The Francis Forum

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INSIDE THIS ISSUE

5 Lessons I Learned From The *Psychology of Money* By Morgan Housel

During my morning runs this summer, I was able to take advantage of this time to enjoy the audiobook The *Psychology of Money* by Morgan Housel. This book provides readers with a deep dive into their behaviour with money while highlighting lessons on wealth, greed, and happiness. Housel explores 19 short stories about strange ways people behave with money, along with the best ways to rethink these behaviours and focus on what aspects are the most important in our lives. I will share five of the top lessons that I learned while listening to this book, and I hope that some of these lessons will resonate with you.

Never stop saving

The first lesson is the fact that we should never stop saving. Even when one thinks that the amount is small, it adds up and allows you to be financially independent in the long run. It also allows you to free yourself from some financial debt and focus on your wants. Financial independence is equated with your saving rate as this is something you can control. Therefore, concentrating on having lower expenses will allow you to keep saving and to build wealth. Think of saving as flexibility. If you can choose when you have to save and spend on your own terms, this is a powerful ability.

Freedom

Let's face it; we are all different. When you equate money to a certain level of happiness, the amount allocated to achieve financial freedom is subjective for everyone. People want to control their lives, and money is one of the tools that help control what you can do and when you can do it. Financial independence and autonomy are the real sources of joy that derive from the freedom that money provides you when you are cautious about saving and spending.

Wealth is hidden

We often associate wealth as the materialistic objects that one possesses, such as homes, cars, jewelry, clothing etc., but in reality, it's everything that we don't see. We tend not to classify wealth that is hidden because we can't conceptualize it. However, it is all about the work behind the scenes that are the most significant contributing factor to wealth. This lesson goes back to the earlier concept of saving; you are accumulating wealth rather than spending the money you have. This offers you flexibility and growth, two options that we often long for, and we need to start enacting this in our everyday lives.

The World Is Full Of Surprises

If we have learned one thing this year, it is that the world is full of surprises and that changes can happen at any moment without notice. With the Coronavirus, our financial and investing industry had many ups and downs, and it just proved that we had to adapt to the world's current context. The type of change we have seen is unprecedented. With culture and generational shifts, changes are bound to happen and will

There's a Price Tag for Everything

Wouldn't it be nice if everything in life was free? However, we all know that this would be impossible. Often, the price tag of something may not be apparent. It only becomes evident when the bill is overdue. Then you realize that the experience does not associate with the price tag you were willing to pay. People are eager to spend money on trivial items but are less inclined to spend on investing. This is due to the lack of immediate reward or gratification and increased risk perception and involvement. A reminder that nothing worthwhile is free. Always be ready to define your cost of success and be prepared to foot the bill.

Have these five lessons resonated with you, or were you able to learn something new? I was happy to share some of the lessons that stuck most with me, and I hope these can apply in some of your own lives. If you want to learn more and take a deep dive into this book, go pick up your copy at your local bookstore!

Written by Catherine Hansen in conjunction with Duane Francis, Portfolio Manager

Around The Branch

Wedding bells rang on August 14th for our own Natalie Nunn. After a litany of disappointing COVID delays and false starts over the past 18 months, Natalie married Corey Métivier and is now proudly known as Natalie Nunn Métivier. The wedding took place on a beautiful afternoon at Notre Dame Cathedral on Sussex. Thanks to all who supported, encouraged and congratulated Natalie over the past months.

Clients are welcome to visit the branch. Conditions apply and this includes a COVID Screening Form which must be completed and submitted 24hrs prior to arrival. We are committed to complying with the provincial and municipal health authorities and associated guidelines. While most continue to prefer ZOOM or phone reviews, we welcome your visit if you feel so inclined.

A new associate/team member joined us mid-month. We encourage you to welcome Rumi Prince who has over 12 years' experience in financial services and administration – most recently with a major bank. Rumi will be working on our team and administering the tax program alongside our long-time accountant Lisa Bailey. While Dusan Surla moves to new opportunities, for any tax or general inquiries, please contact Rumi who will be pleased to assist you. Rumi can be reached by phone (613) 728-0101 or via email rprince@mandevillepc.com.

On behalf of everyone at Capital Wealth Partners, thank you for your continued confidence and support. If you have any comments or suggestions on how we can add additional value, please drop us an email. None of us ever stop learning and we are happy to hear from you.

Revisiting Equity Markets and Lifeboat Drills!

Preparation and planning are best done in advance of rough seas and that sinking feeling. How does that apply to your investments? Well, from time to time, stock markets pull back (decline, correct, crash…pick your headline) and it is during these times some clients become overly concerned about their wealth and its ability to get back on track. Others may worry about the sustainability of retirement income streams. Whatever the concern, Lifeboat Drills prepare us to weather the storms just as they do when out at sea and things get rough.

Take the 30% “peak to trough” decline of spring 2020 when COVID 19 first reared its head. Looking back, it seemed a short-lived concern – looking back! However, in March 2020, during the midst of the storm, some clients believed that their wealth was about to be destroyed and completely lost. Talk of a black swan event, economic hardship, food rations - you name it, all led to worry albeit at different levels.

In reality, the outcome is almost always the same when one owns high quality, proven investments. Investments that match their time horizon, risk profile and other considerations. Broad based declines are followed by new market highs. Need proof – see the chart below. If you do view the chart, consider when it was best to invest money and you will quickly conclude it was at the point of maximum consternation – the low point!

Today, I ask you to consider the “peak to trough” declines you see on the chart and recall the ones you lived through and prepare yourself for the next one. No – I don’t know when it will happen – no one does. What I can say is that after 13 years of a pretty strong upward trend, I would not be surprised if a pullback occurred. This in no way means it is imminent. The idea of owning equites is that you are rewarded for tolerating temporary stress/worry (declines) for the benefit of above average tax deferred returns over time. While nothing in life is guaranteed, history shows us this is what transpires over time.

While everyone knows good results can occur through investing in stocks over lesser periods of time, I have always maintained a 10-year time horizon is best, precisely because you don’t know when a pullback will occur. If you bought a collection of wonderful businesses (stocks) in 2000 or 2007, you would have seen a worrisome decline the next year and the recovery was measured in years, not months. However, if you had a ten-year time horizon, this became a non-issue for you. You had time to wait out recovery.

I prefer to place investments in “silos”. One silo for short term needs/emergencies and income; 1–5-year money needs. A second silo that perhaps owns real estate, private investments and other income-oriented investments; 5–10-year money. The final silo designed to hold common stock that is providing above average inflation fighting returns over time; 10 plus years. It is this last silo that provides the returns everyone wants/brags about, but it is punctuated with declines - sometimes sharp ones during events like COVID 19, the Global Financial Crisis and others. Clients are paid handsomely for tolerating these pullbacks because after each one is a new high and over *time* the growth is usually impressive. Again, review the charts below. This last silo also defers and reduces taxation in non-registered accounts, has a history of crushing inflation and protecting your purchasing power down the road.

Life Boat Drills involve looking back on the charts provided here and revisiting the "peak to trough" declines. Could you handle one or all of those when they next happen? Maybe you can tolerate a 25% decline but not a repeat of the 2008/2009 Financial Crisis which was 50%? Portfolios are designed to provide a mix of results. You cannot have great long term above average returns, tax deferral and linear results. It does not work that way. What does work is mixing the right constituents (fixed and income-oriented investments) to provide balance and stability to the degree that should satisfy the desired risk profile.

No one knows when the next pullback will occur. What is important is *one will occur* at some point. What's more important is *how you react* when the next one takes place. Now is the time to convey any specific need (new roof, new car, new vacation property – you get the idea) over the coming months and next few years. By communicating withdrawal needs we can plan now and rebalance the account to favour the first silo and cover off these expenditures regardless of a market pullback. The downside is perhaps a bit of tax now due to capital gains on recent growth, and the potential loss of growth due to exiting great businesses. This is the trade-off.

Each client has an internal tolerance for risk and specifically "statement shock" represented by a peak to trough decline. These are linked to tax needs, time horizon (silo constituents), income needs, planned expenditures and of course, one's worry rates. The fact is that broad based declines are temporary – you just need to sit them out! Sometimes this takes a few months and sometimes this takes a few years. While enduring a market decline in the future, revisit the two charts that follow and remember that this has been historically the best time to invest. When evaluating the **two** charts below, it's important to distinguish the meaning behind each over the past 23 years.

The first chart titled "Market Performance" showcases the *price* movement history of the two broad market indices; USA S&P500 (Blue), Canada's TSX (Green), alongside two stocks; Royal Bank Common Stock (Purple), and Berkshire Hathaway Class B Shares (Orange) since 1998. This includes all the ups and downs (peak to trough) periods of turmoil, but it also showcases the *upwards trend* of financial markets. Notice the beginning value (left)and end value (right).

Market Performance of TSX/S&P500 (1998-2021)

(Source : Reuteurs Refinitiv Eikon)

This second chart titled "Total Return" provides a picture *beyond* the daily movements of stock prices and showcases what would have transpired had you invested in the same two indexes and two stocks and simply gone about your life and ignored them since 1998. Your patience would have been massively rewarded. While the daily price movements of equities and the chart depicting peak to trough declines may look intimidating, it's important to remember to contextualize it within a total return chart that includes re-invested dividends which add to the returns and reduce any one-year loss. As such, this illustrates the importance of understanding that investing is a *longer-term* proposition best housed in the 10 plus year silo. It also illustrates that despite the temporary pullbacks in the market, the advances are permanent for those who have patience and do not panic/sell in a declining market. Looking back, when would have been the best times to invest more money? During the low points of course…the point of highest pessimism, fear and despair. Doing so would have made for very handsome returns. Again, note the trend is up and also notice what became of the original $10,000 investment made in in January 1998. Despite all the talk of Tech Wreck, Global Financial Crisis, COVID 19 and everything else worrying investors in-between – the payoff was very good! Want a bonus? No tax would have been paid on any realized gains until they were sold, and then only a portion would have been taxable. Nice!

Total Return of TSX/S&P500 (1998-2021)

(Source : Reuteurs Refinitiv Eikon)

Orange:	Berkshire Hathaway Class B Common Shares
Purple:	Royal bank of Canada Common Shares
Green:	TSX Composite (Canada's Top 300 Companies)
Blue:	S&P 500 (Top 500 USA Companies)

Written by Michael Prittie, Portfolio Manager

Admin Corner

Needing Additional Cash Flow?

Redoing a kitchen? Buying a new car? Kids going off to college or university?

Just a reminder to our clients, if you are in need of some money from your investment accounts, please give us five days notice. This provides us time to make any necessary sells, await settlement on securities which is generally "trade date plus two days" and another full day or two to have the money processed to your bank account that we have on file. Keep in mind some private investments have additional liquidity/settlement terms. To avoid disappointment, please give us *five days notice* and recall statutory holidays add additional delays.

Written by Natalie Nunn Métivier, Branch Administrator

Principal Residence Designation

Over the last twelve months, increasing inquiries pertaining to principal residences have been received here at the office. The majority of the inquiries fall into one of two categories:

1. What happens when I sell my home and move to another home within Canada? Can I have two principal residences?

2. What happens if I want to sell my home and move out of the country? Do the same rules still apply to my current home?

When it comes to moving within Canada, the situation you may find yourself in is you sell your home and buy a new home immediately after. This situation is relatively straightforward as the gains on your principal residence are not taxable, and when your home closes, you would simply move into your new home, designating this as your new principal residence. However, let's say you own both a home and a rental property (or cottage) and sell your existing home and decide to move into your rental home full time. While you may have two principal residences in the same calendar year, you may not have two at the same time, thus making the situation more interesting.

To illustrate this, we will need to make a timeline of events. Let's imagine you moved into your existing home in 2000 and acquired your rental home in 2010. Your home has been your principal residence for nearly 22 years and the growth in value is tax free, but the growth in value on your rental home is taxable as a capital gain given it is not your principal residence. Does this mean when you move that your new home (former rental) is taxable? No; instead, only the change in value from 2010 to the day you designate your rental as your principal residence is taxable, but now we have a new problem: What is the gain?

To answer this question, you need to have a certified professional appraisal done on your rental property. When having an appraisal done, it is natural to hope the appraisal comes in as low as possible relative to the price you paid in 2010 as this will lower the taxable capital gain and the tax liability when/if you sell your new home (former rental) later. If renovations are needed, it is also advisable that you perform any improvements and repairs which will serve to boost value *after* the property becomes your principal residence. This is because the gain in value would occur after you moved in and designated the former rental as a new principal residence. I have guided a number of clients through this process involving varying circumstances – some complex.

As for our second question, when it comes to leaving Canada, the same principal residence rules apply. The sale of your home is tax free, and while rules for residency vary with each country, one of the main conditions for becoming a non-resident of Canada that must be satisfied for tax purposes, is having no readily accessible residence. For more information regarding non-residency tax status, rules and regulations, your principal residence and strategies for those who wish to leave Canada, temporarily or permanently, please reach out to us. There are criteria which must be adhered to and we will be more than happy to assist.

Written by Adam Prittie, Investment Advisor

Why You Need A Financial Plan

FP Canada, the national professional body that certifies professional financial planners in Canada, regularly conducts Financial Stress Index surveys (FP Canada). This survey evaluates what is causing Canadians stress and how professional financial planners are helping Canadians with their financial wellbeing.

The 2021 Financial Stress Index shows that 38% of Canadians said money was their biggest concern, outranking personal health (26%), work (20%), and relationships (15%). More than 51% said they lost sleep over money concerns and 31% say it led to health problems, a significant increase from 18% in 2020. The survey also showed that Canadians working with a professional financial planner were far less likely to say money was their top concern. They were also significantly less likely to have faced health issues due to financial stress and were much more confident of their financial future compared to those who didn't have a financial planner.

There are many benefits of having a financial plan. It is very difficult to achieve financial security without understanding what is needed. A financial plan helps you set and reach your goals. Studies have shown that people with clear goals are 10 times more likely to succeed. Your short term, medium term and long-term goals should balance and align with your finances. People have unique goals and objectives. An example would be, when to retire and how much income you would like to have per year in retirement. Numerous investments, taxation and estate planning strategies exist. Working with a qualified financial planner you can best be assisted in finding your right strategy. Each government budget brings new strategies and opportunities. An advisor can keep you updated and informed.

A financial plan can be a source of commitment and inspiration. It gives a reason to have your plan. The regular investment, or paying yourself first can have huge benefits in the future. When I have shown parents projections of having their children start investing early, say at age 19, and compare it to a person starting at age 26, the results are motivating. Usually, if they have children of age, they will bring them in to open accounts. Just a little invested early can have amazing long-term results.

A financial plan can be a guide for action. When specific outcomes are desired, your plan will guide you in taking action. When a trusted advisor develops a plan, you have a framework to reach your goals. Incorporating your objectives into the most appropriate opportunities, a financial planner can assist you in what type of account to open and considers your personal circumstances, objectives and risk tolerance. This also ties in with taxation and income splitting.

Financial planning can help you just getting started in your career. Your financial plan can grow with you as you get older and your financial life becomes more complicated. Financial plans establish a benchmark to evaluate your progress. With your desired outcomes you can define your progress. It can assess how you are progressing and whether you need to make adjustments. With your risk profile established, you can better react to market volatility and resist the urge to market timing. It helps you see whether your goals are realistic for your timeline.

A financial plan has shown to improve financial outcomes over time. Those with plans are better prepared for financial emergencies and retirement. During a disruption like COVID, a plan can help you keep your strategy in focus and address current challenges. A financial plan will give you the framework for the important financial choices you will be making now and tomorrow.

Written by George Comminos, CFP, CIM

Seminars and Upcoming Activities

- On September 29th, we had our first client seminar for the fall through spring season. This event featured James Cole. James manages the Portland Focused Plus Fund, an award-winning Alternative Strategy Investment. James shared with us his formula that has led to above average returns (compared to the S&P/TSX and S&P 500) since inception. Please watch for upcoming announcements on our monthly Zoom seminars until such time that we can once again gather in person

- The fall season, and October, in particular is one of my favorite months. I love the color and the scent of fallen leaves, the Thanksgiving holiday dinner and every aspect leading up to Halloween. The weather is great for hiking and mountain biking or just being outside given all the lock downs endured this past year.

- It appears our formerly "annual Children's Christmas Party" will again succumb to the effects and cautions of COVID 19. Hopefully 2022 allows us to once again host the June Annual Family Movie Day and then the Children's Christmas Party.

We will once again be major sponsors of the Annual Christmas Exchange Breakfast. Someday soon we hope this event returns to its sit-down breakfast format at the Westin or Shaw Center versus one that is virtual. In any event, we are proud to both support and fund this important charity each December.

Sincerely,

Duane