

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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Asked how we perform a skill, e.g., driving, most of us rank ourselves highly. This *self-enhancement* bias is only human. However, as I note in this month's behavioral finance article, such overconfidence can lead to unwise financial decisions. In his Behind the Numbers series, Michael Chu looks at the *dividend yield* as an objective means of measuring stock values. Sylvia Ellis celebrates CIBC's 40th annual Miracle Day, when our team donates all fees and commissions to help underprivileged youth. As always, we welcome your suggestions for Canadian children's charities to support!

Stan Clark is a 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

LAKE WOBEGON, WHERE ALL INVESTORS ARE ABOVE AVERAGE

By Stan Clark, Senior Wealth Advisor

In his classic book *Your Money or Your Brain*, Jason Zweig recounts an amazing story about human nature. In 1965, two Seattle-area psychiatrists asked 50 drivers to rate their skill, ability and alertness the last time they had driven. Nearly two-thirds said they were at least average. Many described their most recent drive as "extra good," or even "100 percent." Remarkably, they were being interviewed in hospital – where each of them had ended up after an accident while driving.

According to the police: 34 of those drivers were directly responsible for their crashes; 29 had at least two past traffic violations; 28 had totalled their vehicles. Twenty-two even faced criminal charges! Many had ghastly injuries. Yet they all insisted they were good drivers. Were they crazy?

Not at all. It's a basic characteristic of human nature to think we are better than we really are. Another survey, of drivers with clean records, found that 93% believed themselves to be above-average drivers.

The tendency to think we are better than we are has been called the *Lake Wobegon effect*, after Garrison Keillor's fictional town "where all the men are strong, all the women are good-looking and all the children are above average."

Behavioural scientists have found that this phenomenon – the *self-enhancement bias* – exists in almost every area of our lives. If you ask 100 people, "Compared with the other 99 here, who's above average at X?", roughly 75 will raise their hands, whether X is driving a car, playing basketball, telling jokes or scoring well on intelligence tests. This despite the fact that, by definition, half the people

must be below average.¹

This bias certainly exists in the financial world. Consider this advertisement:

Warning against speculative financial bubbles, the ad mocks some gullible Frenchmen lured into a silly, 18th-century investment scheme. The ad says modern shareholders, armed with superior information, can avoid the pitfalls of the past. "How different the position of the investor today!" the ad enthuses.

The ad ran in *The Saturday Evening Post* on September 14, 1929. One month later, the stock market crashed – the start of the market's biggest three-year decline ever.

"Everyone wants to think they're smarter than the poor souls in developing countries, and smarter than their predecessors," says Carmen Reinhart, University of Maryland economist and co-author of *This Time It's Different*. In their book, Reinhart and Kenneth Rogoff look at booms and busts over the past 800 years. As their title suggests, although every crisis seems different from the others, all are very similar. People do not learn well from history. They believe they are smarter than those who came before them – but they're wrong.

Having confidence is normally a healthy trait. However, when combined with other traits, such as filtering, hindsight bias and confirmation bias, it leads to overconfidence – and an unrealistic assessment of our abilities to analyze and predict.

Overconfidence can get you into trouble with your finances. It can cause you to take risks you shouldn't, and to ignore information that disagrees with pre-existing biases. Yet it's tough to combat,



TEAM TALK

Stan Clark

Portfolio Manager/Senior Wealth Advisor



Stan and Joanne with friends in Osaka, Japan

Any major events in the family over the past year?

The most important was losing both of Joanne's parents over the holiday season, both to cancer. Joanne's mother made it through one last Christmas and passed away on boxing day. Her father followed exactly 2 weeks later. Both had battled various forms of cancer for over 20 years, and it finally got the best of them. We are so thankful for the many wonderful years we had with them, and especially the last few when they got to spend time with their seven great grandchildren, but we miss them terribly.

Did you go on any trips this year?

In May we did a 15-day Prague-to-Budapest self-guided trip: 15 different towns through Czech republic, Austria, Slovakia and Hungary. In September we did a cruise and bike trip around Japan. A beautiful country with such a unique history and character. Super clean, safe and organized, and we found so many of the people would go out of their way to help you. It was quite hilly so the biking was a challenge.

because most overconfident people are also convinced they are not overconfident!

The more overconfident someone is in their beliefs about the future, the more likely they are ignoring important information, or rationalizing facts to fit their beliefs. Beware the overconfident expert. Sure, people are more likely to follow a very confident person. But keep in mind that the most dangerous predictions come from those who appear most confident about them.

¹ Jason Zweig, *Your Money and Your Brain*, 2008.

Investing

BEHIND THE NUMBERS: DIVIDEND YIELD (PART THREE)

By Michael Chu, Senior Wealth Advisor

Like the price-to-earnings (P/E) ratio we've discussed earlier, the *dividend yield* is another traditional measure of value. The dividend yield is a stock's annual dividend, divided by the stock price. For example, if a stock has an annual dividend of \$1 and the stock price is \$20, then the dividend yield is 5%.

All else being equal, a higher dividend yield means a cheaper valuation and a lower yield means a more expensive valuation. Let's say you are comparing two stocks. Stock A is priced at \$20 and pays \$1 in dividends; stock B is priced at \$40 and pays \$3 in dividends. Which one is cheaper? The dividend yield for stock A is $1/20 = 5\%$ and stock B is $3/40 = 7.5\%$. So, based on dividend yield, we see that stock B is the better deal as it pays more income per dollar.

The dividend yield has a special advantage over other value measures, because it is highly objective. Dividends are either paid or not – no matter what the accounting standards are. That means the dividend yield cannot be swayed or manipulated.

High-dividend-yielding stocks are usually out of favour. That's why they are cheap, selling at a lower price relative to their dividends. This good value is attractive for investors, which eventually brings the stocks back into favour, resulting in a higher price.

Numerous academic studies discuss the results of using dividend yield to choose stocks. One long-term study looks at all U.S. stocks over 66 years, from 1957 to 2023. The study separates the stocks into five groups, based on dividend yield. It shows that the highest dividend yield group had returns of 12.2%, while the lowest dividend yield group had returns of 10.3%. The market average for this period was 10.7%. Stocks with higher dividend yields not only outperformed those with lower dividend yields but the market average as well – and with lower volatility.

So far in this series, we've covered two value measures: price-to-earnings and dividend yield. The



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results from long-term studies show the advantage of buying low P/E stocks or high-dividend-yielding stocks. But the results get even better when we combine the two measures and look for stocks that have both good P/E and good dividend yields.

Actually, we take it even further. By adding a few more variables, we get the best long-term results: above-average returns with lower-than-average risk. We have less risk because having more variables gives us more consistent results.

Basically, that's how we create our stock strategies. We use variables that show positive value and also make sense. Then we test the combinations of the variables in long-term studies or *backtests*, i.e., using historical data to see how a strategy would have performed in the past. For instance, our Canadian High Yield strategy looks at dividend yields. But it also includes some momentum factors to help ensure that a stock is trending reasonably well, so that it's not falling more out of favour.

In summary, value strategies work, rewarding patient investors who stick with them. But it's the sticking-with-it part that sometimes can be hard. Despite good long-term track records, in the short term, strategies can underperform for many consecutive years.

People also tend to like glamour stocks and their sizzling growth stories rather than boring dividend yields. Glamour stocks are typically more expensive, making them harder to justify. That being said, there's a place for certain types of higher-growth stocks. We'll talk about that next.

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



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Financial & Estate Planning

DONOR ADVISED FUNDS: A STRATEGIC, TAX-EFFICIENT WAY TO GIVE

By Sylvia Ellis, Senior Estate Planning Advisor

For many Canadians, charitable giving is an important aspect of our lives. There are many different ways to give: donating through campaigns; volunteering your time; or giving directly to different charities. However, many individuals are looking for a more strategic and tax-efficient way to achieve their philanthropic goals. This is where donor advised fund (DAF) programs come in.

Easier and more cost-efficient than establishing a private foundation, DAFs are offered through a number of sponsor organizations, typically financial institutions or charitable foundations.

What makes a DAF attractive? Well, for the most part, it's the flexibility a DAF offers – and the ease of establishing one. You can receive immediate recognition for your donation for tax purposes, ensuring the tax credits are fully used to offset years of high income. Also, the assets grow tax-free within the DAF, so that designated charities will benefit even more in the future. And, importantly, you don't need to decide on the ultimate charity at the time of the donation.

Minimum contributions vary, depending on where you choose to establish the program. Typically a minimum contribution might be \$25,000, but can be as low as \$5,000.

Some of the benefits of DAFs include:

- Simplified charitable giving.
- Tax credits can be used to offset high-income years while you are still living,

rather than perhaps being partly wasted if the donations occur only on your death.

- Many of the advantages of a private foundation at a reduced cost.
- Provides the opportunity to teach children, grandchildren or other family members about philanthropy. Grants can be decided upon together, instilling shared values and decision-making skills.
- Grants can be made anonymously to protect personal or family privacy.
- Donors don't have to worry about any administrative details or record-keeping.

The process is simple:

- Personalize your legacy by naming your own fund.
- Receive immediate recognition for your donation. A tax receipt will be issued at the time of the donation for the full market value of your contribution.
- Donate a variety of assets, including cash, stocks, bonds, mutual funds and life insurance. For gifts of appreciated securities, you can donate in kind and realize the full value as a charitable donation – without paying tax on any capital gains. With the recent increase in the capital gains inclusion rate, this is especially advantageous for companies with large gains on stocks.
- Select the charities you would like to support. Grants can be made to

organizations recognized by the Canada Revenue Agency as a registered charity. To see if the organization you ultimately want to support is eligible, check the list of [registered Canadian charities](#).

- Your DAF will be administered by the institution you select, and your donation will be invested and professionally managed by your advisor. If you want, you can recommend how your assets are managed.
- You will be kept posted on the status of your DAF, with periodic reports outlining the granting activity and current value.

Whether you wish to support the arts or higher education, conserve natural resources, advance medical research or help the world's underprivileged children, giving through a donor advised fund program may be the right fit for you.

Does CIBC Wood Gundy offer a DAF? Yes, indeed! it's called the [Giving Back Program](#). If you'd like to learn more, please let us know. We'll be happy to send you more information.



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CIBC Miracle Day

MAKING A DIFFERENCE FOR KIDS IN NEED

By Sylvia Ellis, Senior Estate Planning Advisor

This year we are excited to celebrate our 40th annual CIBC Miracle Day, a charitable giving tradition founded on the belief that we can remove barriers to kids achieving their dreams.

CIBC Miracle Day, held annually on the first Wednesday of December, supports the invaluable work done by children's charities around the world. Since starting this giving tradition in 1984, CIBC has raised more than \$278 million globally, helping to transform the lives of children and communities worldwide.

This year, CIBC held its annual Miracle Day

on December 4. On that special day we at the Stan Clark Financial Team donated all fees and commissions to the CIBC Children's Foundation.

The Foundation has three areas of focus:

- help for high-needs children
- healthy, active living
- well-being and enrichment.

With its goal of improving the quality of life for children in need, the CIBC Foundation is dedicated to helping them prepare for future successes. By focusing on health, education and well-being, the Foundation provides these

children with the opportunity to participate in programs that might not otherwise be accessible to them. Such enrichment opportunities are vital in supporting young people in the formative years, encouraging personal and professional growth.

The Stan Clark Financial Team is proud to be a part of CIBC Miracle Day. As we do every year, we invite you to suggest causes that are close to your heart. Last year at your suggestion, we directed funds to several charities, including:

- [Athletics for Kids](#) – A4K is homegrown and focused on local impact. It was

founded 20 years ago when two friends from North Vancouver felt compelled to open up sports opportunities in their community to kids from low-income families. Today, Athletics for Kids has evolved into a grassroots organization with significant reach, as their team of two staff and a small army of volunteers ensure that kids across BC have the chance to play.

- **Kids Help Phone** - Kids Help Phone has a pioneering history of creating innovative supports for critical issues young people face. It began as a unique telephone counselling service to provide free, accessible support to any young person reaching out from coast to coast. The focus was supporting young people experiencing abuse, but almost immediately young people let the service know they needed more than one focus and more than one way to get in touch. Kids Help Phone now concentrates on staying relevant to youth, recognizing

the complexity of issues they face, and helping to ensure professional counsellors and volunteer crisis responders are ready to address young people's continuum of emotional and mental health needs. These needs can range from crisis situations to the everyday concerns of growing up.

- **Stigma-Free Society** - The Stigma-Free Society is committed to combatting stigmas of all kinds, with a focus on mental health. Through its vision and mission, the Society fosters programs that cultivate, encourage and educate diverse communities to be inclusive and compassionate by building awareness and understanding through education, support and leadership.
- **HEROS** - The Hockey Education Reaching Out Society is a volunteer-driven charity that uses the game of hockey to teach life skills to, and empower, Canada's marginalized youth. By providing a safe and stable

environment for young people to succeed, connect and learn, HEROS guides its participants to become constructive citizens within their communities.

While it only takes one person to make a difference, great things happen when the Stan Clark team, together with our clients and charitable partners, all rally around the cause of helping children in need - which is the spirit of CIBC Miracle Day.

We thank you in advance for your interest and support! *And, as noted above, we warmly encourage you to let us know about any Canadian children's charities you would like us to consider.*



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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. Our tendency to think we're better than we are has been called the Lake Wobegon effect, after Garrison Keillor's fictional town where everyone is above average. In real life, such overconfidence:
 - a) Is great. If you think you can succeed at something, you will!
 - b) Is time-efficient, saving you the trouble of checking to see if you are right.
 - c) When combined with other traits, such as filtering, hindsight bias and confirmation bias, leads to an unrealistic assessment of our abilities to analyze and predict.
 - d) Only makes sense. We are smarter and wiser than our forebears.
2. The dividend yield is a traditional measure of value. It is a stock's annual dividend, divided by the stock price. For example, if a stock has an annual dividend of \$1 and the stock price is \$20, then the dividend yield is 5%. All else being equal, a higher dividend yield means a cheaper valuation and a lower yield means a more expensive valuation:
 - a) True.
 - b) False.
3. Worth noting about a donor advised fund, or DAF, is that:
 - a) It's no different than any other giving program.
 - b) You can receive immediate recognition for your donation for tax purposes, ensuring the tax credits are fully used to offset years of high income.
 - c) Very few organizations will help you set one up.
 - d) There's no flexibility in how a DAF works.
4. CIBC holds its annual Miracle Day on December 4. On that special day, we at the Stan Clark Financial Team donate all fees and commissions to the CIBC Children's Foundation. The Foundation's focus is to support:
 - a) Help for high-needs children.
 - b) Healthy, active living.
 - c) Well-being and enrichment.
 - d) All of the above.

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

CIBC WOOD GUNDY

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