CIBC PRIVATE WEALTH
WOOD GUNDY

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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IN THIS ISSUE

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In this issue I review *confirmation bias*, our tendency to search for, interpret or remember information that confirms our preconceptions. Seeking information that doesn't necessarily back up our beliefs helps us avoid unwise, often costly, decisions. In Part 1 of his "Quality is Key" series, Michael Chu explains what makes certain stocks quality ones, i.e., those with strong profitability, growth and safety. Tom Cowans discusses the benefits of time in the market vs. attempts to time the market. Sylvia Ellis reveals how we deal with the problems of long-term future rate assumptions for financial plans.

Stan

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

AVOID CONFIRMATION BIAS – BE OPEN TO CONTRARY EVIDENCE

By Stan Clark, Senior Wealth Advisor

What do the following all have in common?: wishful thinking, first impressions, radical talk-show hosts and poor investment decisions.

They're all related to a strong psychological tendency called *confirmation bias*.

In this issue, I'd like to examine confirmation bias – and how important it is not to reject evidence that goes against our beliefs.

Confirmation bias has been studied extensively for over 50 years. One expert thinks this natural human bias, "by itself, might account for a significant fraction of the disputes, altercations, and misunderstandings that occur among individuals, groups, and nations."

Confirmation bias is our tendency to search for, interpret or remember information in a way that confirms our preconceptions.

Consider this puzzle. Four cards are set out on a table. We're told that each card has a letter on one side and a number on the other. The four cards we see have A, C, 2 and 3 facing up. We are also told that all cards with vowels have even numbers on the other side. Which cards would we need to turn over to prove that statement true?

Most of us would choose A and 2. These seem consistent with the statement about vowels and even numbers. But turning over the 2 won't help prove the case! If a vowel were on the other side of the 2, it would be consistent with the statement. However, if a consonant were on the other side, it would not disprove the statement – *because the statement said nothing about what's on the other side of a consonant*.

We can best solve the puzzle by trying to disprove the statement. To do that, turn over the A and the 3. A vowel on the other side of the 3 would immediately disprove the statement.

Our puzzle shows that, when asked to test a theory, we have a natural tendency to look for information that confirms rather than disproves it.

All of us have difficulty holding conflicting ideas at the same time. This difficulty is known as *cognitive dissonance*. If we believe something to be true, we have a strong tendency to seek and remember information that supports our belief – and to ignore or forget information that argues against it.

When we first meet someone, we tend to quickly form an opinion about them. After that, we filter additional information based on our first impression, favouring only what supports that impression. The saying "First impressions are lasting" is based on this human tendency.

We also tend to subscribe to publications, tune into TV or radio shows and do internet searches that support our beliefs. In the United States, how many Democrats listen to Rush Limbaugh or watch Fox News? How many Republicans watch Jon Stewart or Stephen Colbert or any MS NOW (formerly MSNBC) host?

Confirmation bias affects many areas of our lives, including investing. It causes us to be overconfident, and to make mistakes in our decisions. Confirmation bias is something we should be on guard against in ourselves – and in those we rely on.

It's a good idea to practise keeping an open mind and searching for information counter to our views. It might be uncomfortable, but it can help us see the world more clearly and prevent us from making mistakes.

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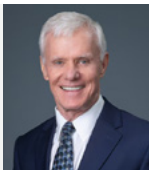

TEAM TALK

Off the Clock with Stan Clark

Any major events in the family over the past year or so?

The biggest event in our family was the arrival of our third grandchild, Ruby, to our youngest daughter Jess and her husband Dan July 2025. She takes off both her parents with a happy, smiley disposition. One of Jess's best childhood friends had her first baby 3 weeks prior, and Joanne and I recently had the opportunity to babysit the both of them while their parents attended a wedding of another very close childhood friend. Very fun but a bit exhausting!

Did you go on any trips this year?

In June we did a cycling cruise around Irish Sea, touching all 6 "realms" of the UK and Ireland: Ireland, Northern Ireland, Scotland, England, Wales and the Isle of Mann. It was lots of fun, but perhaps the best part was the Beatles cycling tour of Liverpool and the Beatles museum. Had one very wet day cycling, but for the most part the weather was perfect for cycling.

Ruby with parents Jess and Dan

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INVESTING

QUALITY IS KEY (PART 1)

By Michael Chu, Senior Wealth Advisor

Warren Buffett, one of the world's greatest investors, once said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Companies that are consistently profitable and growing, and have solid balance sheets, sound like wonderful companies to invest in. In 2013, Cliff Asness of AQR Capital Management put out a study called *Quality Minus Junk*, which demonstrated that stocks fitting the quality mold produced better-than-average returns in the U.S. and 24 other stock markets around the world. This study covered companies between 1958 through 2018, i.e., 60 years' worth of data. (Note: The data for this study has been updated to 2026, and the results have stayed pretty consistent.)

The fathers of *factor investing*, Eugene Fama and Kenneth French, originally identified two factors that seemed to produce higher-than-average returns: value and size. In the early 1990s, other researchers, including Asness, documented a third factor: momentum. Then there's quality, a newer-generation factor that includes things like profitability, accounting quality, earnings stability, growth. In this article, we'll quickly review value and momentum and spend more time on quality.

Good value stocks are those with low prices compared to underlying company fundamentals, such as price-to-earnings or price-to-book value. *Good momentum* stocks are those that surprise investors by doing better than expected, with analysts raising their earnings estimates, higher-than-expected reported earnings and positive price movement.

How to measure quality?

Quality stocks are those with strong profitability, growth and safety. Such stocks justify higher prices, but their positive qualities are often underappreciated by the market and therefore mispriced. Some examples of quality measures are:

1. High return on equity, high profit margins, strong cash flows
2. Growing earnings, margins and cash flows
3. Low price volatility, low earnings variability, low debt to equity.

Intuitively, one would think that higher-quality stocks are more expensive than low-quality stocks – after all, they deserve to be higher priced. But the reason they're attractive investments is that the price premium tends not to reflect the full benefit of their quality. In other words, they're not expensive enough! Despite seeming more "expensive" than average to begin with, investing in high-quality stocks yields better returns over the long term.

Why would such stocks exist? Perhaps it's that investors assume high-quality stocks are already efficiently priced, so they naively look elsewhere for opportunities.

Back to the Asness study mentioned above. As noted, the *Quality Minus Junk* authors looked at 40,000 stocks over 60 years in the U.S. and 24 other developed countries. Quality stocks delivered higher returns in the U.S. and in 23 out of the 24 other countries (only New Zealand fell ever-so-slightly short).

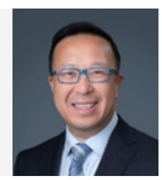
In addition to higher returns, quality stocks provide a safety net during crises. This is because, historically, such stocks command a higher premium as a result of a flight to quality after a crisis. So, returns from quality are extra-high during downturns.

The *Quality Minus Junk* authors also noted that, for the market to rationally put a price on quality characteristics, the characteristics need to be persistent. The study found that profitable, growing and safe stocks tend to retain these characteristics over the next five to 10 years.

In summary, quality stocks tend to earn higher returns and yet appear safer as well. What does this mean for us? The stock strategies created by the Stan Clark Financial Team use all three types of factors: value, momentum and quality. As we've mentioned before, each factor works well on its own, but when combined with the other factors, the results are even better. Some of our strategies lean towards one type while others are a blend of factors.

The end result for our clients is a portfolio of stocks covering a full spectrum of factors that have provided above-average performance in our backtests. We'll talk about this more in our next article on quality.

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.



ASSET ALLOCATION

TIME IN THE MARKET VS. TIMING THE MARKET

By Tom Cowans, Wealth Advisor

Many investors were worried heading into 2026. The stock market was in record territory following three consecutive years of double digit returns, trade disputes and wars, among other major geopolitical events. But who could have predicted what's happened so far this year, except that it would be predictably unpredictable?: another war, tariff escalations, artificial intelligence (AI) uncertainty.

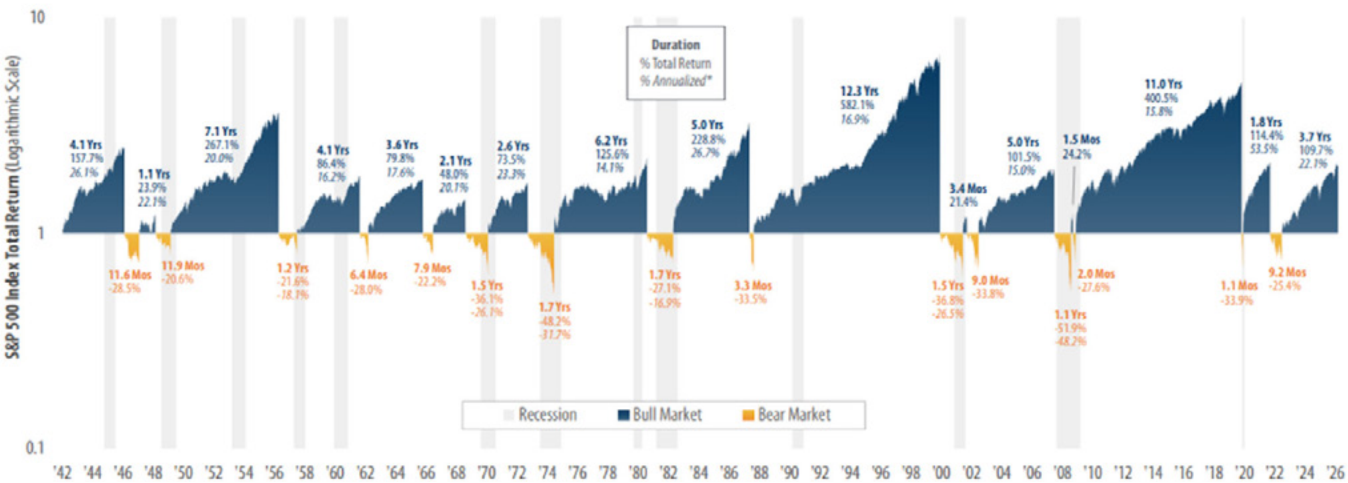
And so far, with the year almost but not quite complete, the market is up double digits again, the fourth year in a row.

So, even if we had foresight into geopolitical and macroeconomic events, predicting the resulting stock market movements would be extremely challenging. As legendary investor Peter Lynch said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves."

Granted, the idea of trying to time the market is tempting. We've all experienced bear markets, and in hindsight believe we could have avoided the impact of huge meltdowns. All we had to do was go to cash just in time, then buy back in at market bottom. Easy, right? But this is yet another example of our behavioral biases wreaking havoc on our decision-making. *Hindsight bias* causes us to think after the fact that events were much more predictable.

In his book *Thinking Fast and Slow*, Daniel Kahneman discusses an example of this bias: Heading into 2008, few investors expected the impending financial crisis. But now there are "far too many people who claim to have known well before it happened that the 2008 financial crisis was inevitable," despite the fact that the "crisis was unknowable." Such thinking may lead otherwise well-intentioned investors to be overconfident in their market-timing abilities.

Emotions are a natural part of investing. Many investors feel the strongest emotions when stocks either have a sudden plunge or are trading at record-high levels. But these intense reactions, while common, ignore two important facts. Firstly, the long-term trend of the stock market has always been up. Secondly, the above-average returns from stocks have more than compensated for their volatility.



Mid 1942 - mid 2026. Source: Bloomberg

The chart above shows the U.S. bear and bull markets since mid-1942. There have been many downturns (orange) in the last 80 years – including some pretty painful ones. Examples in recent memory: -33% due to the pandemic (2020); -52% in the financial crisis (2007); and -37% in the dot-com bust (2000). But each of these bear markets was followed by a bull market (blue) that eventually more than made up for the losses... as long as you were still invested.

And that's the key. While we will always experience downturns, as long as we stay invested, the markets eventually more than come back. That's why we often say time in the market is more important than timing the market.

Timing the market means trying to predict when the stock market will go up or down, and then acting accordingly. It sounds easy enough. Predict this and be consistently correct – that is, buy before stocks go up and sell before they go down – and you will quickly become the greatest investor of all time. But we're not aware of anyone who can do this consistently. In fact, we don't think it's possible. For that reason, it's a practice we don't support.

Of course, on occasion, someone may correctly time the market. However, it's likely the analysis or thought process leading up to their action wasn't all that sound. When someone is right for the wrong reasons, it's a clear sign of luck rather than skill. And you do not want to depend on luck.

A recipe for losing money

Timing the market is usually a recipe for losing money. Historically, the market is up two-thirds of the time. So, right away, the odds are stacked against someone getting out of the market at a so-called "right" time. Actually, many investors typically increase their stock holdings just before downturns and decrease them just before rallies. This is because these investors focus excessively on recent performance.

They also make long-term predictions based only on recent performance – and that's probably the last thing you should do. The chart below shows

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
CDN Equities 21.1%	EM Equities 28.7%	US Equities 4.2%	US Equities 24.8%	EM Equities 16.6%	US Equities 27.6%	Cash 1.7%	US Equities 22.9%	US Equities 36.4%	CDN Equities 31.7%
US HY Bonds 14.3%	INTL Equities 17.4%	Global Bonds 1.9%	CDN Equities 22.9%	US Equities 16.3%	CDN Equities 25.1%	CDN Equities -5.8%	INTL Equities 15.7%	CDN Equities 21.7%	EM Equities 28.1%
US Equities 8.1%	US Equities 13.8%	CDN Bonds 1.4%	INTL Equities 16.5%	Balanced Portfolio 10.4%	INTL Equities 10.8%	INTL Equities -7.8%	Balanced Portfolio 12.8%	EM Equities 17.9%	INTL Equities 25.7%
EM Equities 7.7%	Balanced Portfolio 9.7%	Cash 1.3%	Balanced Portfolio 15.3%	CDN Bonds 8.7%	Balanced Portfolio 10.6%	Balanced Portfolio -10.0%	CDN Equities 11.8%	Balanced Portfolio 16.5%	Balanced Portfolio 13.8%
Balanced Portfolio 5.9%	CDN Equities 9.1%	Balanced Portfolio -0.8%	US HY Bonds 14.0%	INTL Equities 6.4%	US HY Bonds 4.5%	US HY Bonds -11.1%	US HY Bonds 11.6%	INTL Equities 13.8%	US Equities 12.4%
Global Bonds 3.5%	US HY Bonds 6.4%	US HY Bonds -2.9%	EM Equities 12.9%	Global Bonds 6.0%	Cash 0.1%	CDN Bonds -11.7%	EM Equities 7.3%	US HY Bonds 5.9%	US HY Bonds 7.0%
CDN Bonds 1.7%	CDN Bonds 2.5%	INTL Equities -5.6%	CDN Bonds 6.9%	CDN Equities 5.6%	Global Bonds -2.3%	US Equities -12.2%	CDN Bonds 6.7%	Cash 4.7%	Cash 2.7%
Cash 0.5%	Global Bonds 1.8%	EM Equities -6.5%	Global Bonds 6.8%	US HY Bonds 5.1%	CDN Bonds -2.5%	Global Bonds -13.2%	Global Bonds 5.6%	CDN Bonds 4.2%	CDN Bonds 2.6%
INTL Equities -2.0%	Cash 0.6%	CDN Equities -8.9%	Cash 1.7%	Cash 0.6%	EM Equities -3.1%	EM Equities -13.9%	Cash 4.8%	Global Bonds 1.4%	Global Bonds 2.0%

the top-performing markets each year, sorted from best to worst. As you can see, it looks quite random. The best performers for one year don't usually repeat the year after. In fact, there's an argument for investing in the worst performer for a big comeback the year after.

Let's say you got out of the market successfully by selling at the top. Okay, but you still have to get back in at some point. Deciding when to do that is going to be just as hard. Warren Buffett advises that, if you're going to even attempt to time the market, at least do the opposite of current trends: "… if [investors] insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy only when others are fearful."

Obviously, this is easier said than done. Perhaps Buffett is hinting to not even try! Waiting until you feel safe in the market is not a good way to invest. Valuations tend to be better during tough times and more expensive during good times. Sometimes the market can come roaring back quicker than expected. 2020 provides a great example: After the bottom in March, the S&P 500 rallied 18% in just three days. The market continued to recover, despite the ongoing recession and pandemic. The market regained its previous high by mid-August – just six months later.

If an investor insists on trying to time the market, they better be right, down to the exact day! Over the last 20 years, just missing the market's best five days would have reduced your portfolio by almost half compared to simply staying in the market. Missing the best 30 days would have reduced your portfolio by 80%. Of course, missing the worst days would help stem your losses. The truth is, however, that a market timer is much more likely miss an up day than a down day.

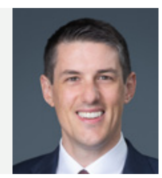
Stock market declines are not uncommon. They can be stressful. But remember that declines have always been followed by recoveries. This is what we mean when we say that stocks' returns compensate for their volatility.

There's no denying that stocks are volatile. In fact, over shorter time periods, stock returns are highly variable. But over longer periods, especially 10 years or more, stocks have given much better returns with less chance of losing. Since 1871, 100% of 10-year rolling periods for an even split of Canadian and U.S. stocks were positive. Even three-year periods were 88% positive. Attempting to avoid the declines by timing the market will most likely give you lower returns over time.

So, if we can't time the market, then what can we do? Here's what. We set a target equities mix based on your own personal circumstances. Then we rebalance your mix back to your target when it varies notably by a predetermined amount. This will help you benefit from the volatility with a systematic method of buying low and selling high.

Again, it's about *time in the market*, not *timing the market*. Time in the market allows investors to better position themselves for better long-term results. A long time horizon that benefits from the power of compounding is much more impactful and generally more successful than the mirage of market timing.

Tom Cowans is a Portfolio Manager and Wealth Advisor for the Stan Clark Financial Team at CIBC Wood Gundy.



FINANCIAL PLANNING

RETURN ASSUMPTIONS FOR FINANCIAL PLANS PART 1: LIFE IS LIKE A BOX OF CHOCOLATES

By Sylvia Ellis, Senior Estate Planning Advisor

When we make a financial plan, we need to make assumptions about the future returns for the life of the plan. This isn't easy. To quote that eminent philosopher Forrest Gump, "My mama always said, life is like a box of chocolates. You never know what you're gonna get."

Future return assumptions, especially those used over a long period of time, have a huge impact on the results of a financial plan. They can mean the difference between projecting a significant estate – or having to reduce expenditures.

The first issue with future return assumptions is that, well, they're for the future! We know that future returns cannot be accurately forecasted. So, what we do is base them on long-term historical results. To be conservative, we reduce these by 2-3%. And by long term we don't mean just the past 10 or 20 years, as most plans would. We mean the past 150+ years. This way we capture all the ups and downs, as well as the long-term trends. The average return for stocks over the past 155 years was 9.6%[1]. For most of our plans we use about 8% as an average, about 6% above inflation.

It sounds easy enough. Just plug in these forecasts, and see where we're at! Indeed, this is probably the most common approach to financial planning. Come up with a long-term return assumption – assuming it was reasonably determined – and then use that in the plan.

Let's say we're doing a plan for someone aged 60. We're projecting until they are 95, in other words, a 35-year plan. Over such a long period, minor differences in the return assumptions, even 1 or 2%, can have a significant impact on the final results. It's like we're boating and our navigation is off by two degrees. On a small lake, it won't make much difference where we end up. But if we're going a long distance, say, over an ocean, then that same two-degree difference could mean arriving in the wrong country! That's the first issue with return assumptions: Small differences in returns can make huge differences in results – *especially* since they're being used over such a long time.

This raises another issue, one that most people don't consider. The past 150+ years have been wildly volatile: inflation, deflation, a deep depression, explosive growth, two World Wars, embargoes, assassinations and pandemics. There were some very good 35-year periods, some very bad 35-year periods, and many in-between periods.

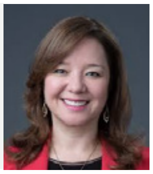
As we look to the future, the world remains uncertain. No one really knows what the next 35 years will bring. Maybe they will be average; maybe they will be really good. But what if it's one of the very bad 35-year periods?

History does tend to repeat itself. The problem is, you don't know what *specific* part of history is going to be repeated next! It also makes a big difference when the up and down years occur, relative to when we are adding or withdrawing money.

In the next of this three-part series, we'll discuss how, even if the *average* returns are the same, the path or order of returns can make a big difference in financial projections.

[1]Source: Siegel, Shiller, CRSP, Cdn Institute of Actuaries, TSX

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.



SCFT TRIVIA

Test Your Knowledge

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. The behavioral finance concept of cognitive dissonance can be defined as our strong tendency to:

a. Seek and remember information that supports our beliefs.

b. Ignore or forget information that argues against our beliefs.

c. Stay with the first impressions we have of anyone we meet.

d. All of the above.

2. Emotions are a natural part of investing. But intense reactions, while common, ignore certain facts. For example:

a. Enjoy market gains, but accept that both gains and losses are based on luck.

b. The long-term trend of the stock market has always been up.

c. You can stay calm by avoiding stocks that may sometimes be volatile.

d. If you want to be really safe, stay out of the market altogether.

3. We know that future returns on stocks cannot be accurately forecasted. For that reason, in our investment planning, the Stan Clark Financial Team factors in studies of long-term historical results:

a. True   b. False

4. Quality stocks are those with strong profitability, growth and safety. But what happens to these stocks during a political or economic crisis?

a. No stocks, including quality ones, can survive the negative effects of crises.

b. As soon as a crisis begins, wise investors dump them.

c. Quality stocks provide a safety net. Historically, such stocks command a higher premium as a result of a flight to quality after a crisis.

d. They lose value far faster than other stocks.

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

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