CEV WEALTH

FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

ISSUE NO. 224 November / December 2024

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

What Rate Cuts Mean For You

The obvious is, if you have money in bank deposits that are set to come due over the next year or 2, you won't be renewing since interest rates will probably be much lower. Our clients had been enjoying an interest rate north of 5% in a high interest savings account – however, with declining rates, that "cash" is currently earning 3.45%.

Another obvious effect applies if you have a variable rate mortgage. With every rate cut, the interest cost and payments you make are decreasing, lessening the cost squeeze you had been feeling while interest rates started to climb, which started in 2022.

The underlying good news is that interest rate decreases mean inflation is declining. We have seen first hand evidence of that in the price of groceries and gas, which have either been moderating (groceries) or have fallen from their highest levels (gas).

The velocity and magnitude at which interest rates decline in relation to the strength (or lack thereof) of the overall economy is what will inevitably determine if we get a 1) soft economic landing, or 2) a recession. The soft landing is the goal. The long term objective is a "not too hot, not too cold" economic environment.

Canada's key interest rate which was at a high of 5% for almost a year started declining this past June. It is now at 3.75% (it was 0.5% throughout the pandemic) and will fall quicker here in Canada than in the US. Sorry to say but our companies and workforce are much less productive, and ironically we have a lot more weakness here. This doesn't look good if you are looking for a change of scenery a new job will bring, and looks even more difficult if you are

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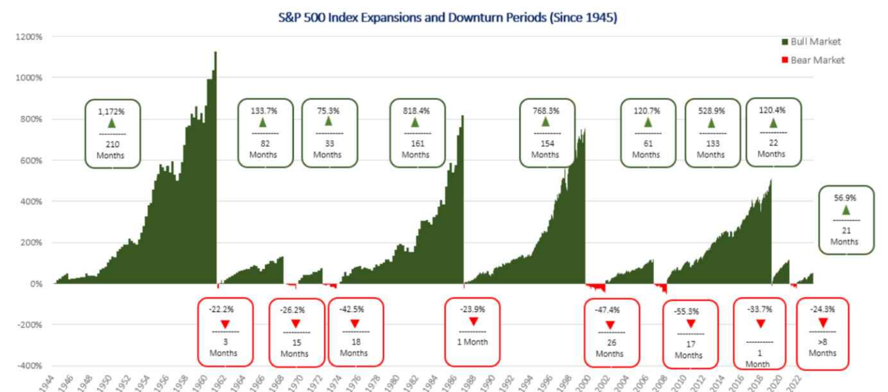

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laid off. Because of all of that, wage increases will be muted.

Currently anything more severe then a short and mild recession is unlikely. However, despite trying to guess what will most likely come, you can see from the chart on the front page that periods of uptrends in the overall prices of companies that make the largest part of the US economy (as represented by the S&P 500 Index) is much greater and longer than the inevitable times we may go through an economic slowdown or contraction. Just like over 2000 years ago we were told that "the poor will always be with you", so will dire warnings of calamity. We always have an innumerable amount of these possibilities. The fact remains that we usually experience something less dire than the extremes of what are being prognosticated. Today, the world's largest and most profitable companies are optimistic. They are investing at the highest levels in recorded history, driven by the productivity gains they can achieve from AI and other innovations. This kind of spending is inconsistent with an oncoming recession. I've read one article recently laying out the arguments for a return to a "Roaring 20's" outcome. (It may sound odd but I frankly don't want that to happen as it would probably mean an even wider chasm between the have and have nots which only creates significant societal tension and civil unrest).

No matter what happens, we always work to ensure our clients ride through, with no need to worry. For those who don't need to derive an income from their portfolios, this means knowing that the various investments held are sound and resilient. I saw the severest downside of not doing this when the tech bubble burst 24 years ago. Our clients rode through virtually unaffected and continued to compound at the rate needed to meet their original objectives. So many others didn't know what hit them and suffered for it. For those who are retired and who rely on their portfolios to pay for all of their monthly living expenses, we have always used very conservative assumptions in our projections, so much so that over a long period of time, our client's outcomes seem to look better and better.

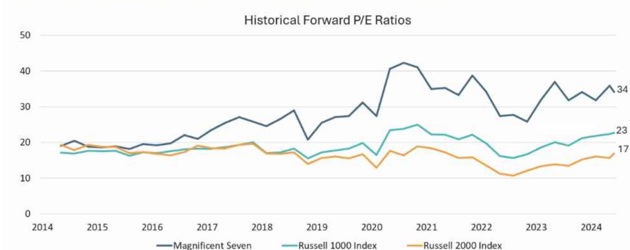
Your New 5 Year Mortgage Rate (& Payments)

There is a specific area I didn't talk about, in relation to "What Rate Cuts Mean For You": That is, the significant number of Canadians who have large mortgages coming up for renewal over the next 2 years. Despite interest rates starting (and continuing) to come down, they will probably not fall to anywhere near the sub-3% 5 year mortgage rate you may currently have.

I wrote about how to "Keep Mortgage Payments The Same…" if you have a 5 year rate coming up for renewal. I'd highly recommend reading that again. As a pre-amble though, a mortgage is only 1 small part of a total financial plan so we'd strongly suggest we look at your whole situation. The best 5 year rate the mortgage broker on our team has been getting for our clients is 4.29% and we look at your mortgage in the context of your entire situation and make everything fit, you.

Take Advantage Of This Price Difference Chasm (And The Eventual Reversion)

The price you pay for an investment is probably the largest factor in determining what your future returns will be. Pay too much and you are most likely to experience a return over the next several years that will be zero to negative. Yes, even if the company is high quality, very large and highly profitable, if you pay too much, history has shown that this will likely be your outcome. The number of examples of those are seemingly endless.



As I've mentioned several times recently, smaller companies are significantly cheaper than the largest of companies. In fact, the price of the 7 largest companies has widened over the past 10 years to approximately twice that of an index of 2000 small companies ($250 million to $2 billion; see chart on right). Also, these small companies are the cheapest they have been in 21 years compared to the S&P 500 index.

It isn't because the companies that are not 1 of the biggest 7 (called the Magnificent 7) are not doing well. It is simply a combination of the largest companies getting more expensive (their share price is going up faster than their earnings) while the smallest companies get cheaper (earnings are growing but their share price remains about the same).

Here is 1 example (chart on the right), which is 1 of the largest global companies in its field (not "small cap" but rather a "mid cap" valued by the market at ~$8 billion).

The blue line is the history of its share price. The numbers above that blue line are its annual earnings; In 2018 earnings were $3.38/share, climbing steadily to $7.46/share in 2023 and are over $8 in 2024) Despite the earnings more than doubling over these 5 years, the share price doesn't reflect that earnings growth. Over time, the earnings on a publicly traded business will track the share price. Eventually, the share price will move up to more closely match the health of the business. As well, because of the lower valuations on these smaller busi-

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nesses, holding a diversified portfolio of them carries much less risk than their much larger and much more expensive counterparts.

How Good Are Those "Do It Yourself" Platforms? (Wealthsimple)

Do-it-yourself and "virtual" investment platforms have swelled over the past several years. These have primarily been used by a younger demographic that isn't afraid of tech or more so (it seems to me) that not having to talk to anyone is very attractive. As well, they are lured by what I can see is a tainted sales pitch that focuses on fees. I say "tainted" because it gives the impression that the only difference in investment performance will be because of fees. I know from 38 years of experience that this isn't the case. The performance stats and chatter on social media (e.g. Reddit) is glaring evidence that what one thought would be an advantage has actually shown to have left investors with less. Rob Carrick, who is no fan of Financial Advisors wrote in the Globe & Mail in July that, "Wealthsimple is killing it as a company, but the performance of its robo-adviser portfolios does not impress".

WS is essentially becoming another big bank, albeit a virtual one. Ironically, WS is primarily owned by the parent company of a firm I am affiliated with, yet I wouldn't put my own money there. What I see is a large number of younger people putting themselves at a disadvantage by filtering out much excellent financial advice and investing options based on only 2 things they want (or 2 things they are trying to avoid?).

Studies & reports (including 1 by Vanguard) show that those with a Financial Advisor do much better in the long run (adding ~2-3%/yr in the long term) than those without since they not only help with investment decisions but also with not making bad decisions when emotions are high. Yes, there are anomalies to that. I've seen a handful in my 30+ year career) but they are few in a sea of many.

For me personally, I've chosen 3 different investment firms (2 in Canada, 1 in the US) who have shown to be in a group near the top for long term investment performance and they've done it without following the crowd. I came to that from experience and <u>always looking at everything else that is out there</u>. Because I have 100% of my own investment capital with them, I've recommended the same thing for my clients. If something changes for me, it changes for those who rely on me as their Financial Advisor. These 3 firms also require that those managing our money have all of their money invested alongside ours. They are also 100% owned by the people that work there which means all of our interests are aligned. I don't think Wealthsimple or any other platform or bank can make that claim (neither can a lot of Financial Advisors).

Accessing Income From Dormant Assets

One of my biggest jobs as a Financial Advisor is getting people to a place where they can stop working and after that, getting access to as much income as possible, for the rest of their life (or when they need it). Hopefully, as you go through life, you accumulate assets. It is those assets that, used efficiently, can produce income that you'd be surprised you can produce. There are 3 main areas which apply to virtually all people we work with:

Equity In A Home - although many people know and see they have this, it can be hard to determine the best way to "unlock" this equity. Some simply say "I'll downsize". OK, that's great - however, how will that freeing up of equity create income for you? As well, are you really willing to downsize as soon as you retire? Most aren't. Up until recently, I would pooh-pooh the much advertised Reverse Mortgage. I never really needed to look at it, since working for so long with many of my clients, and working to get them to a very secure financial position, we never really needed to. I did go through the idea thoroughly for 1 client couple recently. I think it can fit very well for some. Of course, I work alongside a person on our team (Peggy) who specializes in financing options such as this.

Cash in Bank Accounts (GIC's) - It is amazing to me when I see someone pass on with a whole bunch of money in bank deposits such as GIC's. Many times it is because they didn't need all they had accumulated. However, there are so many people who would like to get as much benefit from this money as they can. Because of these dormant bank deposits, many are not living the retirement life they could have. What a waste. In any case, they could pass on so much more to the generations after them (or greatly benefit a cause they really care about). The rule of thumb and starting number we use (which has proved to be a good one) is that every $100K in assets can produce $450 of monthly income for life (and for life we mean never running out of money).

Maximizing payouts from RRIFs - Many of us contribute to an RRSP for a tax deduction; however, the real long-term benefit is that you are creating your own personal pension plan. This is a simple transfer of assets from an RRSP to a RRIF. A RRIF can be vital for someone who doesn't have a pension plan from work. However, I've seen it be the retirement income enhancer for those who do. Many think that you have to wait until age 71 to get a RRIF started; however, you can start them at any time, and often it is to your advantage to do so before age 71. How much income can you expect? The same benchmark we use applies to a RRIF as money in GIC's.

This is only a 30,000 foot view of what can be done. Financial Planning is unique to each situation our office comes across. We have the capacity (and the vast experience) to help anyone who is either approaching their "Golden Years" (early 60's) or could use direction on how to increase their current retirement income. We love to help in any way we can.

Willful Neglect (Dying Without A Will)

In my 38 years as a Financial Advisor, I've only once had a client who died without a Will. The perfect storm was that she had a mother that passed away just before she did, with a large percentage of her mother's estate going to my client. This obviously complicated the issue and created a lot of frustration with one bank in particular.

Do you have a Will? If you don't, I'd suggest looking at the chart (top of next page). Find the category you are in and see where your money

would go. You are either going to say to yourself "I'm OK with that" or you'll be highly motivated to get a Will. If the latter, here is a link where you can do a Will online for less than $300 (which is better than no Will at all). Of course, having a lawyer involved is recommended – however, something is better than nothing.

Status	Estate value	Wills, Estate & Succession Act
A. Spouse with no children	• 100%	• 100%: Surviving spouse
B. Spouse with children	1. Less than $300K 2. Greater than $300K	• 100%: Surviving spouse • $300K: Surviving spouse • Excess: 50% to surviving spouse and balance equally to children
C. Spouse with children from previous marriage	1. Less than $150K 2. Greater than $150K	• 100%: Surviving spouse • $150K: Surviving spouse • Excess: 50% to surviving spouse and balance equally to children
D. No surviving spouse with children	• 100%	• In equal shares to children (per stirpes)
E. No spouse or children	• 100%	• In equal shares to surviving parent • If no surviving parents to siblings

Life Gems— Old Alone & Far From Home

If you've been with me for a while, you know I love YouTube. I've used it to learn about so many different things including music, building a camper van, woodworking, fixing our dishwasher, different worldview discussions & opinions and of course, travel. Anyone can easily put up a video on YouTube and that makes the platform full of info. However, it also fills it with a plethora of really bad videos to filter through. Old Alone & Far From Home is a tourism channel that shines with engagement and professionalism. Unlike so many videos today which have an AI generated voice and script, he is a real person talking to you. I stumbled across his "Top Neighborhoods of Athens" while planning our 2025 Greece trip and it was very insightful. This is a relatively new channel which I think will gain subscribers very quickly (I'm subscribed).

HHHmmm...

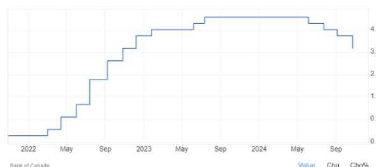
• The last time "mid cap" companies ($2 to $10 billion valuation) were at a 40% valuation discount to "large cap" was in the early 2000's, and over the subsequent 13 years mid caps tripled and large caps were flat. #We'reFindingValue

Cumulative Return (F)*	Cumulative Return (B)
54.18%	41.63%
34.53%	
75.24%	56.49%
59.01%	
106.2%	84.32%
81.39%	
154.1%	127.3%
107.60%	

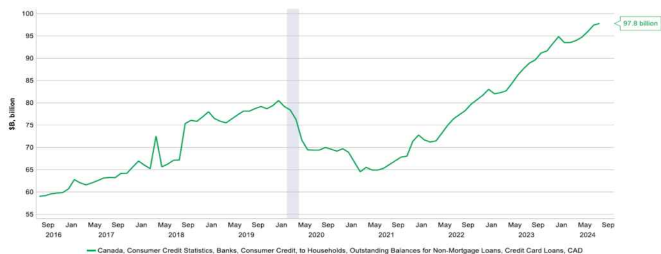
• Graph on the left shows the "since inception" return number of investments used by many Financial Advisors for their clients' portfolios (marked in yellow) vs comparable offerings many "do it yourself" investors use ($30 Billion in total) through a highly advertised investment platform which focuses on low fees. #CheapDoesn'tMeanBetter #BuyingThePitch

• The gloomy (Cdn) economic backdrop paired with falling inflation have many forecasters convinced that the Bank of Canada will deliver back-to-back jumbo interest rate cuts in both October and December, which would bring its policy rate down to 3.25% with expectations that the Bank will continue cutting rates until its policy rate reaches 2.75% in the second quarter of 2025. #StillMuchHigherThan0.5%

The Bank of Canada opted for the supersize 50-bps rate cut this morning, taking its policy rate to 3.75% from 4.25%. It's the fourth straight cut by the Bank and echoes the 50-bps cut by the U.S. Federal Reserve last month.



Canadian credit card debt reaches record



• There has been a wave of insolvencies in the Vancouver area's real estate development sector (up by 43% in the past 12 months alone). This cycle, compared to the Great Financial Crisis, seems to be much more severe now and it looks like it is getting worse. #EndOfEasyMoney

• Re: Trump tariff policy effects: Resulting price increases on imports will be passed on to American consumers, hurting many domestic companies. A major importer of cheap goods like Dollar General (and other stores that sell cheap off-shore goods) could be hit hard. #Inflationary

• Kamala Harris was invited to be on Joe Rogan's podcast several times (the most followed in the world which has a broader reach than many TV networks). However the Harris team had many stipulations and restrictions on what they would talk about, and Rogan's side wouldn't budge. That cautious stance with new media didn't help her. #HidingHurts

• "We have to get back to what has always set Starbucks apart: a welcoming coffee house where people gather." New Starbucks CEO Brian Niccol. One thing he wants to do is rein in highly customized drink orders #TakeOutCulture #It'sAboutTime!

• Bluesky is a new social media platform similar to X (pka Twitter & owned by Elon Musk) has gained 1 million subscribers since the US election (2 million since the end of October). Are they leaving X to go to Bluesky? If so, I wonder if Tesla will be passed over by more EV purchasers and they'll buy another brand due to Musk's support of Trump #TrumpPresidencyProtest?

• For 2025, the maximum monthly CPP amount you could receive if you start your pension at age 65 is $1,364.60. The average monthly amount paid at age 65 in July 2024 was $815/month. Your earning history and length of it will determine how much you will receive. At age 65, OAS is $727.67/month. That means the maximum a couple can get from government programs is ~$50K/year (most will get less and often much less). #RRSP=YourPensionPlan

• Research suggests that migraines are 3 times more common in women than men. They can be crippling, so it's not surprising that they're the fourth leading cause of disability in women. Migraines in middle-aged women are primarily related to fluctuations in hormone levels (I don't get them but 2 women close to me, do). #DisabilityInsurance

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