Leib Zeisler

# Letters from Leib

## Balancing Growth, Risk, and Market Shifts — Winter 2025

At the start of a new year, it is wonderful to acknowledge and celebrate a period of exceptional investment growth and to reflect on the changes and challenges that lie ahead. The reactions of our clients to back-to-back years of double-digit gains are a mix of joy and disbelief. Many ask if they should lock in profits before the markets fall. This ambivalence is widely shared by market analysts, with some celebrating the dawn of a new era while others urge investors to be wary.

It is true that, over time, stock markets go up more often than they go down. The S&P 500 has delivered an average annual return of 10.13% since its inception in 1957, with a cumulative two-year change in the range of 50%.[1] However, it will be difficult to maintain this exceptional momentum for a third year, particularly when gains have been concentrated in a small number of companies. Loss of momentum, however, does not predict a precipice. As 2024 ended, a broadening out was underway with a rotation in leadership seen by many analysts as a positive development.

## Economic Outlook and Investment Strategy

**Market Expectations:** For the next 12 to 18 months, we anticipate modest economic growth with portfolio returns in a more conventional range of 8% (including dividends).

**Strategy in the Face of Uncertainty:** Given the numerous unknowns facing investors (these will be discussed below) our approach will focus on risk management and opportunity identification. This means maintaining discipline and diversification in core portfolios while keeping an eye open for unique growth opportunities with potential long-term gains.

**Portfolio Adjustments:** Depending on investment mandates and individual circumstances, we will also talk with clients about enhancing cash flow through covered calls in TFSAs, increasing exposure to fixed income products, and simplifying portfolios with managed products.

**Tactical Positioning:** We plan to maintain an above-average cash position to capitalize on potential volatility arising from market uncertainties. This strategy aims to balance risk mitigation and wealth building, while pursuing cash flow and growth opportunities in a less than certain economic environment.

## The Ever-Changing Investment Landscape

Markets are always changing but in the near term the investing landscape is expected to be even less predictable with the election of Donald Trump, whose age and temperament magnify policy uncertainties. The economic implications of tax cuts, anti-trust legislation, deregulation, and deportation should become clear as rhetoric turns into legislation.

**Fading Tail Winds:** Many of the exceptional tail winds that propelled markets upwards since the turn of the century have lost power, including declining interest rates, the record growth in money supply, and lower taxes. The benefits of globalization are being undone by tariffs and trade wars. The costs of onshoring are expected to erode profits and spur inflation. Demographic changes and reduced immigration are creating labour shortages that new technologies may or may not be able to fill. Many analysts expect historically high levels of government debt to exert upward pressure on interest rates.

**Key Drivers of Future Market Growth:** We anticipate market dynamics in the near to mid-term will be shaped by 1. the “grey wave” of aging investors, 2. the transformative impact of Artificial Intelligence, and 3. the surging demand for energy and power generation.

The largest cohort of retail investors ever, a cohort that many of us belong to, is aging. The implications for individual investors will be discussed below, but we also need to be aware of the collective impact on the financial industry as millions of investors shift their priorities to address longevity risks and future health care needs. We anticipate increased demand for income generating assets including managed equity products, bond and fixed income products, annuities, and shares in stable dividend-paying companies offering cash flow.

The practical benefits of Artificial Intelligence (AI) are still in the early phases of development. Although the full impact of AI will take time to unfold, it is no longer "if" or "when" but "how" businesses will benefit. With the pace of AI advancement outstripping traditional business planning cycles, earnings projections are becoming less reliable. Companies able to integrate and leverage AI effectively are poised to become market leaders; companies that fail to adapt risk obsolescence.

Given the tremendous need for energy to fuel this future, we expect outsized business growth in utilities, and companies and commodities providing infrastructure for power generation and energy production. The evolving energy landscape presents both challenges and opportunities. Investors need to be strategic to capitalize on emerging trends: investments in uranium seem promising, the future of coal seems more limited. Direct investment in these sectors may be preferable to index-based approaches as many of the leaders and expected leaders make up a relatively small component of the major indexes.

## Lifecycle Investing

There is a dynamic relationship between where you are in life and the opportunities provided by the financial industry. We have a diverse client base that includes young families, multi-generation households, active retirees (sometimes referred to as the young-old), and elderly clients (the old-old), may they live to 120 as the saying goes.

Over the course of an investor's life, the investment landscape changes as does their relationship to risk, income earning, and to time itself. Although the turning points will vary for individuals, earning and spending patterns are broadly associated with age cohorts. Our younger clients are building wealth, our older clients are investing to manage their wealth and gradually translate assets into cash flow, our oldest clients are drawing down and distributing their wealth. With more investment products available than ever before, investment strategies should be optimized for each stage of life, responding to different capacities, needs, and risk levels.

**Serious investing often begins around age 30,** when rising incomes make it possible for individuals and families to allocate savings to wealth building. These are typically years of high expenses and trade-offs, but younger investors have time on their side: time for dividends to grow and compound, time to recover from swings in the market, and time for small investments to mature.

Many young investors, having struggled to buy a home, worry they will be priced out of the investment marketplace and left out of one of the most meaningful ways to build wealth. The real risk in today's investment environment for young investors is not market volatility or high entry costs, it is not getting started. Fear of missing out often results in poor decisions, leading younger investors to take

Today's S&P-leading companies are, in many ways, much better than the best companies of the past. They enjoy massive technological advantages. They have vast scale, dominant market shares, and above average profit margins. And since their products are based on ideas more than metal, the marginal cost of producing an additional unit is low, meaning their marginal profitability is unusually high. But persistence is difficult to maintain, especially in high-tech fields where new technologies can arise and new competitors can leapfrog incumbents. At the beginning of 2000, these twenty companies were the most heavily represented in the index:

Microsoft General Electric Cisco Systems
Walmart ExxonMobil Oracle Citigroup
Intel Home Depot Pfizer Merck Coca-Cola
Procter&Gamble AT&T Verison Qualcomm
Johnson&Johnson AIG IBM Bristol-Myers Squibb

At the beginning of 2024 only six of them were still in the top twenty:
Microsoft Walmart ExxonMobil
Procter&Gamble Johnson & Johnson Home Depot

Of today's so-called Magnificent Seven, only Microsoft was in the top twenty 24 years ago.

Adapted from "On Bubble Watch" by Howard Marks, Oaktree Capital Management
https://www.advisorperspectives.com/commentaries/2025/01/11/on-bubble-watch

unrealistic, high risk “bets” when they have time to build wealth with a comparatively conservative strategy. By investing in quality companies for income and stability and supplementing core holdings with index and sector focused ETFs for growth and diversification, it is possible to build significant wealth over time even with modest initial investments. This is the time to build a solid foundation with direct investments in shares of established, financially sound, publicly traded, dividend-paying Canadian blue-chip and high-quality American growth companies, ideally in tax sheltered environments like RRSPs, RESPs, TFSAs, and FHSAs. As financial capacity grows, compliment core positions with a strategic selection of Exchange Traded Funds. ETFs are an efficient way to add diversification and growth potential with less risk than direct investment.

Some final words of advice: don’t underestimate the financial benefits of eliminating high interest debts. Paying down your mortgage, auto loan, or credit card debt may even outperform investment returns on an after-tax basis and in the long term you are securing the flexibility to pursue other financial goals.

**The peak earning years are the time to grow and diversify investments.** Ages 45 to 54 are the highest median income years: as incomes rise and fixed expenses decline, households have greater financial stability and surplus capital.[2] The advantages of direct ownership of stocks in taxable accounts becomes very apparent at this stage. Your long-term positions in well-chosen income stocks should have increased dividend yields and substantial capital gains. Continue to add to core investments in dividend producing and solid growth companies on market pull backs. Diversify into more growth. Use ETFs to invest in specific sectors and regions. Investors able to take on more risk can add smaller, thought-out positions in early-stage growth companies. Add to cash reserves through savings and profit-taking and hold liquidity in the form of money market and short-term fixed income instruments to take advantage of investment opportunities. Consider using fixed income and money market products to moderate market volatility.

This is often the time when investors “over think” their investment portfolios, taking profits on foundation positions or selling on market declines with the intention of “getting back in” before prices rebound. Unless there is a real need for capital, it is too soon to move into cash as most investors will experience considerable inflation risk over their lifetime. Establishing future cash flow and long-term growth are more important than temporary fluctuations in capital. Middle age investors still have time — although not as much — to recover from market shocks.

Your investment strategy should already include generational wealth and estate planning. A family wealth plan may involve funding TFSAs and RESPs for adult children and grandchildren, helping with their future financial challenges and involving them in your investment strategies. Insurance products are more affordable at this time and can be an investment and a tax strategy to protect your family.

As you add risk to portfolios, you can expect winners and losers. Offset capital gains taxes with capital losses. Donate appreciated shares to reduce/eliminate capital gains taxes and earn charitable tax receipts. Consider creating an endowment or donor-advised fund for future philanthropy.

As accounts become very large, investors may want to lessen the need for decision-making by adding managed money products. Although these products may reduce your returns relative to direct transactions, they add value in other ways: offering simplification, automatic rebalancing, and a different perspective to your investment strategies.

**As investors move beyond their prime earning years, their financial strategies should continue to evolve.** Until recently all older investors were grouped together as +65, the expected age of retirement. With healthier lifestyles and advances in medical care, more Canadians are living longer. It is clear there are two distinct cohorts of older investors with different needs and capacities, now often referred to as the young-old (age sixty-five to mid-to-late seventies) and the old-old.

As they move beyond their prime earning years, whether due to retirement or scaling back, young-old investors need to emphasize capital preservation and income generation to replace earnings and maintain lifestyle. Build positions that will generate cash flow and maintain purchasing power over time.

This is the time to take a clear eye look at assets and expenses. You have less time and fewer ways to respond to volatility in your investments be these equities, private partnerships, your business, or the value of your farm, primary, or secondary residence. Turn your assets into cash flow while they still have flexibility of timing. Take profits, acknowledge your losses, and eliminate debts. Investigate estate planning strategies that will reduce taxes. During these years you will likely be converting assets to cash and cash flow and may be drawing down cash for living expenses and once in a

lifetime experiences. It is important to control the timing of these withdrawals as much as possible. Withdrawals in a falling market early-on, effectively locking in losses, leaving a hole in your capital that can be difficult to fill.

It is important to be realistic about your expertise, interest, and involvement. If you haven't already, it is time to involve family members and trusted others in your financial plans. There is a surprisingly high likelihood that one (although not both) spouses will be alive into their nineties. Not everyone is comfortable with a hands-on approach to investing. We often see that other family members do not have the interest, the experience, or the acumen to make good financial decisions. For many families the solution lies in a combination of well-selected financial products and services. We draw on a team of trusted internal and external partners to create comprehensive, personalized wealth solutions.

**There are different financial risks at every stage of life and different ways to manage these risks. The 75+ investor is a new and growing investment category; one that did not exist even 15 years ago, these older investors face specific longevity risks.** Everyone is concerned about outliving their money, but planning for increased longevity also means planning for decision-making: who is going to take care of you physically; who is going to manage your cash flow and assets. As they continue to age, investors need to evolve their strategies from managing retirement to managing aging.

Diminished capacity is a significant concern for aging investors and a frequent topic of discussion in the financial media. Diminished capacity in financial decision-making can be as simple as loss of interest, as challenging as illness and aging alone, or as complex as dementia. The loss of a spouse, whether through widowhood, separation, or divorce, will be financially as well as emotionally impactful. Loneliness and isolation have practical money management implications, impacting pension payments and tax planning and increasing vulnerability to exploitation.

Managed money products are especially helpful in old age when investing is no longer about maximizing returns but about protecting assets and optimizing cash flow. Erosion of purchasing power is less of an issue because time is less of an issue. Managed money products offer simplification, the discipline of a plan, automatic portfolio rebalancing, and the expertise of a wealth manager. Awareness of diminished capacity is challenging, not everyone is impacted to the same degree, but it is also not just the other guy.

**How likely are you to live to be 85, 90, or older?** The answer may surprise you. According to the Society of Actuaries, a man turning 65 today will live to be 87 on average and a woman will live to be 89 on average. For a couple at age 65, at least one person, on average, will survive to age 93. Further, 1 in 4, 65-year-old males today will live to 93, and 1 in 4 females will live to 95.

A well-educated, relatively well-off married couple in their mid-sixties in good health, approximately 50% chance that at least one of you will live to be ninety. Planning should consider a time when only one member of the couple will be alive.

## Change in The Financial Industry

Investing today involves more than stock picking. Investors need to manage risks and needs over lifetimes that are unfolding in new ways. Your decisions take place in a highly dynamic environment that requires balancing your personal financial circumstances with the opportunities and investment products available to you at any time.

Over the past few decades, money flowed into global stock markets from multiple sources. Boomers entered their peak earning years, investing in equities and real estate as interest rates fell and corporate pensions disappeared. Governments in Canada and America encouraged investment with tax-advantaged registered plans. In America, tax cuts concentrated wealth and fueled corporate profits; in both America and Canada monetary policies expanded the money supply.

There was more money chasing different opportunities both inside and outside of stock markets. The number of publicly listed companies declined by half between 1996 and 2022; during this same period the number of ETFs grew from 17 to 8754.[3] Computers made it easier for professional investors to manage large volumes of trades and devise new products, ranging from securitized debt and ETFs to robo-advisors, self-directed investing platforms and mobile apps, and cryptocurrencies. Tremendous wealth flowed into private investments, supporting innovation and delaying new listings. As the speed of information quickened, we saw concentration and convergence around a limited number of companies, sectors, and investment themes.

Once familiar investment products are no longer available or relevant: Government of Canada Savings Bonds were discontinued in 2017; conventional bank savings accounts have not paid meaningful interest since the turn of the

century; demand by institutional bond managers has reduced the availability of corporate bonds available for direct purchase by retail investors.

This process is ongoing: most recently, private equity opportunities once available only to venture capitalists and large institutions are repackaged and made available to retail investors, but risks and opportunity are seldom entirely clear.

## What We Do

We are pragmatists. Not all equities have the same degree of risk, and not all debentures have the same degree of safety. Build wealth on a foundation of direct investments in established, dividend producing and solid growth companies. Use ETFs to participate in specific sectors and regions for diversification and growth. Build more aggressively in prime earning years by adding to core positions. Add small, thought-out investments in higher risk growth, but manage risks and opportunities. Shift from growth to cash flow as you age and adopt managed products as appropriate. Have cash available to take advantage of opportunities. We advise, monitor, reposition, and rebalance portfolios to stay current with the character and rhythm of the market, working with you to optimize your investments for each stage of life.

Thank you for your business and for the trust you place in us.

Sincerely,

Leib Zeisler
Senior Wealth Advisor

**Investment Strategies You May Have Heard Of**

Investment is driven by capital looking for opportunities. These are the most influential investment models in recent decades. **The TINA** effect (There Is No Alternative) was a response to declining interest rates: low yields in bonds and savings accounts drove retail investors into stock markets, despite concerns about market volatility. **The Yale Model** encouraged institutions, endowments, and high net worth individuals and families to expand their holdings in private equity, venture capital, hedge funds, and real assets, taking advantage of their massive wealth, long timelines, and access to unique opportunities to boost investment returns. **ETFs** are both an investment strategy and a product, providing convenient low-cost access to global markets in stocks, bonds, and commodities through a basket of securities that track a select market index. With a small initial investment requirement, ETFs can be traded or bought and held for the long term. By making it practical for investors to hold shares in multiple companies with a single investment, ETFs offer diversification and opportunities, ranging from narrowly focused thematic funds to proxies for the entire S&P, the NASDAQ, and other indexes.

| Leib Zeisler | Rebecca Gillies | Amrita Basu | Rebekah Smith |
|---|---|---|---|
| *Senior Wealth Advisor* | *Senior Wealth Associate* | *Senior Wealth Associate* | *Associate* |
| (403) 410-3943 | (403) 410-3946 | (403) 410-3944 | (403) 531-8434 |
| Leib.Zeisler@NBC.ca | Rebecca.Gillies@NBC.ca | Amrita.Basu@NBC.ca | Rebekah.Smith@NBC.ca |

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors. The particulars contained herein were obtained from sources we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial – Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Canadian Investment Regulatory Organization (CIRO) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA).

[1] https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp
https://ycharts.com/indices/%5ESPXTR

[2] https://ca.indeed.com/career-advice/pay-salary/average-canadian-salary-by-age and https://www.statista.com/statistics/817928/mean-personal-money-earnings-in-theusbyage/#:~:text=This%20statistic%20shows%20the%20average,%2C%20on%20average%2C%20in%202023

[3] https://www.cnn.com/2023/06/09/investing/premarket-stocks-trading/index.html
https://www.ecgi.global/system/files/2024-06/roe_half-the-firms-double-the-profits-public-firms-transformation-1996-2022_2.pdf
https://etfdb.com/etf-industry/a-brief-history-of-etfs
https://www.statista.com/statistics/224579/worldwideetfassetsundermanagementsince1997/#:~:text=The%20value%20of%20assets%20of,up%20to%208%2C754%20in%202022