MacDougall Wealth Management Group Newsletter

Summer 2019

In this edition

2018 Awards of Excellence

Wealth Management Excellence of the Year
Alberta & Okanagan

MacDougall
Wealth Management Group

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In the Pursuit of Happiness...

It is a question that researchers continue to investigate: what drives our happiness?

Each year, the United Nations (UN) measures the happiness of countries globally in its World Happiness Report. According to the UN, the variables that drive a nation's happiness include income, social support, healthy life expectancy, freedom, trust, and generosity. Canada consistently places in the top 10 of nations globally that have a high level of happiness.[1]

But what drives an individual's happiness? Despite the oft-repeated adage suggesting otherwise, there is indeed an intrinsic link between money and happiness. However, the research might surprise you.

Will you be happier if you make $1,000,000 instead of $100,000? Research would argue: not really. In fact, studies have suggested that there is a measurable amount of money at which point happiness "maxes out", and it may be quite a bit lower than you think. In 2010, Nobel Prize winning behavioural economist Daniel Kahneman suggested that the magic number was around US$75,000 of annual income. Beyond this amount, people didn't report any greater degree of happiness.[2]

Another study published this year in the Harvard Business Review showed that after achieving a certain level of income, "time affluence" — having enough time to do the things you want — has become the new secret to happiness. Today, people who are willing to give up earning more money in favour of regaining time reported higher rates of general life satisfaction.[3]

Of course, it is our job as wealth managers to help improve your financial position. We also hope to free up time that would otherwise be spent managing your finances to give you the freedom to pursue your happiness. But this extends beyond managing your investments, and here are some questions we ask to uncover additional areas in which we can provide support for you or your family:

Family — Are you planning on helping family members, such as a student pursuing post-secondary education or a (grand)child purchasing a home? How will you support parents as they age? Will you need to protect your assets for your family?

Work — Have you planned for unexpected changes to employment? How will illness or disability affect your needs? Do you need to finance a small business and how can it grow?

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Lifestyle — How will you protect yourself and your family in the event of unexpected illness? How do you envision your retirement? Have you planned for extended longevity?

Legacy — How will you be remembered? Do you wish to give back through charitable donations? How will you transfer your wealth in a way that is fair to those you leave behind?

As you think about your own wealth and financial plan, perhaps there are areas where we can further assist.

At the end of the day, money isn't everything — the Beatles would remind you it can't buy you love, after all! But, having "enough" money can enable you to define what happiness means to you. And we look forward to continuing to support you along the journey in your pursuit of happiness.

Sources: 1. https://worldhappiness.report/ed/2019/; 2. https://www.pnas.org/content/107/38/16489; 3. https://hbr.org/cover-story/2019/01/time-for-happiness

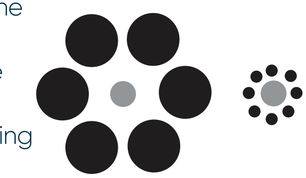
Pursue Your Plan with Confidence

When Tiger Woods won his fourth Masters Tournament this past spring, he ended an 11-year drought, creating not only a moment that went down in golf history, but also a lesson in unpredictability. Indeed, it is challenging to predict what will happen and when, and this applies not only to golf.

This unpredictability extends to current financial climates, with the extended bull market run being unexpected by many. Despite sluggish economic conditions, the first four months of the year saw equity markets on an upward trajectory. But these are unprecedented times. Never before have central banks held rates at low levels for such lengthy periods. While the role of a central bank is not to stabilize markets, the markets have been calmed by decisions to hold interest rates steady.

In investing, there are many ways in which it mirrors the game of golf. "High percentage" players always consider the risks versus return before playing any stroke. Likewise, a well-constructed portfolio takes into account the same types of factors. Investing, like golf, is a game of patience and persistence, filled with many mental challenges.

One challenge that can affect golf performance is the impact of perception. Those familiar with the inset optical illusion know that the circles in the middle are exactly the same size. Psychologists at Purdue University used this illusion in a putting green to make a golf hole appear larger or smaller by projecting circles of light around it. When people perceived the hole to be smaller, they were less successful in putting.



Similarly, perceptions can drive investing behaviour. Are there ways in which you allow outside perceptions to influence the way you invest? For instance, are you quick to compare portfolio gains to those of today's market darling, without considering quality, risk or diversification? Or, during volatile times, do negative media reports tempt you to make changes instead of allowing a portfolio the time to grow?

The discipline and patience needed to putt a birdie may be something we can apply to our own investing style. Bringing this sharpened focus is a great step toward mastering our own plans. Stay the course and pursue your game plan with confidence and persistence. Fore!

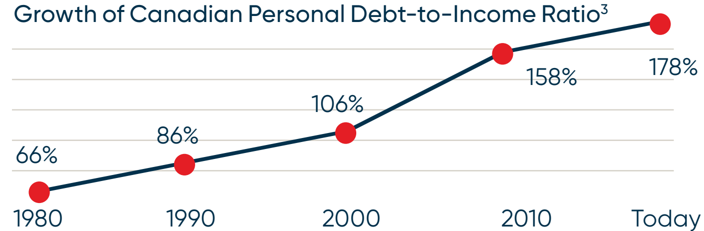
Does Canada Have a Growing Debt Problem?

Do we have a growing debt problem? Recent figures indicate that Canadians on average have a debt-to-income ratio of around 178 percent (Q3 2018).[1] This means that Canadians owe $1.78 in debt, including consumer credit, mortgage and non-mortgage loans, for every dollar of household disposable income.

According to the OECD, we place 8th in the developed world for high indebtedness.[2] In the U.S., where debt levels peaked at around 116 percent prior to the credit crisis of 2008, debt levels are now under 90 percent.

This ratio has risen over the decades. Consider that just 30 years ago, average Canadian household debt was only around 86 percent (see chart). Some have called Canada's rising debt figures disturbing, while others argue that this assessment might be overly harsh since the ratio lumps in those with significantly high mortgages (in cities like Toronto or Vancouver) and doesn't factor in a household's assets or the ability to pay off that debt load.

Growth of Canadian Personal Debt-to-Income Ratio[3]



Regardless, Canadians — individuals, corporations and even the government — have never been so indebted and we face longer-term consequences as this debt will eventually need to be repaid. When interest rates start to rise, these debt obligations will become more costly. However, one reason why central banks have kept rates low is to encourage spending and stimulate sluggish economies. The paradox? Low rates make borrowing more affordable, and have also pushed up housing prices, making us more indebted.

1. https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036; 2. OECD ranking 2018; 3. Source: Statistics Canada.

During Volatile Times, Sitting Still Can Be Difficult

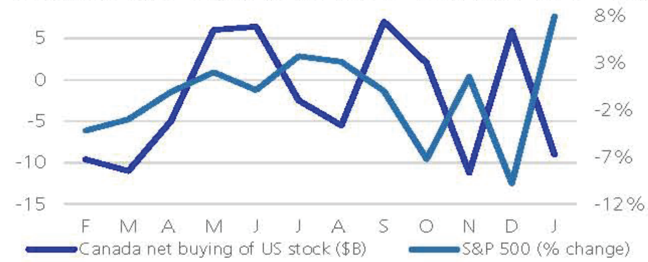
This summer vacation, are you looking forward to doing nothing? For many of us, sitting still can be difficult. No more is this true when it comes to investing during periods of market volatility. After all, as humans we are hardwired to want to take action in times of vulnerability. We're all familiar with the phrase: "don't just sit there, do something!"

However, a recent Globe & Mail article highlighted that some investors may be their own worst enemies during periods of volatility. During the volatility we experienced in 2018, Canadian inflows and outflows into U.S. stocks lagged market performance (see chart). Investors put funds into investments after market gains, lagging the market by about a month, and sold investments after market drops, resulting in performance chasing.

Of course, there may be good reasons for selling securities, such as rebalancing to restore asset allocation or taking gains after a long bull run. But if simply reacting to rises or drops in the market is driving these decisions, many investors may be better off by just staying put.

Renowned investor Warren Buffett once described his investing style as "lethargy bordering on sloth." Perhaps there may be some good investing insight hidden in those restful summer vacation plans: go ahead, don't just do something, sit there!

Canadian-U.S. Equity Flows vs S&P 500: Feb. '18 to Jan. '19



Source: "Investors are their own worst enemies", Globe & Mail, T. Shufelt, 3/27/19.

The Impact of Technology Over 50 Years

On July 20, 1969, Neil Armstrong and Buzz Aldrin took humankind's first steps on the moon. How the world has changed in 50 years, largely driven by technology!

An interesting article recently crossed our desks that helps to conceptualize the speed at which technology has expanded over time. We may forget that the historic spaceflight of the Apollo 11 was powered by a computer with the processing power equivalent to a pair of Nintendo game consoles! When you view the processing power of gaming systems over the years (measured in FLOPS or floating-point operations per second), beginning in the days of Atari "Pong", this exponential growth is stunning (see: chart).

Year	*FLOPS (Millions)*	*Console*
1986	*0*	*Atari 7800*
1996	*200*	*Nintendo 64*
2005	*240,000*	*Xbox 360*
2013	*1,843,200*	*PlayStation 4*
2017	*6,000,000,000*	*Xbox OneX*

visualcapitalist.com/visualizing-trillion-fold-increase-computing-power/

Technology Has Changed the Investing World

Consider the impact of technology on the investing industry. Gone are the days when boisterous traders yelled out orders on the trading floor. Electronic trading systems have made transactions faster, cheaper and more efficient. Investors have more choices and opportunities than ever before. Just
30 years ago, geographical diversification largely meant looking at the U.S., Japan and select countries in Europe. Today, we have become interconnected globally. Technology has also supported the creation of new asset classes and investing products. Investors have access to a depth of information, disseminated at speeds faster than ever. In many ways, there has never been a better time to be an investor.

Technology Has Changed What We Invest In

We are in the midst of a digital economic revolution. The "cloud", machine learning and artificial intelligence weren't part of our vocabularies just 10 years ago. Technology continues to transform many industries and acts as a disruptor for others. Consider the current popularity of ridesharing companies. A popular "meme" provides a humorous perspective: *1998: Don't get into strangers' cars. 2008: It's dangerous to meet people on the internet. 2018: Summon strangers on the internet and get into their cars.*

Technology companies have significantly changed the composition of the global markets. Today, seven of the 10 largest global companies by market capitalization are technology firms. Just 20 years ago, the composition was much different (see: chart below).

There's no telling what the future may hold. What will be the next giant leap for mankind?

Continued...

Top Companies by Global Market Capitalization 1999 & 2019

	Start of 1999			Start of 2019		
	Company	Country	Industry	Company	Country	Industry
1	Microsoft	USA	Software	Microsoft	USA	Tech
2	General Electric	USA	Conglom.	Apple	USA	Tech
3	Exxon Mobil	USA	Oil & Gas	Amazon.com	USA	Tech
4	Royal Dutch Shell	Nether-lands	Oil & Gas	Alphabet Inc.	USA	Tech
5	Merck	USA	Health-care	Berkshire Hathaway	USA	Diversi-fied
6	Pfizer	USA	Health-care	Facebook	USA	Tech
7	Intel Corp.	USA	Hardware	Alibaba Group	China	Tech
8	Coca Cola	USA	Beverage	Tencent	China	Tech
9	Walmart	USA	Retail	J&J	USA	Health-care
10	IBM	USA	Software	Exxon Mobil	USA	Oil & Gas

Source: Financial Times Global 500 Archives, for Q4 1998 end and Q4 2018 end.

This summer get outside and enjoy the beauty of our own backyard. A few of our favorite summer time spots are:

Places to Go

- Heritage Ranch Red Deer
- Sylvan Lake Shoreline Park
- Dry Island Buffalo Jump Provincial Park
- Dinosaur Provincial Park Drumheller
- Crimson Lake Provincial Park

Things to Do

- The Market in Red Deer at the Memorial Center every Saturday from 8:00 am to 12:30 pm
- Ponoka Stampede in Ponoka June 26th to July 2nd
- Canada Day in Red Deer (Bower Bonds) July 1st
- 101st Benalto Fair & Stampede July 5th to 8th
- Westerner Days in Red Deer July 17th to 21st
- RCMP Musical Ride in Blackflads Aug 16th

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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