Newsletter

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Bull and Bear: Tortoise or Hare?

During strong market times like we experienced in 2024, or times of uncertainty, are you inclined to be more like a tortoise or a hare? As we begin another year, it's a perspective worth remembering: meaningful growth is often measured over decades, not months or even years.

In the excitement of the bull market's run in 2024, Warren Buffett's Berkshire Hathaway became the eighth U.S. company to join the trillion-dollar valuation club.[1] It's worth stepping back to put the magnitude of "a trillion" into perspective: A million seconds is just under 12 days. A billion seconds is around 32 years — roughly one-third of a lifetime. Yet, a trillion seconds is nearly 32,000 years — more than all of recorded history!

For companies achieving this milestone, success didn't happen overnight. Buffett's feat is nearly six decades in the making. When he took control in 1965, Berkshire Hathaway was a struggling textile mill valued at around $22 million.[2] Over the years, it has been fueled by time, compounding and perseverance, with profits reinvested into new investments, allowing the company's value to substantially grow. However, this success hasn't come without challenges: Buffett once suggested that the "dumbest stock" he ever bought was, ironically, Berkshire Hathaway. And, he has acknowledged plenty of other "mistakes" along the way.[3]

Buffett's journey may be reminiscent of the old Aesop's fable, where the slow-but-steady tortoise wins the race against the speedy-but-inconsistent hare. In investing, it's easy to become preoccupied with short-term expediencies. Current concerns — like Canada's declining productivity and lagging economic growth, or new questions about how far equity markets have advanced — often act to distract our investment focus. However, longer-term investors shouldn't fixate on what might happen tomorrow as this tends to be largely unpredictable. It can also strain our investing 'constitution' and shift focus away from longer-term plans. Just look at how much has changed in 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 challenges, the markets continued to advance.

While the double-digit market returns of 2024 have been exciting, they are a reminder that growth in both markets and economies is rarely linear. Viewing investment timeframes over decades highlights the profound impact of time on compounding growth. Investing $100,000 today at an average annual 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!

Where will we be in a decade? With a focus on the longer term, a strong case can be made that both markets and economies will continue to advance. This doesn't mean that downturns or setbacks won't occur along the way, but viewing the wealth journey over longer periods allows us to view a full cycle of events — and the substantial opportunity should we choose to participate. While there's never any guarantee of what tomorrow will bring, the only way to miss out on future growth is to sit on the sidelines. Here's to a new year, the next quarter century — and beyond!

1 https://www.visualcapitalist.com/berkshire-hathaway-1-trillion-club-how-long/
2 https://www.berkshirehathaway.com/letters/1985.html; More than 99 percent of his fortune was accumulated after age 50: In 1980, BRK-A closed at $380; today it trades around $700,000 — a staggering 184,000 percent or a CAGR of 19 percent
3 https://www.cnbc.com/2017/12/15/warren-buffetts-failures-15-investing-mistakes-he-regrets.html

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Start Now to Make 2025 Less Taxing...

As we begin a new year, why not get ahead and make the year less taxing? Here are a handful of reminders to start the year:

Contribute to the RRSP. The deadline for the 2024 tax year is **Monday, March 3, 2025,** limited to 18 percent of 2023 earned income to a maximum of $31,560 (2024). Deferring the deduction may provide tax-planning opportunities: you can choose to delay the RRSP deduction to a future year, perhaps one in which you have a relatively higher income to offset the higher potential tax.

Fund your TFSA. The **2025 TFSA annual dollar amount is $7,000,** bringing the eligible lifetime contribution limit to $102,000. The latest statistics show that high-net-worth taxpayers have, on average, over 34 percent of unused contribution room.[1] Have you fully maximized this tax-advantaged account?

Split income, save tax. Review your family's potential tax bill to determine if there are income-splitting opportunities. For example, you may elect to split eligible pension income with your spouse (partner) on your tax return. Spouses may also apply for CPP pension sharing. There may be an opportunity to open a spousal RRSP. Business owners may consider paying reasonable salaries to spouses/children for services provided to a self-employed business or private company. 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.

Keep in mind that bare trusts are exempt from the 2024 filing. There has been much confusion surrounding the trust reporting rules that came into effect last year as they relate to bare trusts. This was complicated by a last-minute reversal by the CRA in late March 2024 that exempted bare trusts from filing for 2023. Since then, 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 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.

1 2024 TFSA statistics for the 2022 year, with HNW taxpayers (defined as taxpayers with income over $250,000) having $28,064 of available contribution room (lifetime contribution room of $81,500).

Investing Resolutions From the World's Best Investors

Happy New Year! As we begin another year, here are five investing resolutions and words of wisdom from the world's best investors:

> *"Sometimes the tide is with us, and sometimes against. But we keep swimming either way."* — Charlie Munger

1. Keep swimming. It's easy to feel confident when the tide is in our favour, as it was in 2024. Yet, Munger often emphasized the importance of discipline: keeping a steady stroke regardless of market conditions. Staying invested through the highs and lows, and resisting the urge to overreact to short-term tides, can be key to longer-term success.

> *"The best time to plant a tree was 20 years ago. The second-best time is now."* — Proverb

2. Don't overlook the value of time. After the rapid gains of 2024, it may be easy to overlook the importance of time and patience in investing. Meaningful growth is often measured over decades, not merely days or even years. Starting today, even a modest contribution like $19 per day can yield remarkable results. At an annual rate of return of 6 percent, this small daily amount could grow to over $1.1 million in 40 years — a powerful reminder of the impact of time.

> *"All these noises and jumping up and down along the way are really just emotions that confuse you."* — John Bogle

3. Pay less attention to the noise. On average, we're staring at our screens almost 7 hours a day, amounting to over 17 full years of our lifetimes! While the news we're being fed has always leaned negative to capture attention, this negativity has increased. This may explain why both economic and non-economic sentiment have declined over the last 50 years despite fewer economic setbacks.[1] Focusing too much on tomorrow's uncertainties is counterproductive: it often involves factors beyond our control, causes investors to make hasty decisions and shifts attention away from longer-term plans.

> *"Do not save what is left after spending, but spend what is left after saving."* — Warren Buffett

4. Save more. Saving is among the few elements of investing within our control, unlike factors such as stock market fluctuations, interest rate changes or the timing of economic downturns. Moreover, it is a fundamental pillar in the process of wealth accumulation. Building wealth is possible even with a modest income, yet it becomes improbable without a commitment to saving.

> *"Any sound long-range investment program requires patience and perseverance. Perhaps that is why so few investors follow any plan."* — John Templeton

5. Have confidence in your plan. In our work as advisors, we are here to provide support at every stage of the investment journey to help you achieve your goals. Research continues to show that investors who work with advisors build more wealth over time, with success driven by key factors including asset allocation, savings discipline and coaching to avoid costly mistakes.[2] Have confidence in your plan, and continue looking forward.

1 https://www.ft.com/content/af78f86d-13d2-429d-ad55-a11947989c8f
2 https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=27821&lang=en_CA

To Start the Year: Five Wealth Planning Questions & Rules of Thumb

Happy New Year! If you're seeking a bit of financial motivation, here are five wealth planning questions that can be addressed with simple "rules of thumb." They may spark discussions about wealth management, budgeting or family and estate planning — and might even inspire better financial choices for you or your family members:

1. How long will it take for my investments to grow?

The Rule of 72: In the investing world, the Rule of 72 is used as a simple way to estimate the time it takes to double an investment based on a constant rate of return. Dividing the number 72 by this rate of return determines the approximate number of years it would take to double. For example, for a 6 percent rate of return, it would take approximately 72÷6, or 12 years. This rule serves as a reminder of the power of compounding and the importance of staying invested for the long term. At a rate of return of 6 percent, even if you've reached the respected age of 70, based on the average life expectancy you're likely to see your funds double — and twice still if you become a centenarian!

2. Am I on track with my wealth accumulation?

The Net-Worth Indicator: This measure, developed by the authors of "The Millionaire Next Door," estimates expected net worth based on household income. Multiply your age by your pre-tax annual household income (excluding inheritances) and divide by ten. This result is your expected net worth. If your actual net worth is more than twice this figure, you are considered a "prodigious accumulator" of wealth; if it is below, you are considered an "under-accumulator."

3. What portion of my budget should go toward saving?

The 50-30-20 Budgeting Rule: This rule divides after-tax income into three buckets: 50 percent to "needs," 30 percent to "wants" and 20 percent to "savings." Needs include essentials like housing, utilities, food, transportation, healthcare and childcare. Wants are non-essentials, like memberships, entertainment and hobbies. Savings include investment and debt repayment. If you hold debt, it may be wise to allocate more to repayment, given higher borrowing costs.

4. How much of my income should go toward housing?

The "Rule of 30" for Home Purchases: In the past, a general rule of thumb suggested the price of your home should be no more than three times your annual gross income. However, with skyrocketing housing prices, this rule of thumb may be largely outdated. Instead, the "Rule of 30" suggests limiting total annual housing costs (mortgage payments, insurance, property taxes, maintenance, etc.) to 30 percent of gross income. This guideline helps frame a purchase decision, especially for younger buyers, to avoid the risk of financial strain or vulnerability in the event of unexpected changes.

5. When should I be having discussions with elderly parents?

The 40/70 Rule for Aging: This simple rule of thumb encourages discussions about aging-related matters, suggesting that these conversations should begin between adult children and aging parents once the child reaches the age of 40 or the parents turn 70. By having these conversations early — while parents are still healthy and capable — families can address topics like future care, living arrangements, finances and end-of-life decisions before a crisis arises.

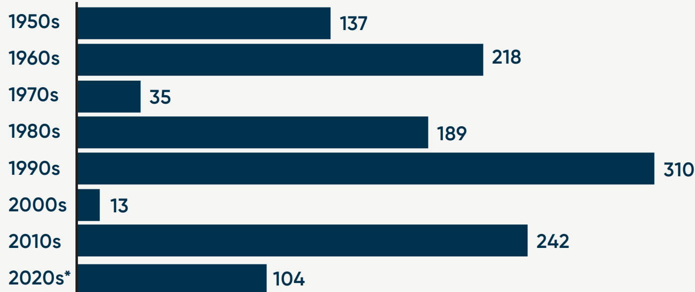
Of course, these rules are informal guidelines designed to offer broad advice and encourage thoughtful planning — they are oversimplified and intended to be general in nature. However, they can serve as helpful starting points and high-level guidance when managing finances and building wealth for the future.

For a deeper discussion on these, or any other aspects of wealth management, please contact the office.

Perspectives on Investing After Periods of Strong Returns

Following the notable gains in both Canadian and U.S. equity markets in 2024, some investors may feel hesitant about putting money to work in the market. Here are three perspectives that may surprise you about investing after periods of strong market performance:

1. New market highs may be more common than we think. Many investors may be concerned that a market reaching new highs signals an imminent downturn. However, new highs often reflect ongoing growth in economies and corporate profits. A look back at the S&P 500 shows that since 1950, there have been more than 1,250 all-time highs, averaging more than 16 per year.

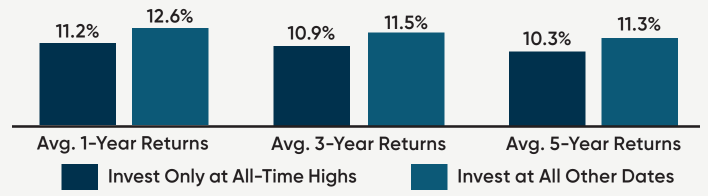


While some may worry that a large correction typically follows new highs, history suggests otherwise: the S&P 500 has finished down more than 10 percent (often considered a market correction) only 9 percent of the time within a year following these highs — and the likelihood decreases over longer timeframes.[1]

2. Investing at all-time highs doesn't lead to substantially lower returns. Many investors worry that investing at market highs might mean "buying at the top," but a closer look at the S&P 500 since 1950 shows that returns when investing only at market highs are, on average, comparable to investing at all other times over one-, three-, and five-year periods (chart, bottom).[1] This may reinforce the importance of consistently investing rather than attempting to time the markets.

3. High market concentration doesn't mean prolonged periods of lower returns. The recent market strength, largely driven by the tech mega-cap stocks, has led some market prognosticators to warn of a potential "lost decade" for U.S. stocks. Yet, historical analysis may suggest otherwise. A study of over 200 years of U.S. stock market history found that periods of rising concentration often aligned with ongoing bull markets, as dominant sectors reflected the prevailing innovation, such as the technology sector today.[2] This sector dominance often persisted for extended periods, in many cases multiple decades. Another analysis over 90 years shows that S&P 500 rolling 10-year returns below 3 percent have been extremely rare, mainly occurring during severe economic challenges like the Great Depression, 1970s stagflation and the Great Financial Crisis.[3]

These perspectives may offer a more balanced view of investing after periods of strong market performance. This is not to suggest that the recent rapid gains will continue at the same pace; indeed, we may find ourselves in a period where strategic security selection is even more important — and this is where our work as advisors shines through. Enjoy the gains we've recently experienced and continue to look forward, building wealth for the future.



1 https://www.rbcgam.com/en/ca/learn-plan/investment-basics/investing-at-all-time-highs/detail
2 https://globalfinancialdata.com/200-years-of-market-concentration
3 https://awealthofcommonsense.com/2024/10/3-stock-market-returns-for-the-next-decade

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