those you leave behind?

As you think about your own wealth and financial plan, perhaps there are areas where I can further assist.

At the end of the day, money isn’t everything — the Beatles would remind you it can’t buy you love, after all! But, having “enough” money can enable you to define what happiness means to you. And I look forward to continuing to support you along the journey in your pursuit of happiness.

1. <https://www.pnas.org/content/107/38/16489>; 2. <https://hbr.org/cover-story/2019/01/time-for-happinesspolicy>.

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