

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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Fear can be useful, alerting us to danger. But as an emotion, fear can prompt rash financial decisions. In my behavioral finance article, I discuss managing fear before it proves costly. Continuing his “Behind the numbers” series, Michael Chu explains how, in choosing stocks, the price-to-earnings ratio (P/E) helps to evaluate companies. Sylvia Ellis looks at both the financial and the peace-of-mind advantages of life insurance. And Tom Cowans wraps up his “Personal Finance 101” series by recapping how to start providing now for your future self.

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Behavioral Finance

THE OLDEST AND STRONGEST EMOTION – FEAR

By Stan Clark, Senior Wealth Advisor

“Fear is the emotion that makes us blind, the emotion that makes a stealthy ruin of the thinking process.”

– Stephen King (1947-), horror-fiction writer

Fear can be defined as a response to a real or perceived immediate threat. But the term is also used generally to include concerns about future threats; and about feelings such as anxiety, nervousness, dread, worry, apprehension and angst.

Fear is a powerful and primitive emotion. It is rooted deeply in our minds. Developed to help our distant ancestors survive dangerous situations, fear arouses powerful chemical changes in our bodies to enable us to flee, fight or freeze.

It remains a very useful emotion, helping us avoid situations dangerous to our physical, social or financial well-being. Problem is, our fear can become exaggerated, often well beyond reality. It can overwhelm our reason, causing us to make mistakes or preventing us from getting the things we want. If not contained, excessive fear can become downright debilitating. Remember, fear developed for the purpose of survival, not of happiness.

With our investments, fear is most clearly present during severe market downturns. Such fear is contagious – when those around us are losing their heads, it’s hard not to be affected and sell when the markets are down.

Ironically, fear is also the sneaky cause of market bubbles, where the fear of missing out is often the true emotion behind the greed and reckless behaviour that accompany these events.

When our team did a visioning exercise a few years ago, we came up with a statement of vision and purpose for ourselves: *To guide people to consciously calm fear and confidently embrace the future.* We’ve seen how excessive fear is often a detriment to clients’ health and wealth. Since fear is part of our subconscious mind, we need to use our conscious mind to help control it. By helping our clients do this, we believe we can also help them live happier lives and better achieve what’s important to them.

Steps you can take to help calm your fears about investing? The first step is to *face your fears*. Even better, say out loud or write down exactly what it is you fear.

Next, try to *figure out if the fears are based on objective evidence*. Does the data really support your fears, or have you acquired the fear from someone else (e.g., your parents, or some over-hyped blog or newsletter), or from some isolated bad personal experiences?

Keep things in perspective. For example, consider whether short-term ups and downs in the market matter when you’re looking at your longer-term needs. In taking this step, it helps to have a long-term plan in place.

Balance your fears against your desires and passions. What do you really want out of life – and how might your fears prevent you from getting these?

And finally, *try to avoid the triggers.* Stop watching or reading the daily financial news. Most news is actually noise, containing little useful information and causing us to make behavioral mistakes. Even positive news can heighten your feelings of fear.

Several of the stock market’s biggest drops in



TEAM TALK

Anna Mercado

Administrative Assistant



July 2024, Cascade Falls, Deroche, BC

How was your summer?

It feels like the summer has flown by! I can't believe it's already September and we're getting the kids ready for back to school. We haven't gone on any big trips this year but we've taken advantage of the beautiful weather and gone away for weekends. We went to Bowen Island, Penticton, camping at Jones and Harrison Lakes and checked out new hiking trails.

Which is your favourite?

I read an article sharing family friendly hikes and the pictures lured me in. We explored a lot of new areas but my new favourite hike is at Cascade Falls Regional Park. The Falls did not disappoint! The view from the suspension bridge was spectacular. We went on a very hot day so we were able to cool off downstream. It's amazing to live in a place like BC where there is so much to explore and really, it's all not that far away from home!

history have happened in October. This particular month can be a fearful time in the market. Two of the biggest drops ever, in 1929 and 1987, happened in October. Black Monday, October 19, 1987, was the biggest one-day market drop market in history. It also was my first day in this business – a fearful beginning that so far has worked out okay!

Let's hope we are spared the discomfort of a big

Behind the Numbers:

PRICE-TO-EARNINGS RATIO (PART TWO)

By Michael Chu, Senior Wealth Advisor

The *price-to-earnings ratio*, also known as P/E, is a company's share price divided by its annual earnings per share. In part two of our series "Behind the numbers," we discuss the P/E ratio – and its importance in evaluating companies.

If a company has a price of \$30, and annual earnings of \$3 per share, then the P/E ratio is 10 times. That would typically be considered low, or cheap. If another company has the same share price, but earnings of only \$1 per share, then the P/E ratio would be 30 times. All else being the same, that would typically be considered high, or expensive.

Another way of presenting P/E is the earnings yield. Earnings yield is the inverse of P/E: earnings divided by price. So, a low P/E stock has a high earnings yield. In our example of the company with a P/E of 30, the earnings yield would be 3.3%.

The P/E ratio tells you how much you are paying for every dollar of earnings. It also enables you to compare the valuation of one company to another – perhaps in the same industry, or to a completely different stock, or to itself historically. All things being equal, a company with a P/E ratio of 30 is three times as expensive as a company with a ratio of 10, even though they are both \$30 per share. You might wonder why some stocks have high P/E ratios, while others have low ones. Usually, stocks with higher P/E ratios also have higher growth prospects. Those with low P/E ratios would typically have lower growth prospects.

We often hear about *value stocks* and *growth stocks*. Value stocks are typically those with low P/E ratios. Value investors like these stocks. They believe they are getting good value because they are paying below-average prices for earnings. They don't want to depend on, or pay more for, future earnings growth that seems too unpredictable or overestimated.

Growth investors are at the other end of the spectrum. They are willing to pay more for companies that are poised for significant growth. If such growth materializes, it should result in good price appreciation.

market drop this October, or indeed anytime soon. But, inevitably, situations of 10%-plus corrections and 20%-plus bear markets will occur in the future. When they do, let's hope you can control your fear to avoid the mistake of selling low – or even better, that you take advantage by perhaps buying more at the lower prices being offered.

So how do we use the P/E ratio to select stocks? P/E ratios and stock selection have been the subject of numerous research studies. One long-term study looks at all U.S. stocks over 66 years, from 1957 to 2023¹. The study separates the stocks into five groups, based on P/E ratios. It shows that the lowest P/E group had returns of 12%, while the highest P/E group had returns of 8.8%. The market average for this period was 10.7%. Stocks with lower P/E ratios not only outperformed those with higher ratios but the market average as well – and with lower volatility.

A cautionary note about testing variables: Just because there's a promising pattern doesn't necessarily mean a variable is worth using. There might not be a causal relationship. For example, let's say we discover a strong pattern between stock returns and the weather. We wouldn't consider using this as a variable because it doesn't make sense; it is just a coincidence.

By contrast, the reasoning behind P/E being a useful variable is sensible and sound. You are paying less for the same dollar in earnings compared to an average stock. You may recall from our discussions on behavioral finance that going counter to the popular trend can be rewarding.

While value investing has a better track record over the long term, keep in mind that investment styles can go in and out of favour, and one style can outperform the other for extended periods. Our stock strategies have a value bias, but still combine factors from both styles of investing for diversification.

¹ Jeremy J. Siegel, *The Future for Investors* (2005), with updates to 2023



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Financial Planning

PERSONAL FINANCE 101: CONCLUSION

By Tom Cowans, Wealth Advisor

The items we've discussed in this Personal Finance 101 series represent the building blocks of financial planning and investing. We've covered topics from the basics of budgeting to the difference between stocks and bonds – always focusing on the end goal of reaching financial stability and well-being.

Everyone wants that end goal. The dream is to have a job that is fulfilling, be able to own your own home, save for retirement, go on vacations with the friends and family you care about, and be a contributing member of the community. In other words, to become financially independent. Most likely your parents had the same dream, and their parents before them.

Whether you're just starting university, or have graduated and are looking for a job, or have been part of the workforce for a few years now – it's never too early or too late to think about your future and your finances.

Here is a review of the tips we've shared with you.

1. Think about your future self

It is of vital importance to remember to think about your future self. Living in the moment is fun – and fun is something you should always make time for – but it is also important to set yourself up for success in later years. By making conscious money decisions and avoiding mindless spending, you will have greater opportunities to set goals. These might be: going back to school to pursue a new career; starting your own company; buying your dream home; or even retiring early! Whatever your goals, now is the time to look out for your future self by creating a clear vision for what you want. Learning to prioritize for your future over your short-term concerns will help create a strong foundation to set you up for success.

2. The big B

The latte factor: You remember going over that – how those daily coffee runs can add up over time. Mindless spending routines are at the centre of a potential downward spiral. The easiest way to get rid of this impractical habit is to BUDGET. You can still have those lattes if you budget for them! Budgeting helps keep track of what's coming in vs. what's going out. Learn to categorize your expenses monthly so you know exactly where your money is going.

3. Pay yourself first

Okay, so now you have created your budget. Time to make saving and paying off debt a top priority. Put some money away before you have a chance to spend it! We provided a few suggestions on how to do this, like using a budget app or setting up automatic contributions to a savings account or investment vehicle, e.g., a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP); more on these below. Note: Experts recommend having enough cash to cover you for six months in case of an unexpected emergency, such as job loss.

4. Identify good spending vs. bad spending

Make a conscious decision for each purchase: Is it a need or a want? Good spending is paying for things you need; bad spending is paying for things you want ahead of paying for your needs. By identifying your spending triggers (turn off notifications from those shopping apps!) and learning to stop and think, you will make better choices about your purchases.

5. Get comfortable with investing

Investing at an early age is a great way to grow your money over the long term. It means your long-term savings can outpace inflation. But remember, everyone is different. Identify the right mix for your own needs and be comfortable with your own investments. Also, don't forget to educate yourself! The tools we recommend for success include: diversification; investing in well-established companies; and realizing the long-term benefits of stocks by removing your emotions from market ups and downs and media influences.

6. Know your investment vehicle options

There is more than one effective way to save for your future self. An RRSP helps you save for retirement. The two big advantages of an RRSP are: 1) tax-deductible contributions that lower your taxable income, resulting in less tax to pay; and 2) tax-free growth, meaning you don't have to pay tax on any of your gains.

A TFSA is one of the most important personal finance vehicles for growing your wealth. You can now contribute \$7,000 per year; as of 2024, the total accumulated contribution amount allowed is \$95,000. The earlier you start, the longer your investment horizon will

be – allowing you to see the growth of your money completely tax-free!

7. Take care of estate planning and insurance

By putting in place all the necessary legal documentation and obtaining the right insurance, you can take the appropriate steps to ensure that your estate is handled as smoothly as possible – and that your loved ones are supported should the unexpected happen. Once completed, your legal documentation and insurance should be periodically reviewed to ensure the measures you have put in place are still sufficient and in line with your goals.

Sure, finances can seem scary. But they need not be. The key to success is to equip yourself with the proper tools and education.

Thanks for joining us in our introductory guide to all things finance. And here's to your future financial success!



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Financial Planning

HOW LIFE INSURANCE CAN HELP YOU AND YOUR FAMILY

By Sylvia Ellis, Senior Estate Planning Advisor

We all hope to live a long, happy, healthy life – and many of us today are doing just that! However, from first-hand experiences, we also know that life can throw us curveballs. Too often family and friends have suffered serious illnesses, or even died prematurely.

I understand this isn't something you like to think about. Yet failing to plan for yourself could cause hardship to those you leave behind. By incorporating life insurance, you can protect your family – and preserve your estate.

In this article, we are going to talk about life insurance, and how it fits in with your overall financial plan and risk management.

Life insurance is primarily used to fund liabilities or other obligations upon death. But that is by no means its sole use. Life insurance is also a unique financial instrument, creating tax-free capital when you need it the most.

Let's look at the most common uses.

Family protection

If you are married and have children under 18, you are part of a key market segment for insurance. Many individuals would have difficulty with living expenses if a primary wage earner were to die. Life insurance provides the capital to: create an ongoing income; pay off your mortgage or other debts; and provide funding for your children's education.

Business owners

Whether you are a sole proprietor, or in a partnership or have a corporation, life insurance can play an especially vital role. When used to pay the debts of the corporation, it satisfies creditors' claims, thus allowing the business to either continue smoothly or be sold for maximum value.

Life insurance can also provide for economic loss upon the death of a key employee, giving much-needed time and money to find a suitable replacement. And, where there is more than one shareholder, life insurance can be used to fund a buy-sell agreement.

Estate preservation

Immediately before death, you are deemed to have disposed of all capital property at fair market value. This may result in probate fees, capital gains tax and taxes on registered assets, such as your RRSP. Did you know that at your death, or the death of your spouse, your RRSP is taxed as income on your final tax return? This can propel you into the highest tax bracket. And, in B.C., it can leave your estate owing Canada Revenue almost 54%!

Charity

Leaving a portion of your wealth to charity is a noble gesture. Insurance provides a straightforward way to enhance your gift. It does more than help your community, church or other cause that's important to you. Upon your death, it can help by reducing your annual income taxes or estate taxes.

As an investment

Life insurance is often overlooked as an investment. Many people are not aware that some life insurance policies can be used to build wealth in a tax-preferred environment. On the Stan Clark Financial Team, we consider this option for those who have excess capital, or for holding companies with retained earnings not earmarked for basic living needs. The investment can mean a greater estate. Alternatively, if you wish to use life insurance for personal needs, there are several ways to access the cash value in a tax-efficient manner.

For all of the above reasons, you may want to consider life insurance. When our team creates or updates your financial plan, we can determine where any gaps might exist that life insurance could fill.

Then you will need to consider: What type of insurance to get? How much to get, and what are the costs?

There are many options. We welcome the opportunity to talk to you in more depth about it and to help answer any questions you may have.



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SCFT Trivia

Trivia Time!

Thank you for reading this month's newsletter. Test your knowledge with our trivia questions! Each question relates to one of the articles featured in this edition. See how many you can get right, and check your answers at the bottom of the page. Good luck and happy quizzing!

Hint: You can find the answers inside this newsletter.

1. As an alert to dangerous situations, fear can be useful, even life-saving. In terms of making financial decisions, fear as an emotion can:
 - a) Make you prudent in the extreme about investments. Nothing ventured, nothing lost, right?
 - b) Keep you completely out of the stock market, and therefore risk-free.
 - c) Overwhelm your reason, leading you to panic and make rash, costly decisions.
 - d) Ensure you stay glued to sensational news stories that both entertain and scare you.

2. The price-to-earnings ratio, or P/E, is a company's share price divided by its annual earnings per share. P/E can be useful in evaluating a company because it enables you to:
 - a) See how much you would be paying for every dollar of earnings.
 - b) Compare the valuation of one company to another – perhaps in the same industry, or to a completely different stock, or to itself historically.
 - c) Choose stocks with lower P/E ratios, as these companies are relatively cheaper.
 - d) All of the above.

3. Life insurance is often overlooked as an investment. Some life insurance policies can be used to build wealth in a tax-preferred environment:
 - a) True
 - b) False

4. You've made the big B decision – to create a budget so you can save for your future self. Key to the success of your budget will be choosing good spending over bad. Good spending is:
 - a) Good fun! Buy whatever appeals to you without worrying about the cost.
 - b) Making purchases according to what you need, as opposed to what you want.
 - c) Using a shopping app so you can snap up all the latest trendy products.
 - d) Never letting a morning go by without that extra-large latte.

Answers: 1, C, 2, D, 3, A, 4, B

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