In the season of "thanks" we would like to extend our appreciation to you for entrusting us with your wealth management support. Wishing you a wonderful Autumn.

Investing & the Art of Patience

It may be easy to overlook the importance of patience in investing. Instant gratification has become a way of life. We've been conditioned to expect instantaneous results through influences like on-demand television and one-click shopping. Many of us aren't willing to wait more than two seconds for a website to load.[1]

The rapid rise of the markets since last year's lows hasn't helped to nurture our investing patience. The anomaly of a pandemic, combined with unprecedented actions taken to combat it, has distorted market and economic cycles.

In just 22 days, the S&P/TSX Composite Index (TSX) forfeited almost nine years of gains, but it took only 200 trading days to return to prior highs.[2] The S&P 500 Index rebounded to previous highs in record time — just 107 trading days. Consider that over the past 40 years, it has taken an average of 380 days for the TSX to recover from just a 10 percent drop. Similarly, this past summer, it was reported that the pandemic-related recession was the shortest ever on record in the U.S. and lasted only two months.

History has also shown us that the TSX experiences a correction of at least seven percent each year, on average. Yet, for most of this year when markets have shown any sign of pulling back, retail investors have been quick to buy the dip.

After a year in which markets have largely trended upwards, it may be easy to forget that advances do not always happen at a constant rate. Over 40 years, the TSX has had an average rate of return of around 6.3 percent. Yet, it's worth pointing out how few of the annual returns fall close to this long-term average: just 20 percent of annual returns were between 5 and 10 percent, and almost one-third were negative.[3] Patience, through time in the markets, helps to provide predictability in investment returns.

We have required a particular amount of patience as we fight the evolving pandemic. Recent reports have indicated a slight setback to Canada's economic growth figures for this past spring, suggesting our road to recovery may be longer than many anticipated. Patience will still be needed: the economy has yet to normalize, largely due to an uneven reopening and the threat of the delta variant. Central bankers appear to be embracing this theme of patience. While a slow taper in asset purchases may be on the horizon in the U.S., in both Canada and the U.S., there appears to be no threat of increasing short-term interest rates in the near term.

For most investors, the objective is to create wealth over the longer term, and not for tomorrow. As we look forward, continue to stick to the principles set out in your plan, and don't overlook the importance of patience in achieving your longer-term investing goals.

1. Akamai Technologies - 2014 Consumer Web Performance Expectations Survey; 2. S&P close at 2/10/20, 3/16/20, 8/10/20; TSX close at 2/20/20, 3/23/20, 1/7/21; 3. S&P/TSX Composite Index 10/29/80 to 4/30/21.

"Life starts all over again when it gets crisp in the fall." – F. Scott Fitzgerald

Compass
NAVIGATING YOUR FINANCIAL FUTURE

MACROECONOMIC PERSPECTIVES

Inflation: How Has Purchasing Power Changed?

Over thirty years ago, a Big Mac hamburger cost around $2. Today, it is over triple the price. Throughout that time, average family income has only risen by 91.8 percent and the Consumer Price Index (CPI), the official measure of inflation, increased by 107 percent, or just 2.2 percent per year.

One of the more pressing questions in financial circles today is whether inflation will become a problem, or if current inflationary pressures are temporary as the central banks would like us to believe. Those who believe inflation may be more pervasive cite various factors that signal a potential shift: significant government stimulus, aging demographics in low-cost manufacturing geographies and empowered labour that puts upward pressure on wages and prices. Others suggest that inflation won't be able to maintain its recent pace after struggling to climb for many years, largely attributing it to pandemic-related anomalies.

How has purchasing power really changed? The chart shows the prices for select items in 1987 and today. While prices for many things have gone up, technology has made others more affordable: TVs are not only larger and thinner, but cheaper! What about your personal experience? Statistics Canada has released a personal inflation calculator at: https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020015-eng.htm

Regardless of the path forward, the good news for investors is that the S&P/TSX Composite Index has gained over 430 percent throughout this time. If history is any indicator, equity markets continue to be a great way to grow funds for the future.

	1987	2021	Change
Cdn. Family Income (Avg.)[2]	$37,118	$71,200 (2019)	+91.8%
Cdn. House (Avg.)[3]	$129,702	$716,000	+452.0%
Flat Screen Television[4]	$1,599 (32")	$750 (55")	-53.1%
Top Apple Computer[5]	$9,150	$7,400	-19.1%
Microwave[4]	$580 (680W)	$140 (1100W)	-75.9%
Bottle of Dom Perignon[6]	$85.25	$267.95	+214.3%
Big Mac Hamburger[7]	$2.05	$6.77	+230.2%
University Tuition[2]	$1,137	$6,580	+478.7%
Consumer Price Index[8]	67.5	139.6	+106.8%
S&P/TSX Composite Index[9]	3,729.30	20,035.30	+437.2%

1. 1987 data from: Report on Business Magazine, Apr. 2012, pg. 13; 2. Statistics Canada T-1110019101; Undergrad tuition www150.statcan.gc.ca/n1/daily-quotidien/200921/dq200921b-eng.htm; 3. Data from CREA; 4. Sony HD TV, bestbuy.ca; 5. MacPro, apple.ca; 6. LCBO; 7. economist.com; 8. bankofcanada.ca/rates/related/inflation-calculator/, Mar. 1987 & 2021; 9. At close on 6/7.

Skyrocketing Prices: What's Your Cottage/Cabin Estate Plan?

For many Canadian families, going to the cottage/cabin each summer is a time-honoured tradition. And, with real estate prices at all-time highs and cottage and cabin property in high demand, planning for the property's future succession has never been more important. Why? Many of us have owned our cottages for a long time and want to keep them in the family for future generations. However, to do this effectively, careful planning is essential.

Taxes Are Key

One of the biggest problems is that a cottage property is often not considered the principal residence* for tax purposes and any transfer of ownership may result in substantial capital gains taxes. With real estate prices hitting record highs in many markets, cottage properties are no exception. Take for example a property with an adjusted cost base of $500,000 that may now be valued at $1 million — such an increase in value would not be unusual in today's markets. Half of the capital gain of $500,000 would potentially be subject to income tax. If you own the cottage when you die, your estate must pay this tax.** Will your estate be able to absorb this tax expense and still be able to look after your intended bequests without selling the property?

Transferring ownership to your kids before death does not get around this tax liability since the tax rules say that only transfers to a spouse can be made tax free under the spousal rollover rules.

This is not to say such a transfer before death should never be made. There may be a couple of advantages. First, subsequent increases in value will be a matter for the new owners. Second, probate fees, if any, may be avoided on the value of the cottage. Other solutions involving trusts or other vehicles may also be of assistance.

Insurance May Help

Coming up with the estate funds to pay the taxes on a cottage transfer can be problematic. Insurance is one solution. A policy with the death benefit equal to the expected tax bill can be a way to fund the potential taxes. The proceeds are typically received tax free and not subject to probate fees (in applicable provinces). You might even arrange it so that the annual premium cost is paid by the eventual beneficiaries.

Who Wants the Cottage Anyway?

Of course, it should first be determined if your children actually want to keep the cottage in the family. Sometimes only one sibling may be interested. Some may not wish to have the obligations of upkeep, especially if they live too far away to use it. In addition, many family disputes can arise from joint ownership of a cottage. Who gets to use it during peak weeks? Who is responsible for cleaning or repairs? To avoid such problems, planners often recommend that the cottage be sold on the open market or be left to one child with a provision made for other siblings to receive equivalent value from the remaining assets of an estate.

Seek Advice

Passing along the cottage can be a complex matter. If you intend on minimizing taxes and avoiding family disputes, structuring the transfer deserves planning and forethought. Needless to say, every family situation is different and it is important to assess your own case carefully.

Don't assume that your situation is not significant. Don't assume that family will never fight over your assets. Do discuss your intentions and situation with all members of the family. Do seek advice from experienced estate planners and other professionals whom you trust.

As we are familiar with your financial situation and investment objectives, we can point you in the right direction and work with skilled professionals in the field. Please don't hesitate to call for perspectives.

*It may sometimes be advantageous to designate a cottage as the principal residence for some or all of the period of ownership if the gain is larger than on another residence. There may also be a mechanism to split the exemption and reduce the gain on both properties. Seek advice from a tax professional.
**Except when the cottage is transferred under spousal rollover rules.

The Psychology of Investing

According to recent reports, investors using a U.S. discount brokerage platform are checking their portfolios at an alarming rate of seven times per day.[1] It's not difficult to do. Today, often all it takes is one quick swipe on our smartphones. However, frequent portfolio checking may be hazardous to your investing health.

Modern behavioural scientists have determined that our cognitive biases can sometimes cause us to make decisions that may not be in our best interests. Our brains operate in two cognitive states: automatic and reflective. Our automatic system is uncontrolled, fast and unconscious. Our reflective system is controlled, effortful and deductive. Cognitive biases occur when the automatic system, often influenced by the current environment, dominates the reflective system. This is why going grocery shopping while hungry can lead to unhealthy food choices: our reflective system is easily overridden by a state of hunger.

By checking portfolios frequently, there is a greater chance that we will trigger these biases. One reason is that frequent checking means a higher probability of seeing a loss, which may drive us to want to take action. By checking S&P/TSX Composite Index performance on a daily basis, there is a 48 percent likelihood of seeing negative performance. If you were to check only once per year, this would decrease to 28 percent.[2] However, even seeing positive performance may trigger us to make certain decisions, such as selling a well-performing investment too early.

In investing, being aware of these biases can help us to make better decisions. "Herd behaviour," the tendency to follow the actions of a larger group, may cause investors to buy or sell due to pressure from others who are doing the same. "Recency bias" causes investors to believe that recent patterns or events in the markets will continue into the future. "Confirmation bias" suggests we put more emphasis on information that agrees with what we believe, discounting opinions and data that disagree with these beliefs.

In fact, according to scientists there are 188 known cognitive biases that can affect our thinking and our actions. The visual above shows just a handful of the complete list of biases as published on visualcapitalist.com. The full infographic, found at www.visualcapitalist.com/every-single-cognitive-bias/ presents an interesting look at how our brain can sometimes work against our better judgment.

The good news? With a bit of effort, we can learn to control these behaviours. Some of the most seasoned investors have trained themselves to avoid emotional impulses. We can also integrate different techniques into our investing programs, like regularly rebalancing portfolios, using managed products to put buy and sell decisions in the hands of experts, or incorporating systematic saving or investing programs to avoid market timing.

Most importantly, don't forget the influence that human behaviour can have on investing and plan ahead before it can have an impact. This may include sticking to your wealth plan during volatile times or avoiding the urge to react to social and media pressure. And, remember, we are here to help provide support as we work with you towards achieving longer-term success.

1. On average. www.reuters.com/breakingviews/chancellor-robinhood-is-more-sheriff-than-rebel-2021-07-15/; 2. S&P/TSX Composite Index 1985 to 2020.

In Memory of Peter Chandler

We are forever grateful for the memories of a dear colleague, good friend and mentor, Peter Chandler. Chris and Joanne worked with Peter for nearly 30 years. Cynthia joined the team in 2009 and they experienced many great times over the years, made great friends through their clients and left an impact on so many. Three years ago when Peter retired from a 40 year career in the financial services industry, we wished him time to enjoy his lifelong hobbies and more time with his family. While we will miss Peter and his exuberate personality, we will never forget his lasting legacy with the memories made. Thank you for your condolences and kind words as we all share in the loss of a great human being.

"Sometimes you will never know the value of a moment, until it becomes a memory." – Dr. Seuss

To Our Clients:

We would like to extend our sincere thanks to those who have introduced us to friends and family. We are here to provide support, whether it's a fresh opinion on an existing portfolio or advice relating to a new situation. Thank you for your confidence in our services.

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