# ROYDS REPORT

## February 2023

In this longer than usual newsletter, we start with a couple of quick items, like that unusual letter you got from Manulife and getting duplicate tax slips, and a bit of an update on this everchanging market. Then we investigate how people think about money and how they spend it. If we understand what our unconscious assumptions are about money, maybe we can take better control of how we handle it. People are programmed by the media to think that rates of return are the big keys to wealth and low financial stress. The thoughts below, some our own thoughts, but mostly the thoughts of others, may reveal that how we think about spending may be the real key to wealth. This long part of the newsletter may be one of the most beneficial things we have shared with you in the last year. Finally, we end with thoughts on happiness and longevity in retirement and on gifting money to family members. There may be some pitfalls that we can help you avoid.

**Letter You Got From Manulife Head Office**

It is a regulatory requirement that annually an audit message is delivered to you. It is usually included in the Dec statement, but it was missed. So, head office had to send out a separate letter about it. The letter was not intended to imply your statement contains errors. Annually, Manulife Securities' financial statements are audited. As a part of this process, Manulife Securities is required to provide you with this information should you need to report a discrepancy. Sorry if the letter you received was confusing.

**New Way to Get Duplicate Tax Slips**

If you switched to or signed up for Manulife's new online access/account viewing system (new as in last 2 years), you can get duplicate tax receipts for any tax slips issued by Manulife Securities Incorporated (RRSP contribution receipts, capital gain/loss statements, stock dividend income, RRIF income T4s etc) on that website. Remember however, that fund companies issue their own tax slips for taxable income in non-registered accounts or tax receipts in client name or off-book accounts whose account numbers begin with B. Watch carefully for tax slips in the mail, since they have started arriving in the mail.

How do you tell if you are logging in to the latest Manulife on-line viewing website? If the first thing you see when you log in is:


then you are on the old website. You should see the new logo:

If you want to migrate to the new website, that has a 24 hr helpline and many added features, call Sarah. She'll send you the information to set up your on-line account.

**Annual Economic Outlook**

Every year, Jordan or Elaine attend the Economic Club of Canada Annual Economic Outlook breakfast in Toronto to hear the Chief Economists of Canada's biggest banks talk about their expectations for the year. This year we expected to hear a lot of doom and gloom about a recession and the impact of higher interest rates and inflation, and we were pleasantly surprised. The economists didn't deny that we were likely to have a recession, but they were didn't focus on upcoming negatives for 2023, but on the factors mitigating the negatives. And they, like every economist and analyst we talk to these days, expect a good end for markets in 2023. There just may be continued bumpiness along the way.

How could a recession be anything but negative? It could be a reset to the market that might lead to the next multi-year up market. It could cause lower demand for goods and services and that could bring prices back down, curtailing some of the recent inflation. And this may be a different kind of recession compared to what we are used to. There are a lot of job vacancies not getting filled. If there are layoffs caused by a recession, there could well be jobs for those laid off to go to. Lower demand leading to lower inflation, minimal change to employment? That doesn't sound too bad.

**Other Views – Two, no Three, Top Minds in the World**

The Jan 28 23 Globe & Mail reported on the views for markets this year of two of the top minds in Finance. One of the men was Jeremy Grantham, who correctly predicted the dot com bubble and the real estate crash of 2007. The other man was Professor Aswath Damodara whom the Globe & Mail says almost singlehandedly wrote the book on stock valuations that those on Wall St use. Grantham is calling for another 20% drop in the US stock market. On the other hand, the Professor thinks stocks are abnormally cheap and should lead to a very strong stock market. If they can't sort out what direction the market is going in the short-term, how could we? But the short term really doesn't matter, unless you're in the market for the short-term, which would be risky at any time. We defer to the investing expert, the Oracle of Omaha, Warren Buffett who is quote saying, *"Each day we are given a quote on a stock which is basically the price people will pay at that time. However, over time, that is not the true value. The true value is derived from the amount of cash flow the business can give off over time, discounted back to today.* ***The moral of the story is not to get caught up in the short term or try to predict the daily moods of Mr. Market through stock market quotes. Ideally, you are looking for the "destination" of the business long term****. If earnings will grow long term, then the share price should follow suit."* (Source: https://www.gurufocus.com/news/1865637/warren-buffett-on-predicting-the-stock-market-and-his-strategy ) The following is an excerpt of what Buffett said at his 2022 Berkshire Hathaway annual meeting. *""We haven't the faintest idea what the stock market is going to do when it opens on Monday," Buffett said. "We've not been good at timing. We've been reasonably good* *at figuring out when we were getting enough for our money. "Using this strategy to navigate the stock market instead of trying to predict it, Buffett said, is almost like having an insurance policy in an often volatile market. Twice, he said, he'd tried to predict the market ahead of time — once in 2008 during the Great Recession, and again in March 2020 ahead of the Covid-19 pandemic crippling global markets. Those decisions cost Berkshire Hathaway billions of dollars, he said."* If Buffett can't time the market, and doesn't worry about trying to do so, then what chance do we have. When you want to learn to do something well, like investing, copy the best role model you can find and surely Buffett would be an excellent role model.

**New Years Resolutions**

It's not too late to make some New Years resolutions. Here are some you may not have thought of. Do any of them apply?

- Make a budget and stick to it
- Record what you spend money on for a few months and look for opportunities to save
- Pay extra down on your debt each month
- Don't buy anything on credit
- Build up an emergency reserve
- Care about your future standard of living. That means saving regularly for your future retirement, not using all your earnings to maximize your immediate lifestyle
- Minimize tax on investment earnings by saving in a registered account
- Get a will and powers of attorney now, before they're needed
- Don't check your investment account value more than once a quarter

**How You Spend Money Says a Lot About Your Personality – and Upbringing?**

We often hear from clients that they wished they'd learned different habits of handling money, when they were younger. For most people, what they know about money, they learned from their parents. Us too. With mostly Scottish ancestors, is it any wonder that Jordan and Elaine were brought up with sayings like, "a penny saved, is a penny earned" or "take care of your pennies and the dollars will take care of themselves", "better an owner than a loaner be" (ie, don't buy bonds or GICs, but buy an ownership stake in companies directly or through stocks or funds., and always try to buy them at a bargain price. What did you learn about money from your family growing up? Now that you're an adult, do you think what you learned is helping you? Were your parents successful with their money (not stressing about having enough to support their lifestyle in retirement, no debt in retirement)? Here are some points we found interesting in an article from the Jan 20, 2023 Globe & Mail which summarized the main points of Morgan Housel's book, "The Psychology of Money". Most of us will easily recognize a lot of things about our friends in the excerpts from the articles and, if we're honest, at least a few things about ourselves. Maybe this will lead to a little introspection, that may allow us to halt ourselves, when we're about to spend money for emotional reasons that aren't related to our needs or that don't actually increase our happiness.

*"Money is so complicated. There's a human element that can defy logic – it's personal, it's messy, it's emotional… How you spend money can reveal an existential struggle of what you find valuable in life, who you want to spend time with, why you chose your career, and the kind of attention you want from other people… Your family background and past experiences heavily influences your spending preferences. [When Elaine started as an advisor in 1997, she saw lots of clients who were still impacted*

*from growing up in the Great Depression of the 1930s, and some of the impact seemed to have been passed down to some of their children too.]…*

*After Covid lockdowns there was the concept of "revenge spending" – a furious blast of conspicuous consumption, letting out everything that had been pent up and held back in 2020… Revenge spending happens at a broad level, too. The most stunning examples I've seen of this are wealthy adults who grew up poor – and were heckled, bullied, and teased for being poor as kids… If you dig into it, I think you'll see that a disproportionate share of those with the biggest homes, the fastest cars, and the shiniest jewelry, grew up "snubbed" in some way. Part of their current spending isn't about getting value out of flashy material goods; it's about healing a social wound inflicted when they were younger… Even when "wound" is the wrong word, the desire to show the world that you've made it increases if you grew up snubbed out of what you wanted… A lot of spending is done to fulfill a deep-seated psychological need…*

*In 1875 an op-ed said socialites "devote themselves to pleasure regardless of expense." A Vanderbilt heir responded that actually they "devote themselves to expense regardless of pleasure… The Vanderbilt's are obviously extreme, but that is a common trait among more ordinary people… Part of this is the belief that spending money will make you happier. When it doesn't – either because it never will or because you haven't discovered purchases that bring joy – your reaction is that you must not be spending enough, so you double down, again and again…*

*what many people really want… [is] To have enough money that they can stop thinking about it and focus on other stuff… But that ultimate goal can break down when your relationship with money becomes an ingrained part of your personality. You struggle to break away from focusing on money because the focus itself is a big part of who you are… If you develop an early system of savings and living well below your means – congratulations, you've won. But if you can never break away from that system, and insist on a heavy savings regimen well into your retirement... Is it still winning?... Frugality and savings become such a big part of some people's identity that they can't ever switch gears… I think for some people that's actually fine. Watching money compound gives them more pleasure than they would get spending it. [It's sometimes said that multi-millionaires and billionaires use money as a scorecard for how successful they are relative to others, and maybe some pro-athletes use their contracts as a scorecard of their success. They don't care about getting richer, just about getting the best score.]…*

*[People often develop] An emotional attachment to large purchases, particularly a house. [Did you spend more time researching your last car and test driving it than you spent inside the last house you bought before you signed an offer to purchase? Maybe you spent even more time researching exactly what breed of pet you wanted to buy, and from where, than you spent on your car or house purchase?]…*

*The joy of spending can diminish as income rises because there's less struggle, sacrifice, and sweat represented in purchases. In his 1903 book The Quest for the Simple Life, William Dawson writes: "It's not that spending won't make you happy – but it won't be as thrilling and adrenaline-inducing as it was when there was more struggle behind each dollar."…*

*There's a saying: Save a little bit of money each month, and at the end of the year you'll be surprised at how little you still have… Author Ramit Sethi says too many people ask $3 questions (can I afford this latte?) when all that matters to financial success are $30,000 questions (what college should I go to?). [The author seems to skip the idea that regular saving does build up wealth, especially with the help of compounding. And, no matter how much you make in your working years, if you or your employer don't* *save some of it for your future, you'll be poor in retirement or not get to retire. A good book on this is the first half of Rich Dad, Poor Dad by Robert Kiyosaki.]*

*There is no such thing as an objective level of wealth. Everything is relative to something else. People look around and say, "What's that person driving, where are they living, what kind of clothes are they wearing?" Aspirations are calibrated accordingly… If you want to know what lower-income groups will aspire to spend their money on in the future, look at what higher-income groups exclusively do today… European vacations were once the exclusive playground of the rich. Then they trickled down… Same with two-car households, lawns, walk-in closets, granite countertops, six-burner stoves, jet travel… People like to mimic others, especially those who appear to be living better lives. Always been like that, always will be.*

*[People have] An underappreciation of the long-term cost of purchases, with too much emphasis on the initial price [like for a house]… Price is easy to calculate. It's just whatever you paid initially and sold for eventually. Cost is harder to figure out. They [houses] tend to be a slow drip over time, which are easy to ignore but add up quickly [property tax, new roof, new furnace or carpet etc]. Same for cars, boats, and hobbies. You can even say the cost of smoking cigarettes is the price of a pack plus the long-term cost of medical care associated with the habit. One is easy to calculate, the other is very difficult.*

*No one is impressed with your possessions as much as you are. When you see someone driving a nice car, you rarely think, "Wow, the guy driving that car is cool." Instead, you think, "Wow, if I had that car people would think I'm cool." Subconsciously or not, this is how people think. You might think you want an expensive car, a fancy watch, and a huge house. But I'm telling you, you don't. What you want is respect and admiration from other people, and you think having expensive stuff will bring it. It almost never does – especially from the people you want to respect and admire you. People generally aspire to be respected and admired by others, and using money to buy fancy things may bring less of it than you imagine. If respect and admiration are your goal, be careful how you seek it. Humility, kindness, and empathy will bring you more respect than horsepower ever will.*

*A lot of people have no idea what kind of spending will make them happy. What should you buy? Where should you travel? How much should you save? There is no single answer to these questions because everyone's different. People default to what society tells them – whatever is most expensive will bring the most joy. But that's not how it works. You have to try spending money on tons of different oddball things before you find what works for you. For some people it's travel; others can't stand being away from home. For others it's nice restaurants; others don't get the hype and prefer cheap pizza. I know people who think spending money on first-class plane tickets is a borderline scam. Others would not dare sit behind row four. To each their own. "Frugality, quite simply, is about choosing the things you love enough to spend extravagantly on—and then cutting costs mercilessly on the things you don't love. [Hopefully that's how we allocate our time too.]"*

*Most forms of spending have two purposes: To bring some sort of utility to the owner, and to signal something to other people. Homes, cars, clothes, jewelry, obviously fit into that category. But even travel does as well – how many vacation destinations are picked at least in part by what you think will make a good Instagram picture, or just that it sounds cool. (My guess is most Bali vacations fall into that category). Psychologist Jonathan Haidt says people don't communicate on social media; they perform for one another. Spending money is like that, too. The thing to recognize is that spending money "on yourself" is often done with the intent of influencing what other people think. That should spark three questions: Whose opinion are you trying to influence, why, and are those people even paying attention?*

*The social hierarchy of spending [is an attempt at] positioning you against your peers… for so many people the question of whether you're buying nice things is actually, "are your things nicer than other peoples' things?" … Money to some people is less of an asset and more of a social liability, indebting them to a status-chasing life that can leave them miserable… It's a dangerous trap if you don't recognize the game and how it's played. Montesquieu wrote 275 years ago, "If you only wished to be happy, this could be easily accomplished; but we wish to be happier than other people, and this is always difficult, for we believe others to be happier than they are."*

*Spending can be a representation of how hard you've worked and how much stress went into earning your paycheck… Someone who works 100 hours a week and hates their job may have an urge to spend frivolously in an attempt to compensate for the misery of how their paycheck was earned… Spending money to make you happy is hard if you're already happy."*

That was a long except and not about investments at all, but it was certainly about managing money and figuring out income you really need to get whatever happiness money can actually buy. We hope you found it useful and would appreciate your feedback on it.

**Gifting or Loaning Money to Family**

Over the years we have seen many things go wrong when relatives have financial dealings. We've seen:

- Large amounts of money given to an adult child only to have the child's marriage break up and the have half the money go to the child's spouse, especially if the money was used to purchase a house
- Clients liquidate savings or take out/co-sign a loan for a relative, only to have the relative neglect or refuse to make payments, let along make full repayment
- Clients open a joint line of credit or bank account, so a relative can access money in an emergency or to pay for agreed upon things, only to find the relative withdrew extra money for unagreed upon purposes
- Children and parents asking for financial help from their parent or child, even though the one asking for the money out-earns the other or has sufficient assets to finance it themselves
- Relatives taking their parent's possessions or money just before the parent's death, so those assets aren't available to distribute to any other relatives according to the will

No one ever expects their sibling, child, grandchild, niece, nephew, parent or best friend to cheat or take advantage of them, but we see that frequently. So, here's what we suggest. If you are about to gift or loan significant money to someone or to let them leverage your creditworthiness by having you take out a loan or them or co-sign a loan, talk to us about it before you do it. We may have suggestions on how to protect yourself against the unforeseen, like having a special type of loan agreement (even in the case of a gift), ensuring your name is put on title as sole owner or tenant in common of the asset being purchased, refusing to give financial assistance because it could put you in financial jeopardy, keeping records and documentation you could use to sue to get repaid, seeing a lawyer for a formal agreement, and watching relatives for cognitive decline to see if they are still capable of making sound decisions. It's natural to want to help family, but it's important to guard against unintended consequences that could imperil your financial future or cause a rift in the family. Call us first!

**Secret to Longevity May Also Be a Clue to Successful Retirement**

In January did you hear about the 117 year old nun who passed away, vacating her position as oldest person in the world? "In an interview last April with the AFP news agency, Sister André said: "People say that work kills, for me work kept me alive, I kept working until I was 108."" (Source: https://www.bbc.com/news/world-europe-64314673 ) Maybe continuing to work long past the point of financial need is Harrison Ford's secret too. He was on the TV show "CBS Sunday Morning" on Jan 22, 2023. He didn't look anywhere near 80 years old as he was riding his horse and working at chores on his ranch. He has 2 TV series out this year, "Shrinking" on Apple Plus and "1923: The Yellowstone Prequel" on Paramount Plus, an Indiana Jones movie coming out soon, and a part in a Marvel superhero movie is in the works. Working doesn't have to be traditional work. As we've been saying for years about preparing non-financially for retirement, whatever enjoyment you get from work (having a schedule, interacting with people, learning new things, making money, having a purpose etc), you need to replace with something in retirement that gives you the same satisfaction, whether it's sports, volunteering, taking courses, working on hobbies, helping your kids with renos to their homes, doing other work that you find more enjoyable than your pre-retirement job (men often think of working at Home Depot or a golf course) or something else. These things help provide purpose in life and keep you away from the fridge and couch, with whom many of us are already all too acquainted even pre-retirement. While you work on retirement income with us at Manulife Securities Incorporated, don't forget to plan how you'll spend your time in retirement and what will give you a purpose in your life in retirement. It could affect not only your enjoyment, but your longevity.

**Financial Stress Companions – the latest in Financial Planning Offices?**

Have your seen CIBC's recent television commercial. It portrays super stressed people talking to a bank employee about money. The ad then showed the "CIBC Experiment" using 3 "Financial Stress Companions" – 3 dogs wearing red kerchiefs as their uniform. The dogs sat beside or in the laps of clients to ease their stress as they met with bank advisors. For the last 5 plus years, our office has been ahead of the times, with our own two "Financial Stress Companions", Holly and Piper, whom we have just called greeters. They may not be lap dogs, but they are eminently "pet-able" and with or without encouragement, Holly can often be counted on to sleep at or on clients' feet. Maybe we should give them a pay raise for being both stress companions and greeters, well, Holly at least. Piper takes too many days off to deserve a raise.

We are grateful for your business and for referring your friends to us (remember we do have a $250,000 minimum to work with a new client, except for your relatives who only need $25,000). Thank you for your continued faith in us. We strive to keep your trust and help you reach your financial goals. Don't wait for us to reach out to you for appointments. Call us whenever you have financial questions or concerns.


*Elaine*

**Elaine Royds, MBA, CFP®**

*Senior Financial Advisor,*
Manulife Securities Incorporated
*Financial Planner,*
Manulife Securities Insurance Inc.

*Jordan*

**Jordan Royds, CFP®**

*Financial Advisor,*
Manulife Securities Incorporated
*Financial Planner*,
Manulife Securities Insurance Inc.

Suite 303 - 1685 Main St W, Hamilton, ON L8S 1G5
Office 905-393-0787 Toll Free 1-855-640-1857
Website www.roydsfinancial.com

Investment Advisor Assistant, Manulife Securities Incorporated: Sarah Breimer
Senior Administrative Assistant: Dharini Jani
Administrative Assistant: Pauline Marchong