MacDougall
Wealth Management Group

Newsletter

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In this edition

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).

In Brief: Easing Interest Rates & the Great Mortgage Renewal

Over 35 percent of Canadians hold a mortgage,[1] and in 2024 and 2025 alone more than 2.2 million mortgages have been facing renewal.[2] The Bank of Canada rate reductions over 2024 have been welcome news for mortgage holders, though many still face the prospect of higher mortgage rates at renewal. This is because a large number of these mortgages were issued when rates were at historical lows. In August 2021, the CMHC five-year fixed rate fell to 3.2 percent.[3] While rates have since risen, it's worth recalling that they remain well below the highs of the 1980s when rates soared to 21.75 percent!

What does this mean for borrowers?

For most Canadians holding fixed-rate mortgages, rate changes won't affect payments until renewal. Even a small increase in rates can lead to substantially higher costs. For example, a two percent increase on a five-year, fixed-rate mortgage of $330,000 (the average value of a new loan in 2024) could lead to over $100,000 in additional interest costs over the life of the mortgage (chart).

Example: Impact of a Two Percent Mortgage Rate Increase

5-Year, Fixed-Rate Term	Mortgage Rate: 3.2%	Mortgage Rate: 5.2%	Difference
Mortgage Amount	$330,000	$330,000	–
Amortization Period	25 Years	25 Years	–
Monthly Payment Amount	$1,595.77	$1,957.04	$361.27
Total Interest Cost, 25 Years	**$148,731**	**$257,112**	**$108,381**

If you or a family member has a mortgage up for renewal, it may be an ideal time to reassess your options. Here are some considerations:

Assess whether your financial situation has changed. If your financial circumstances or goals have shifted, adjusting your mortgage may better suit your needs. With rising living costs, you might consider lowering payments by extending the term length or amortization period. On the other hand, if you have extra funds, paying down the mortgage faster could help offset the effects of higher rates and lead to lower interest costs over the mortgage's life.

Consider re-evaluating your mortgage terms. This may be an excellent time to reconsider the options available. You may want to reassess whether a fixed or variable rate better suits your situation: fixed rates offer stability, while variable rates can provide savings if rates decline. Additionally, consider term length: shorter terms provide flexibility by not locking you into a long-term commitment, especially if rates decline. Reviewing payment frequency or amortization period can also impact both the speed at which you pay down the mortgage and the total interest paid over the loan's life. If you're thinking about refinancing or switching lenders, be sure to understand any associated fees and/or penalties.

If you need support, or for an in-depth discussion, please call.

1 www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/financial-well-being-mortgages.pdf
2 https://www150.statcan.gc.ca/n1/daily-quotidien/240814/dq240814d-eng.htm
3 Canadian Mortgage & Housing Corporation, Stats Canada T: 34-10-0145-01

Investing Resolutions for 2025: Find Your Retirement Purpose

Today's retirees seem to be trading the "fountain of youth" for the "fountain of usefulness," with many stating that it is "more vital to feel valuable than youthful in their retirement years."[1] How about you — what will you do to find purpose in the years ahead?

As we begin a new year, have you considered that planning for the 'what' in retirement may be just as important as planning 'how' to get there? Many of us work hard, save consistently and invest wisely to achieve financial security in retirement. As advisors, we take this role seriously by helping support clients in this regard. Yet, while we often focus on securing our finances, we may spend less time thinking about how to use the time we will have in retirement. And, with increasing longevity, consider that this may end up being a lengthy portion of life — for many of us, one that could last for decades.

A surprisingly high number of retirees struggle with the transition.[2] Many do not realize how much their careers provided a sense of self-worth. Upon retiring, the overlooked benefits of the workplace are no longer there: daily routine, work interactions, social events, leadership status or a professional identity built up over many years. Others find it difficult to adapt to new circumstances, such as changes in relationships with spouses or family members, as more time at home reshapes dynamics in unexpected ways.

Without a doubt, growing older presents a host of new challenges — changes in health, confronting and coping with loss and letting things go, to name a few. However, it also brings new opportunities, including for many the abundance of time. Research continues to suggest that one of the keys to living well during this period is finding a sense of purpose.[3] Retirement coaches often highlight the Japanese concept of "ikigai" — loosely translated as a reason to live — suggesting that this focus can help to make retirement more fulfilling or meaningful.[4]

Does finding purpose lead to better outcomes? Studies in Japan have shown that ikigai can positively impact health, happiness and productivity, helping individuals cope with stress and even promoting greater longevity.[5] Individuals who considered themselves to have purpose were shown to have lower mortality rates and greater lifespans.[6] Researchers who study longevity often point to the "Blue Zones" — five areas in the world where people live some of the longest lives. One of these zones is Okinawa, Japan, where it has been suggested that some of the keys to greater longevity are a strong dedication to community and a collective sense of purpose.[7] Closer to home, a 2021 study of around 13,000 participants over age 50 associated a stronger life purpose with healthier lifestyle behaviours, slower rates of progression to chronic illness and greater longevity.[8] Other studies suggest a similar outcome: purposeful living may have positive health benefits and is, indeed, associated with decreased mortality.[9]

Of course, the notion of "finding purpose" can mean different things to different people. However, with the luxury of time, retirement offers a unique opportunity for personal growth and exploration. This might include discovering new hobbies, pursuing higher education, continuing to work in a different capacity, volunteering for a worthy cause, becoming a mentor, building new relationships or engaging in more altruistic activities.

What will you do when you leave work behind? As advisors, we're here to help you plan your financial future so you can pursue whatever you choose. Yet, giving forethought to how you'll spend this time is equally important. As one retirement coach notes: "You can retire from your career, but you can't ever retire from life."[10]

1 https://agewave.com/wp-content/uploads/2023/08/08-07-23-Age-Wave-The-New-Age-of-Aging-Report_FINAL.pdf
2 https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-one-seniors-take-on-how-to-avoid-spinning-out-in-retirement/
3 https://fortune.com/well/2023/07/28/living-well-after-retirement-finding-purpose/
4 https://www.marketwatch.com/story/why-this-japanese-idea-can-lead-to-a-more-fulfilling-retirement-11672779167
5 https://www.weforum.org/agenda/2017/08/is-this-japanese-concept-the-secret-to-a-long-life/
6 https://pubmed.ncbi.nlm.nih.gov/19539820/
7 https://www.bbc.com/travel/article/20201126-why-so-many-japanese-live-to-100
8 https://journals.sagepub.com/doi/abs/10.1177/07334648211027691
9 https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2734064
10 https://www.cnbc.com/2022/06/15/67-year-old-who-unretired-at-62-shares-the-biggest-retirement-challenge-that-no-one-talks-about.html

Where Are Equity Markets Headed? Be Defensive With Dividends

> *"Dividends are like plants. Both grow. But dividends can grow forever, while the size of plants is limited..."*
> — Ed Yardeni, Market Strategist

With the strong performance of U.S. technology stocks, dividend-paying stocks have received less attention as investors focus on earnings growth. However, many are beginning to question whether this momentum is sustainable. As economies and markets show signs of slowing, a more defensive investment approach may be necessary — and this is where dividend investing can provide value.

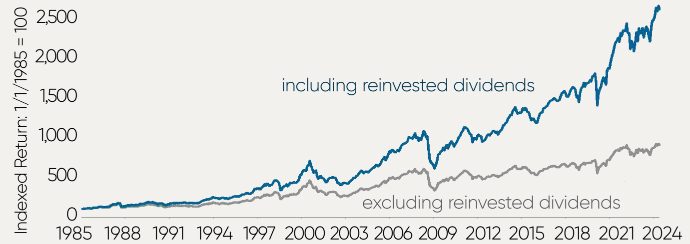
While recent market trends have favoured growth stocks — companies that typically prioritize reinvesting profits back into their operations rather than distributing them — here are a few reminders of why dividends continue to play an important role in our portfolios.

Dividends have historically contributed a significant portion of equity returns. Studies show that at least 60 percent of North American total returns have come from dividends in the past century.[1] Reinvesting dividends can also significantly enhance returns. Since 1985, S&P/TSX Composite reinvested dividends yielded three times the return of relying solely on price performance.

Dividends provide other benefits, including:

- **Reliable income stream.** This is particularly beneficial for those investors approaching retirement.
- **Potential inflation hedge.** Companies regularly increasing dividends often keep pace with inflation.
- **Reduced volatility.** Many dividend payers are mature, stable businesses with predictable cash flows and may be less susceptible to price volatility. Dividends can help smooth out price swings, providing a cushion during difficult market times.
- **Long-term financial stability.** Consistent dividend payments can indicate a company's solid financial health and commitment to sustaining shareholder value. Quality companies that prioritize dividends often have robust balance sheets, helping to weather prolonged market downturns.

Power of Dividend Reinvestment: S&P/TSX 1985 to 2024 (July)



The potential tax advantage should not be overlooked. In non-registered accounts, eligible dividends are taxed at a lower rate than interest or regular income, thanks to the federal dividend tax credit. An article from years ago in **The Globe & Mail** is worth recounting: "How to earn $52,000 tax free — no offshore account required." It highlighted a lesser-known advantage of the dividend tax credit: the ability to earn up to $52,000 in tax-free income from eligible dividends, depending on province.[2] While this amount has increased to $55,704 for the 2024 tax year, note that with no other sources of income, the dividend tax credit and the basic personal amount can effectively reduce taxes on eligible dividends to zero (chart).

2024 Eligible Dividend That Can Be Received Tax Free[2]

Province	Tax-Free Amount	Province	Tax-Free Amount
BC	$55,704	QC	$50,792
AB	$55,704	NB	$55,704
SK	$55,704	NS	$32,402
MB	$39,980	PE	$53,551
ON	$55,704	NL	$28,417

Assumes only "eligible dividend" income is earned and no other sources of income.
https://assets.kpmg.com/content/dam/kpmg/ca/pdf/2024/08/ca-tax-facts-2024-2025-en.pdf, page 43.

In short, we continue to advocate quality dividend-paying securities to support investing programs.

1 https://privatewealth-insights.bmo.com/en/insights/market-insights/investment-strategy-july-2024/
2 https://www.theglobeandmail.com/investing/education/article-how-to-earn-52000-tax-free-no-offshore-account-required/

A client referral is the greatest complement our team can receive. If you are aware of a friend, family member, or business associate who could benefit from the services our team provides, please have them call or email our team directly.

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