

# ROYDS REPORT

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## Change to the Law Regarding Wills

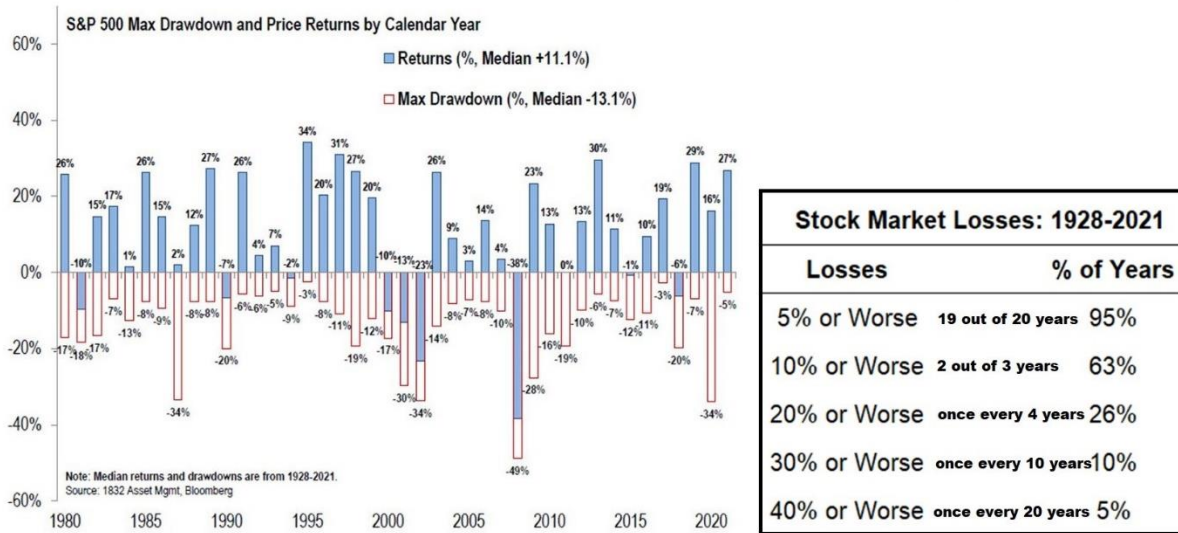
Before this year, if you divorced (or for that matter married), your will became invalid. That way, if you “forgot” to change your will upon remarriage, your former spouse would not inherit, and it would be as if you died without a will. Provincial laws would then determine how your estate would be distributed. But now, if you re-marry after Jan 1, 2022, any un-revoked old will remains intact, with one important change. Your ex-spouse, or a spouse from whom you have been separated for 3 years or more, will be considered dead. Imagine if your will said that if your ex-spouse pre-deceased you, your children or your parents or your siblings would inherit. What might that mean for any new spouse that you might have? So, if you have a marriage breakdown or get married, make sure you consult with your legal representative to get your will updated.

(Source: Lawyer Nick Esterbauer as quoted in The Globe & Mail Dec 29, 2021)

## Corrections are Everyday Occurrences for Investors

The S&P 500 is the index that measures the price changes of the largest 500 companies traded in the US. A recent chart put out by Bloomberg and 1832 Asset Mgmt shows that from 1980 to 2021, the median calendar year returns of the S&P500 were 11.1%, despite the fact that there was a median market drawdown of -13.1% at some point during each year.

## Chart of the Week: Corrections are a Normal Part of the Investment Experience



For 7 of the 42 years in that chart had negative calendar year returns, but the other 35 years ended in positive territory, despite the market dropping a fair bit at least one or more times in the year. In 1987 and 2018 the market was down as much as 34% at some point in the year, but the market still ended up for the calendar year. We just had a -10 to -16% market drop this year, reaching its lowest point on Jan 27. That sure isn't unusual. In 2 out of every 3 years, markets experience a drop of 10% or more at some point.

What does this data show us? On route to making the long-term positive returns that stock markets have generated for hundreds of years, you will also experience a multitude of little drops each year and even a few drops that last more than a year and drops of 40% or worse about one year out of every 20. That's the price to get long-term stock returns.

So, what should we do during the downturn the market is currently in? If you are invested in funds with quality stocks, the best thing historically has been to stay invested and wait for a recovery. There are a couple of options you have to take advantage of the dip in market values. You could a) buying more while things are relatively cheap, or b) if you must withdraw from a RRIF but don't actually need the money to live on, withdraw the minimum in kind (take out a fund or stock without selling it) and hold it in your TFSA or an unregistered account. That way you get a greater percentage of your RRIF money out of your RRIF for the same cost in taxes. Also any growth on that money from a market rebound will be non-taxable or more lightly taxed in your TFSA or unregistered account, instead of being fully taxable later when withdrawn from the RRIF.

### More Tidbits of Wisdom on Investing

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

*"People invest for the long term – one month at a time." Noah Blackstein*

*"The Hindsight Fund has a tremendous track record." Noah Blackstein*

*"I have never met a rich pessimist." Ned Goodman*

*"The rich invest in time, the poor invest in money." Warren Buffet*

*"Never test the depth of the river with both of your feet." Warren Buffet*

*"Risk comes from not knowing what you are doing." Warren Buffet*

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

*"Although it's easy to forget sometimes, a share is not a lottery ticket. It's part ownership of a business." Peter Lynch*

*"The four most dangerous words in investing are: 'This time it's different.'" John Templeton*

*"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria"  
John Templeton*

*"Most investors want to do today what they should have done yesterday."— Larry Summers*  
(Thanks to David Culig of Dynamic Funds for sharing these quotations)

## **The Economy, Interest Rates and Inflation**

As we've said before, North American economies are strong right now. Production is going full tilt in so many places to replenish low inventory levels and all the stimulus money, especially in the US, has given people money to spend. Inflation is expected to subside greatly, perhaps getting back to 2 or 3% by year end, as supply chain difficulties are cleared up. As a result, both the Bank of Canada and the US Federal Reserve have as much as said they plan to raise interest rates in March. There are rumours that the economy and current interest rates are so strong, that the first US rate increase might be .5% instead of just .25%. Or, on the other hand, the Russia-Ukraine situation might cause the US to delay the first rate hike a bit more. There are also still rumours that rate increases this year could range from as few as 2 quarter per cent increases to as many as 6 or 7 (for a total of 1.5-1.75%). Time will tell. The rates wouldn't be going up unless the governments were confident that the economy was strong enough to withstand higher rates. So, strong GDP or economic growth, the fact that inflation should mostly be temporary and even interest rate rises (bad for debtors but good for savers) are all encouraging for stock markets. (Source: Globe & Mail Jan 22, 2022 and Jan 28, 2022, Jan 5, 2022 Economics Club Meeting with the top 6 Cdn banks' chief economists, Feb 15, 2022 webinar with Bill Kanko of Black Creek Investments)

## **Outlook for China**

In no way are we advocating for a communist or authoritarian political system over a democratic one, but one has to admire what China has been able to accomplish in the last 40 years and how they have addressed/are addressing the same economic/social problems that Canada and the US are experiencing today and have not implemented any serious fixes for. How much worse will our North American problems need to get before our societies find/accept solutions for them? In the following analysis of China's situation and future direction, think about how this could play out for China's future economic

and social health (and stock market prospects) compared to what further social issues North America could face as a result of not addressing these issues yet.

“After decades of growth at all costs, China seeks a stable and sustainable growth path that we [Mackenzie Financial] believe will benefit investors and the world. As the world’s second-largest economy, China remains a key driver of global growth. ...After decades of embracing capitalism, China’s private sector accounts for 60% of its GDP and 80% of jobs. ... The transition from quantity growth to quality growth is the path to sustainable growth. ... China no longer needs to pursue high growth at a high cost of the environment, financial stability and inequality.” In other words, first China used capitalism to bring hundreds of millions of its citizens out of poverty by allowing people to build companies, provide employment to others and be financially compensated for it. Now China is experiencing the same thing that the West is, namely the increased concentration of wealth in the hands of only a small percentage of the population. Jack Ma, the founder of Alibaba, China’s version of Amazon, was one of those billionaires in China. China reined Alibaba and him in, hurting Western investors in Alibaba at the same time. China didn’t care, because China has shifted to focusing on “Common Prosperity”. “Social agendas that prioritize social equality, access to healthcare/eldercare and education, and housing affordability are also being pursued in the West. Similarly, many Western governments are looking to address privacy issues and monopolistic practices in big tech/platform technology companies. Policy tightening [in China] in the real estate sector aims to avoid future market corrections by reducing the outsized exposure of the Chinese economy and financial system to excess leverage and moral hazard. [This is something Canada is at risk of, but without an authoritarian government like China has, doing anything about the dangers of the real estate market and excessive citizen debt isn’t a problem easily tackled.] There is also a fear the property sector is crowding-out resources and capital from important investments in manufacturing upgrades, green initiatives and innovation. [Canada has the same issues!] ... In our [Mackenzie’s] opinion, the concern that the government will take control of the private sector or that regulatory reform will stifle entrepreneurship has historically been overblown in the markets, creating an investment opportunity. ... We [Mackenzie Financial] see 2022 as a year where the slowdown in Chinese GDP growth bottoms and regulatory headwinds attenuate, leaving China in a position to improve global growth. “ (Source: Mackenzie Investments 2022 Outlook)

### **Non-Fungible Tokens – an “Investment” for Organized Crime?**

For many of us, the first time we heard about Non-Fungible Tokens (NFTs) was when the famous auction house, Christie’s, sold a collection of an artist’s work as an NFT for over \$69 Million. The artist still owned the copyright on the art, but the purchaser owned a digital copy with a verifiable record of ownership through Blockchain technology. What did the purchaser really get for all that money? (Source: <https://nftnow.com/lists/top-10-nft-sales-2021/>)

Well, it turns out that a big use of NFT is for money laundering, and there is a lot of wash trading (a method used to inflate the apparent value of something before it’s sold) going on which could really hurt unsuspecting buyers. Much of the wash-trading has been traced back to entities with known involvement in scams, particularly with respect to Bitcoin and other crypto currencies. (Source: InvestmentExecutive.com)

Warren Buffett used to advocate investing in what you know. This is just more proof that that’s good advice. Isn’t there some saying with respect to poker, that if you don’t know who the sucker at the table is, it’s you? There’s also something in investing called the Greater Fools Theory. Enough said.

## Trusted Contact Person

In recent years, but especially during Covid, we've seen an increase in hacking, identity theft, other cyber crime, romance scams, abuse of powers of attorney, and elder abuse by caregivers and children. Since we have an aging population in Canada, we also see more Alzheimer's and dementia. To help protect clients in the face of all these dangers that can destroy a person's financial future, clients can now name a Trusted Contact Person, whom we could call if we noticed any atypical behaviour, which we might suspect is the result of a scam or pressure from someone trying to take advantage of them or of a decline in mental acuity. If you have not already signed a form to name a Trusted Contact Person whom we could call. Please give our office a call to arrange for one to be added to your file.

## Bridge Blockades' Economic Impact

We hate to think about how much Canada's economy has been hurt by the bridge blockades. The \$400 Million dollars of trade per day that was blocked and delayed caused economic damage for the short-term (empty shelves, higher transportation costs, spoiled produce and more importantly for the long-term. Not only did auto manufacturers on both sides of the border have to shutdown due to parts shortages, but the supply of goods from our country was proven to be unreliable, just at the time our representatives in Washington were trying to get exemptions for Canada in the "Made in America" legislation that is in the works. According to an interview on CTV News with one of the lobbyists for Canada, the trucker's blockage just cost us our chance to get preferred/exempted trade partner status. That's a huge and long-lasting loss. And high-level American politicians, like the Governor of Michigan, who was also shown on t CTV News, are already actively calling for American industry to stop relying on imports from Canada and start manufacturing more at home, as a result pf the blockade. (Source: CTV 11 p.m News Feb 12, 2022)

It will take quite some time for the full extent of the damage to our economy to be known. Maybe it's good that our portfolios don't have a lot of Canadian stock market exposure.

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