

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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Being creatures of habit, as the saying goes, is mostly an advantage for humans. Habits save us from constantly having to make trivial decisions. Still, some habits we'd be better off without. You can't extinguish a bad habit, but you can improve it, as I explain in this issue's behavioral finance story. In Part 5 of his "Behind the Numbers" series, Michael Chu explores *price momentum*, that is, a stock's performance over a specific period—and what that can tell us about its future prospects. And, Michael pays tribute to the long, impressive and inspiring career of Warren Buffett.

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Behavioral Finance

WE'RE HALFWAY THROUGH: HOW TO CARRY OUT YOUR 2025 RESOLUTIONS?

By Stan Clark, Senior Wealth Advisor

Many of us make New Year's resolutions only to forget them – until the next New Year winds around. But maybe we should revisit our resolutions before then. Now, at 2025's midway point, seems a good time to freshen them up with some *half-year's resolutions*.

According to a 2025 Ipsos poll, Canadians' top two New Year's resolutions were:

1. Eat healthier (50%)
2. Exercise more (44%)

Managing finances better was #5. Whatever your goals, a key to achieving actual change is to focus on *habits*. A habit, according to Wikipedia, "is a routine of behaviour that is repeated regularly and tends to occur subconsciously."

Habits often start as conscious, purposeful decisions. They can also begin without our even being aware of them. Either way, over time and with repetition we assign habits to the automatic part of our brains. We end up doing most habits without even thinking about them.

There's a saying, "Humans are creatures of habits." Indeed, we depend on habits for a large part of what we do. Without habits we likely couldn't survive long. Our conscious brains would become overwhelmed making the thousands of trivial decisions each week that our habits cover now.

But, while habits are necessary and mostly useful, we can also develop some harmful ones. Achieving positive change often requires us to replace bad habits with good ones. So how do we do this?

First we need to understand the *habit loop*. Habits

comprise three things:

1. A cue – the thing that triggers the habit
2. A routine – what we do in response to the cue, and
3. A reward – the physical or psychological benefit to us.

A habit develops and strengthens as we repeat the habit loop over and over. In his book *The Power of Habit*, Charles Duhigg cites the "Golden Rule" of habit change: "You can never truly extinguish a bad habit. Rather, to change a habit, you must keep the old cue, and deliver the old reward, but insert a new routine."

So, instead of trying to just stop doing something, identify the specific cue and specific reward. Figure out a new routine that will better meet your goals and deliver the same, or a similar, reward.

Let's say you want to quit snacking at work. The first step is to figure out what, exactly, is the cue or trigger for your snacking. You might discover that it's not hunger, but rather a need for distraction. Next time you feel that cue, don't respond by snacking. Apply a conscious effort to insert a new routine, like going for a short walk or getting a drink of water. Hopefully you can find a routine where the reward feels good enough to satisfy you.

Or perhaps you spend too much money shopping online. You notice that you shop when feeling stressed. By diverting your attention, shopping helps you relax. As above, the key to changing the habit is to be aware when the cue arises – then change the routine. Perhaps go for a walk, try balancing on one



TEAM TALK

Jocelyn Johansson

Wealth Advisor, Portfolio Manager



Blackcomb (May 18th, 2025)

What keeps you busy outside of work?

My boys keep me extremely busy - they are both very active in sports. My eldest, Callan (11) plays ball, rugby, and basketball. He generally has at least one sport activity per day either with school or outside of school. Our youngest, Mattias (6) is finishing kindergarten. He also plays hockey and tennis, and loves squash. Both boys are great skiers and we can all ski together now!

Any vacation plans for 2025?

We are taking the boys to Portugal for the first time and we're really looking forward to it. We are flying in and out of Lisbon. We will rent a car and drive north up the coast to Coimbra and then Porto. We're going to do a few day trips to Douro Valley and Sintra. After that little adventure, we'll fly south to Faro to spend a week in the Algarve. We have some friends that will also be staying in the Algarve with kids the same age, so we'll have some fun with them. We can't wait to explore a new country and all that it has to offer.

foot, stretch, or close your eyes and meditate. Try to find something that feels positive and substitutes for shopping as a way to relax.

At first, changing a habit will require conscious effort. It will likely involve accepting a reward slightly less satisfying than the one the old routine provided. But habits strengthen with time and use. If you stick with the new habit, it will get easier to follow. Likely you will come to crave the new reward, perhaps even more than you did the previous one.

Changing habits is also easier if you've committed to change them to a group or another person, and they're supporting you.

Investing

BEHIND THE NUMBERS, PART 5: PRICE MOMENTUM

By Michael Chu, Senior Wealth Advisor

Sometimes in sports we hear about a team's momentum, referring to its winning (or losing!) streak - and how winning teams tend to keep winning. Stocks experience the same thing. *Price momentum* is a stock's price performance over a specific period. **If a stock's price is up 10% in the last month, then the one-month price momentum is 10%.**

Somewhat analogous to a sports team, the premise behind price momentum is that winning stocks continue to win - at least, for the short term. If a stock price is increasing strongly, it might be a good investment, as typically it will continue to do well in the short term. That's where sayings like "Don't fight the tape" or "The trend is your friend" come from.

But buying stocks based purely on price momentum seems a bit reckless - especially if that stock has already gone up a lot. Wouldn't it be too late to buy? So why would we want to trust price momentum?

First, price momentum gives us information about the future prospects of a stock. After all, it's not just people talking up a stock that makes the stock go up; it's people actually buying the stock. You might say they're putting their money where their mouth is!

Second, people are slow to adapt to changes and new information. If a company has earnings better than expected, people tend to assume it's just a one-time thing and are reluctant to believe that it'll happen again. Of course, the prices of high-momentum stocks have already gone up, because of the initial surprise. But that initial move often understates the importance of the surprise, which means there still might be room to improve.

In previous articles we've discussed that we should usually avoid high price-to-earnings (P/E) ratio stocks. By nature, high-momentum stocks can often

Good luck with your half-year's resolutions. Wouldn't it be nice to bring in 2026 with some great new habits already in place!



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also be high P/E (as in more expensive), but they're not necessarily super-high P/E (super-expensive). Even if the P/E is fairly high, the benefits of strong price momentum can outweigh the negatives of a more expensive valuation.

We did a long-term study of price momentum, dividing all Canadian stocks into five groups, sorted by price momentum. We then calculated the returns of each group. Here's how the returns looked from 1985 to 2024 (39 years):

Variable	Top Group	Bottom Group
3-month price momentum	12.8%	-0.3%
6-month price momentum	14.9%	-1.5%
12-month price momentum	16.5%	-0.9%
TSX benchmark return: 8.5%		

*Source: Stan Clark Financial Team**

As you can see, the overall results from investing in high price-momentum stocks (the top group) are very good and outperformed the market. Conversely, the returns from stocks with low price momentum (bottom group) are relatively poor.

Based on this, it's easy to conclude that momentum investing is easy: Buy high price-momentum stocks and avoid low price-momentum stocks. But this is only part of the story. In past articles we've discussed how investing using only earnings momentum is accompanied by high volatility and high turnover (number of trades). Well, with price momentum, it's even more extreme!

So, while the returns from price momentum are

very good, we need to keep volatility and turnover in check. That's why we don't use momentum in isolation. Instead we combine it with other variables to get the best of both worlds, allowing us to achieve the benefits of

better returns without as much volatility and turnover. We'll talk more about this next time.
**Please contact us for more information.*



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Asset Allocation

ON BUFFETT'S RETIREMENT, WE REFLECT ON HIS BRILLIANT -AND CLEARLY COMMUNICATED - INVESTMENT ADVICE AND INSIGHTS

By Michael Chu, Senior Wealth Advisor

At age 94, Warren Buffett, one of the most successful and celebrated investors of all time, has announced his retirement as CEO of Berkshire Hathaway. The longevity of Buffett, known as the "Oracle of Omaha," is impressive in many ways.

Compounding Berkshire Hathaway's share price at 19.9% per year for 60+ years is out of this world. A total return of over 5.5million percent is hard to fathom! Buffett bought his first stock at the age of 11 and still lives in the same house he bought himself at the age of 27.

One of the wealthiest people in the world, Buffett has promised to donate over 99% of his wealth. Even though he will step down as CEO at the end of the year, he still plans to go to the office every day and continue to contribute investment ideas. Buffett's CEO position will be taken over by Greg Abel (a Canadian!), who was named as his successor in 2021.

As a tribute to Buffett's impressive and longstanding career, we thought it would be interesting to discuss his influence. Buffett is famous not just for his investment success, but for his ability to communicate his beliefs and methods in memorable everyday language. One of the most unforgettable for us: "Be greedy only when others are fearful."

His letters to shareholders of his company, Berkshire Hathaway, published every year since 1977, are a treasure trove of investment wisdom. We've looked forward to them every year. All of his letters are available [here](#). According to Bill Gates, these are among the best of business literature – even the ones from decades ago.

Here's a good passage from Buffett's 1994 letter:

"I bought my first stock in April of 1942 when I was 11. The prospects for World War II didn't look so good at the time; the U.S. was not doing well in the Pacific. I'm not sure I calculated that into my purchase of three shares, but just

think of all the things that have happened since then. Atomic weapons, major wars, presidents resigning, massive inflation at certain times, all kinds of things. To give up what you can do well at because of guesses about what's going to happen in some macro way just doesn't make any sense to us."

If your time horizon is measured in decades, you will occasionally be forced to deal with some unpleasant conditions. That's life, and that's long-term investing. The key is to focus on the right things. When we offer financial advice, we have to understand your risk tolerance and time horizon. That's the cornerstone of our financial plans: figuring out when you need your money and also how much volatility you can handle.

One key consideration is that your odds of success are vastly improved the longer you can invest. So, we've developed a process to calculate the best mix of stocks and bonds for you based on the time horizon of all your future needs. As you can see in the chart, the longer you can invest, the more you can have in stocks for better returns.

wrote, "Compound interest behaves like a snowball on sticky snow. The trick is to have a very long hill, which means starting very young or living to be very old."

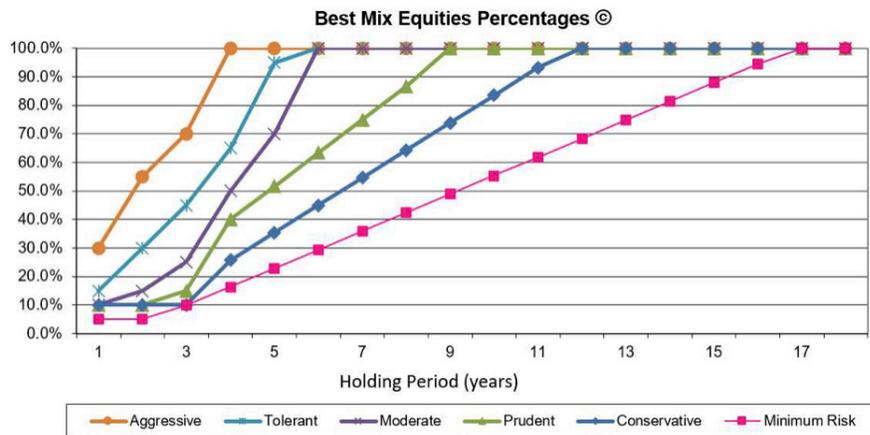
Of course, thinking and acting for the long term is easier said than done – but it's well worth accepting the challenge.

Buffett is very smart, but he felt it was more his temperament and attention to principles that allowed him to compound for years on end. At the Stan Clark Financial Team, we believe in and have long-followed many of his most important teachings. Here are some of the highlights.

Avoid emotional investing:

"The stock market is a device for transferring money from the impatient to the patient."

"During ... scary periods, you should never forget two things, First, widespread fear is your friend as an investor, because it serves up bargain purchases. Second, personal fear is your enemy."



Source: Stan Clark Financial Team, 2024

The reason it's hard to win in the short run is because the market is very unpredictable over short time periods. But it's a different story in the long run because of the effect of compounding over time. In 1999 Buffett

Have a disciplined process:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed

is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

"You have to define your circle of competence accurately. You have to know what you don't know, and not get enticed by it."

Speculation and earnings drive the stock market:

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."

"Nobody knows what the market is going to do tomorrow, next week, next month. But they spend all their time talking about it, because it's easy to talk about. But it has no value."

One of the greatest signs of intelligence, so it's been said, is the ability to explain complex topics in a plain and simple manner that people can understand. This is one of Buffett's greatest strengths. His intellectual gifts have helped him grow his wealth, but his emotional intelligence and ability to think independently are what really set Buffett apart.

Here's a longer excerpt from one of his letters that we find very useful for investing.

The classic tale of Mr. Market:

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his. Even though the business that the two of you own may have

economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favourable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

"Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behaviour, the better for you. But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, 'If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy.'

"Ben's Mr. Market allegory may seem out of date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and bets. Their interest in such matters is understandable, since techniques shrouded in mystery clearly

have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising, 'Take two aspirins'? The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behaviour of stocks and markets. Rather, an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behaviour from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind."

Buffett has not only left a mark on Berkshire Hathaway, but also on the world of investing. He leaves us a roadmap to become better investors: Ignore short-term fluctuations; instead focus on your own goals. Try to take advantage of the emotional market: When it is euphoric, you should be skeptical. When it is fearful, you should be more optimistic. Above all, you should be patient and focus on the long term. Perhaps nobody has ever exemplified these principles better than Buffett – and he would probably hope this would be his legacy.



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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. Want to shed a bad habit, e.g., snacking at work? Here's how:

- a) Eat a lot for breakfast and lunch.
- b) Realize that snacking is actually a need for distraction. Instead, go for a short walk or get a drink of water.
- c) Before going to work each day, watch a weight-loss video.
- d) Ask a colleague to ream you out next time they see you snacking.

2. If a company has better-than-expected earnings, this may indicate:

- a) There's room for even more improvement.
- b) A decrease in earnings is inevitable.
- c) It's a fake-news story.
- d) The company has a really good P.R. department.

3. Warren Buffett advises that, to invest successfully over a lifetime, you need:

- a) A stratospheric I.Q.
- b) Unusual business insights.
- c) A sound intellectual framework for making decisions and not to let emotions corrode that framework.
- d) Inside information.

4. Want to improve as an investor? Buffett suggests that you:

- a) Focus on your own goals.
- b) Take advantage of the emotional market. When it is euphoric, be skeptical. When it is fearful, be more optimistic.
- c) Be patient and focus on the long term.
- d) All of the above.

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

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