THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

IN THIS ISSUE:

Volume 13 – Issue 2 **March 2021**

STAN CLARK
Senior Wealth Advisor

As human beings, we're of two minds – literally. We have a rational and an emotional mind, both useful in their own ways. Nevertheless, as I discuss in this month's behavioral finance article, we must be careful the emotional one doesn't fool us into making unwise decisions. Michael Chu takes a comprehensive look at seven popular, but not necessarily sound, myths about investing. And, if you're looking for a way of giving, Sylvia Ellis describes one option that might appeal to you: setting up a personal foundation.

Stan

Stan Clark is First Vice-President, Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Behavioral Finance

THINKING: WE'RE OF TWO MINDS ABOUT IT

By Stan Clark, Senior Wealth Advisor

We humans are unique in our ability to think about how we think – and about how we make decisions. Yet through most of history, the human mind has been the ultimate black box. We could only guess and assume how it worked.

Since the ancient Greeks, the assumptions about how our minds work have revolved around a single theme: Humans are rational. We are deliberate and logical creatures.

Yes, there is an emotional side to us, but traditionally we've viewed that emotional side as an annoyance. We thought it was something that should be, and could be, controlled. Plato described our mind as being like a chariot, with the rational driver controlling and steering the emotional horses. Thomas Jefferson said the "American experiment would prove that men can be governed by reason and reason alone." This rationality came to define us. Rational was powerful and good, we decided. Emotional was weak and bad.

However, recent advances in brain research show otherwise. True, our rational and emotional minds differ greatly from each other. But each has impressive strengths and each glaring weaknesses. Moreover, the two minds are closely interwoven and influence each other far more than we are aware.

In many ways, our emotional mind is far more powerful – and useful – than our rational mind. Our emotional mind, the more instinctive one, evolved over several hundred millions of years. Our rational mind is a relative newcomer: It developed in our *homo sapiens* selves only about 200,000 years ago. In speed and complexity our emotional mind is like a super computer; our rational mind, more like a hand calculator. Our emotional mind allows us to make incredible decisions in an instant. It allows a golfer to strike a 1.68-inch diameter golf ball going 100 miles an hour to a tolerance of a half-inch. It allows us to know the answer to a problem before we can explain why that answer is correct. In many complex decisions, especially involving physical speed, personal preferences and social situations, our emotional system is king.

Despite all its power, our emotional mind also has limits. Many of its workings are hard-wired into us, so it isn't flexible. It has biases that might have helped our ancestors millions of years ago, but give wrong responses to some of today's decisions. Its speed also means our emotional mind is short-term oriented. It responds powerfully to recent history, but doesn't learn well from the more distant past. It sees patterns where none exist. It doesn't grasp probabilities. It causes us to believe too much in predictions.

Our emotional mind communicates with us through feelings, intuition and gut instinct. These are not good or bad – it all depends on the circumstances and the decision we are facing.

The key is to know when to listen to those feelings and when to control or override them. It's also crucial to know that our logic is governed and affected by our emotions far more than we realize. Humans are gifted at rationalizing. We make up arguments and create or ignore information to support what are actually emotional decisions. It's easy to be fooled into thinking we are making a rational decision, when in reality we are being a chariot driver led by our horses.

It's important to know about the two parts of our brain – and to learn how we can use and control them in making good investment decisions. More about this in future articles.

TEAM TALK

Sylvia Ellis
Senior Estate Planning Advisor

Do you have any nieces or nephews? I have two amazing nephews: Seth and Matthew. Seth is 29 and a fire fighter in Langford, BC. He's a kind and smart individual who just purchased his first house in Royal Bay, a beautiful new seaside community in Victoria. My other nephew Matthew, equally kind and smart, is graduating from high school this year.

Besides getting through Covid, any recent changes? The last time I was featured in Team Talk I shared how our beloved Pom, Lucky, had passed. Since then, we have adopted another Pom named Kobe! He's curious about everything and everybody, and has a truly affectionate nature.

Travel looks like it's opening up. Any plans? If all goes well, we're planning a vacation to the Big Island in Hawaii in August. Eleven of the Ellis clan will be spending 10 days together. Also, I'm trying to arrange the trip to Vienna with my mother that was cancelled in June 2020.

Sylvia and Seth, Langford BC

Asset Allocation

TIME TO BUST SOME POPULAR INVESTING MYTHS

By Michael Chu, Senior Wealth Advisor

Rules of thumb can be very useful. But sometimes they are wrong – dangerously so. We decided it would be good to share and discuss some of the more popular myths about investing.

Myth #1: To succeed, you must time the market

It's natural for investors to want to invest at stock market lows and then cash out at the highs. Who wouldn't want to avoid the declines and reap the rewards? The problem is, no one can predict when these events will occur. The stock market outlook can be bright – and suddenly a crash occurs. Or, conversely, things can seem really dark but turn out to be the start of a bull market.

We've written much about timing the market; that timing is extremely difficult, if not impossible. Sure, we might be lucky sometimes and get it right. But consider this: The stock market, while volatile year to year, is up almost 75% of the time. So right away, by staying out of the market, the odds are against you. And then you also must decide when to go back in. That's two things you must get right – making timing a lot harder than it seems.

The other aspect to think about is time *in* the market. Even if we had super-bad luck and invested only at market peaks, the results aren't that bad over time long-term. This is because, if we stay invested, market downturns are eventually made up for. The key is just that: *to stay invested*. Over the last 20 years, missing the market's best five days would have reduced your profit by half compared to staying in the market. Missing the best 30 days would have reduced your profit by 80%. Granted, missing the worst days would help stem your losses. But a market timer is more likely to miss out on the good days than the bad.

Over the short term, stocks can be very volatile. But over longer periods, say over 10 years, stocks become much safer. Since 1927, 88% of 10-year rolling periods have been positive. Even three-year periods have been 77% positive. Attempting to avoid the declines will likely give you lower returns over time.

Myth #2: You should wait until the dust settles before investing

The last few years have given us great examples of things not always turning out as expected. In 2020 the economy was terrible, yet the stock market boomed. And then in 2022 (so far), the economy is on fire but the stock market has been very volatile.

The following is a chart of annualized returns of the S&P 500 at different levels of unemployment:

Unemployment Rate	Stock Market Returns
Above 9%	24.5%
7% to 9%	15.1%
5% to 7%	8.3%
Below 5%	3.9%

Source: Ben Carlson

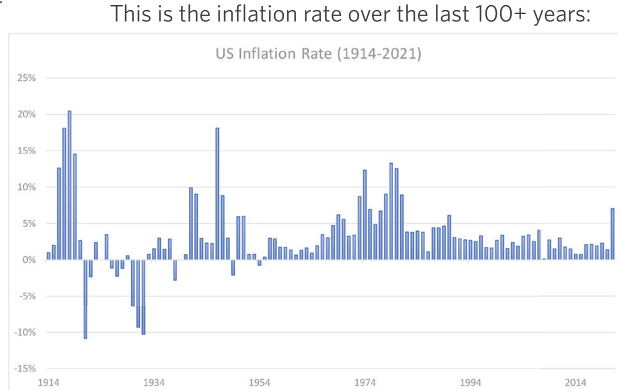
Seems counterintuitive, doesn't it? Investing when things look bleak can lead to amazing returns. And investing when things look wonderful typically leads to lower gains. But it makes sense that returns are better when the economy is bad. Prices are likely lower and there is more room for improvement!

When the economy is firing on all cylinders, stock prices have likely moved higher already. The stock market also does a good job of front-running the economy in anticipation of things changing – that's why we say it's forward-looking. You will typically see the stock market going up or down before the economy improves or slows down.

Myth #3: Just wait for things to return to "normal" to invest

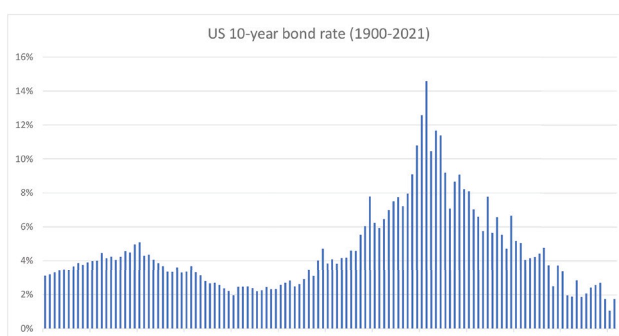
Waiting for things to become more "normal" might be comforting. But what is normal?

This is the inflation rate over the last 100+ years:



Source: Macrotrends

This chart shows the interest rates on 10-year bonds over the past 120 years:



Source: US Federal Reserve, Shiller

What's the normal inflation or interest rate? Hard to say.

Here's a breakdown of various investing stats going back to the 1930s:

Decade	Stock Returns	Bond Returns	Avg. 10 year Yield	Average Inflation	Nominal GDP Growth	Earnings Growth	Avg. Dividend Yield
1930's	-0.9%	4.0%	2.9%	-2.1%	-1.4%	-5.7%	5.5%
1940's	8.5%	2.5%	2.3%	5.6%	11.2%	9.9%	5.7%
1950's	19.5%	0.8%	3.0%	2.0%	6.3%	3.9%	4.9%
1960's	7.7%	2.5%	4.7%	2.3%	6.6%	5.5%	3.2%
1970's	5.9%	5.4%	7.5%	7.1%	9.7%	9.9%	4.0%
1980's	17.3%	12.0%	10.6%	5.5%	8.3%	4.4%	4.2%
1990's	18.1%	7.4%	6.7%	3.0%	5.6%	7.7%	2.4%
2000's	-1.0%	6.3%	4.5%	2.6%	3.9%	0.6%	1.8%
2010's	13.4%	4.1%	2.4%	1.8%	4.0%	10.6%	1.9%

Source: Ben Carlson

Which environment was normal? It seems like there's no such thing as normal with the stock markets or economy. Perhaps the only constant is change.

Myth #4: Higher yield makes a safer investment

We all like collecting dividends. Who doesn't like getting paid quarterly just for holding onto a stock? Higher dividend yields may also be a good indicator of value. But sometimes high dividend yields can be risky. A company can be in distress but doing everything possible to maintain its dividend. So, its dividend looks good but its business is declining. We call this a *value trap*. There are other factors we can look at to help avoid traps; it's important not to focus just on dividends. Total returns, that is, dividends *including* price returns, are what really matter.

Myth #5: New highs mean the stock market is about to crash

We all know the feeling. It seems scary when the market is at all-time highs, because eventually one of these will be the high before the bear market. While this is true, all-time highs occur more than you think:

Decade	New Highs
1950's	141
1960's	224
1970's	35
1980's	190
1990's	310
2000's	13
2010's	241
2020's	102

Source: Ben Carlson

New highs can be followed by higher highs – it's just a number, after all. Many things, like valuations, earnings, inflation and interest rates, factor into market drops. It's never clear how these interact until after the drops occur – and hindsight is usually too late.

Myth #6: The stock market is like a casino

Some people associate investing in stocks with gambling. It's true they are similar in some ways, for example, there are "odds" and "payouts" with both. But at the casino, the more you play, the greater your chance of walking away a loser. This is because the casino has better odds than you. Math dictates you will eventually lose.

The longer you invest, the greater your odds of success. This is because on a daily basis, it's nearly a coin flip as to whether the stock market is up or down. But over longer periods, say 10 years, your probability of success increases dramatically.

With the stock market, it's the opposite. The longer you invest, the greater your odds of success. This is because on a daily basis, it's nearly a coin flip as to whether the stock market is up or down. But over longer periods, say 10 years, your probability of success increases dramatically. As you can see in the chart, with a one-year time horizon your chance of losing is 31%. But at 10 years, your chance of losing decreases to 6% and then eventually to 0% over 20-year periods.

Chance of Negative Return	1 Year	5 Years	10 Years	15 Years	20 Years
Stocks	31%	14%	6%	1%	0%

Source: Siegel, Shiller, CRSP, Cdn Institute of Actuaries, TSX, Bank of Canada

The longer your time horizon in the stock market, the greater your chances of walking away a winner.

Myth #7: Volatility is the same as risk

Some people think *risk* and *volatility* are the same. While it's true that both can make your stomach churn, volatility is different from risk if you look at longer time periods. Volatility is just the ups and downs which, while uncomfortable, eventually cancel out. Risk, on the other hand, is a permanent loss. Permanent losses are the worst because you cannot recover from them, for example, if you suddenly need money and are forced to sell your stocks at a loss.

Risks and volatility appear to be higher for stocks and lower for bonds. If you need your money soon, you should have it mostly invested in bonds to help minimize risks. But in the long term, it's the opposite: Risks and volatility appear to be lower for stocks and higher for bonds. If you don't need your money for a long time, then you can be invested mostly in stocks to maximize returns. This is because stock market downturns are eventually more than made up for by market upturns – you just need time, and to stay invested. The bottom line is that *when* you need your money should determine how you allocate your investments between stocks and bonds.

These are some of the popular investing myths; there are many more. Keep in mind it's okay to use rules, but nothing is absolute. Everything should be backed up with facts – like the rules in our stock strategies. We use a wide range of rules, all make sense and are supported by good, long-term track records.

Michael Chu is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

Financial & Estate Planning

PRIVATE FOUNDATIONS: A MORE PERSONAL WAY OF GIVING

By Sylvia Ellis, Senior Estate Planning Advisor

There are many ways to give. You can contribute cash, appreciated publicly listed securities or other assets. You can donate direct to charitable organizations, one time or periodically. You can also establish a donor-advised fund or a private foundation. Each way allows varying degrees of control, and each has specific characteristics. In this article, we'll focus on private foundations.

Often recommended to high-net-worth individuals, a private foundation is one of three types of charities recognized by the Canada Revenue Agency (CRA), along with charitable organizations and public foundations. Private foundations are usually funded and/or managed by a single donor or family.

A private foundation, whether established by a trust or a corporation, must be registered as a charity with CRA. An application must be submitted, accompanied by a copy of the governing document. Various information is required in the application, including: information about the trustees or directors; the foundation's purposes and activities to fulfill those purposes; and an initial proposed operating budget.

For whom are the foundations best suited? The Philanthropic Foundations of Canada issued a report in 2019 sharing the motivations of nine Canadians and their families who have chosen to establish private foundations. The report noted that, while they all are very different people, their motivations were surprisingly consistent. These included:

- an opportunity to give back to communities
- an opportunity for personal engagement
- uniting the family around a common purpose
- creating a sustainable legacy
- managing one's own assets
- getting involved in higher-risk philanthropy.

The last point caught my attention. What does *getting involved in higher-risk philanthropy* mean, exactly? Here's how the report explained it:

"The grant-maker in a private foundation has considerable freedom to decide which grants he or she makes individually or with family or colleagues. There is one important rule. The federal government requires that all foundation grants must be made to registered charities. But there are few restrictions on the choice of recipient or on the way in which decisions are made by the grant-maker. Many foundation donors are able to spot great ideas, react quickly, and take risks on the unproven. A grant made to that particular innovative idea or approach just might contribute to the next major breakthrough in cancer research, in environmental management or in job-market integration.

The ability to respond quickly without conditions, to make multi-year commitments and to try out new approaches is particularly attractive to many philanthropists. In many cases, long-term philanthropists are extremely motivated to make change in the world around them. This involves risk-taking. A private approach to giving allows them to do this."

Once you have a good understanding of your personal goals, aspirations, and preferences, you can then decide on the way that best fits your circumstances. Starting a private foundation can be an appealing option, but there are a few things you may wish to consider first:

COST: A private foundation may cost in the approximate range of $5,000 to $25,000 to establish. It also has annual filing costs.

CAPITAL: There is no minimum requirement for capital endowments. However, a traditional guideline is around $1 million.

TIME INVESTMENT: You will need to set aside time to choose a board of directors and determine, among other key decisions, how and when funds will be invested and distributed.

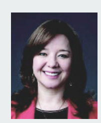
PUBLICITY: Like other registered organizations, private foundations are required to produce public reporting, such as financial information, board members, trustees and grants made. A donor-advised fund may be better for those who wish to remain anonymous.

RISK: With a private foundation you a greater degree of risk, as you are ultimately responsible for the maintenance, growth and distribution of funds.

TAX AND LEGAL REGULATIONS: A private foundation may be appealing to donors who wish to support issues or programs outside of their community, such as national or international assistance projects.

A PRIVATE FOUNDATION COULD BE A GOOD FIT IF YOU: wish to manage assets directly; devote time to foundation work; make decisions on grants; have closer interactions with grantees; involve family members; collaborate with others; fund new projects; and could benefit from the tax incentives.

As always, we highly recommend discussing this with your financial and legal counsel.



Sylvia Ellis is the Senior Estate Planning Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

CIBC WOOD GUNDY | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca

SCFT Trivia

Play our trivia – support the cure!

For every correct entry we receive in our trivia contest, the Stan Clark Financial Team will contribute $1 to CIBC's "Run for the Cure" to raise money for breast cancer research. Each correct entry will also be entered into the draw for this month's prize. Email or phone in your entry today.

Answer all four questions to be entered into the draw for this month's prize. *Hint: You can find the answers inside this newsletter.*

1. Humans possess both an emotional and a rational mind. Recent advances in brain research show that:
   - a) The rational mind is the sensible one, but kind of boring.
   - b) The two are closely interwoven and influence each other far more than we are aware.
   - c) The emotional mind is an annoyance that should be sharply controlled.
   - d) The differences between them are negligible.

2. A popular myth about investing is that you can time the stock market. The truth is:
   - a) To succeed at market timing, sell at lows and cash out at highs.
   - b) It's better to stay out of the market altogether.
   - c) It's better to stay in, because the market, while volatile year to year, is up almost 75% of the time.
   - d) Wise people keep their money under the mattress.

3. Another popular myth is that the stock market is like a casino. In fact:
   - a) They are similar in that there are "odds" and "payouts" with both.
   - b) The casino has better odds than you, so the more you play, the greater your chance of losing.
   - c) With the stock market, the longer you invest, the greater your odds of success.
   - d) All of the above are correct.

4. As a way of giving, a private foundation allows you to: to manage assets directly; devote time to foundation work; involve family members; fund new projects; benefit from tax incentives; and more.
   - a) True b) False.

Email answers to: **stanclarkfinancialteam@cibc.ca** or call (604) 641-4361

One prize winner will be chosen by a draw from all those who submit correct answers. The draw will take place on March 31, 2022.

Trivia challenge runs March 1 - 30, 2022. No purchase necessary. There is one prize to be won. Simply complete the trivia questions correctly to be entered in the draw. Limit 1 entry per person.

Chances of winning depend on number of eligible entries and whether you correctly answer the trivia questions. Open to adult Canadian residents (excluding Quebec). For full challenge rules, write to: The Stan Clark Financial Team, CIBC Wood Gundy 400-1285 West Pender St, Vancouver, BC V6E 4B1.

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca