



DOW AT ONE MILLION?

When the Dow Jones Industrial Average (Dow) crossed a new high of 40,000 in May, it achieved a milestone that appeared implausible given recent popular sentiment. Just two years earlier, central banks were still on the path of aggressively hiking rates to curb inflation. Gloomy equity market forecasts abounded. Fast forward to today, and interest rates remain higher than anticipated. Many valuation models use interest rates to discount future cash flows: higher rates lower a company's future earnings and put downward pressure on stock prices. Alongside slower economic growth and high debt levels, the future has appeared cloudy through many lenses. Yet, markets can often be confounding.

From an economic perspective, this period has been described by some as a liminal space, a transition between 'what was' and 'what's next' — a sort of "in-between" economy that's neither great nor terrible. It's a fair observation and perhaps explains why financial narratives seem varied and shifting. In December, many market observers believed we had inflation in check; yet the anticipated rate cuts did not largely materialize in the first half of the year — the Bank of Canada was the first G7 central bank to reduce rates in June. To preserve credibility, central banks have been moving cautiously after being criticized for their slow response to rising inflation; the consequences of the 1970s still loom large.

Nobody wants a repeat of the 1970s, a time when inflation persisted for an entire decade at an average of 8 percent per year, alongside high unemployment, or stagflation.¹ It was only when then-Fed Chair Paul Volcker raised rates to a whopping 20 percent by 1981 that inflation would be conquered, but not without significant pain. Today, labour markets remain resilient amid easing inflation — an enviable outcome. Consider

that inflation and unemployment traditionally exhibit an inverse correlation, and multiple studies suggest that higher unemployment depresses our well-being more than inflation, in some cases up to five times as much!²

Where are economies and the financial markets headed? Looking forward, it's worth recounting a prediction made by renowned investor Warren Buffett years ago: *Expect the Dow to reach one million in 100 years.*³ At first glance, this may seem like quite the assertion considering the Dow hovered at a mere 100 points just 100 years ago.⁴ However, looking deeper at the numbers, the Dow needed to compound at less than 4 percent annually to achieve Buffett's target at that time. Today, the S&P/TSX would need an annual return of 4 percent to reach 1,000,000 by 2124.

Yet, Buffett's intent wasn't to propose whether an arbitrary benchmark could be achieved. Rather, he meant to inspire confidence in future growth. History has shown that equities outperform most asset classes over time; not surprising given the general upward trajectory of corporate profits. This doesn't imply that there won't be challenges along the way — today, there are many. Yet, we continue to overcome these challenges because one thing hasn't changed: the human condition to advance and grow. As investors, we shouldn't lose sight of the growth yet to come, and we can all benefit should we choose to participate. We are here to provide wealth management strategies and support to navigate this liminal space — as we progress toward the one million mark.

We hope you will find some time to relax and rejuvenate this summer. As always, we remain here to support any investment needs.

1. <https://www.bankofcanada.ca/2019/02/price-check-inflation-in-canada/>;
2. https://www.wsj.com/articles/inflation-and-unemployment-both-make-you-miserable-but-maybe-not-equally-11668744274?mod=article_inline;
3. <https://www.cbc.com/2017/09/21/dow-1-million-warren-buffett-says-it-can-happen.html>;
4. <http://www.fedprimerate.com/dow-jones-industrial-average-history-djia.htm>

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IN THIS ISSUE

FHSA or HBP: Reasons to Prioritize the FHSA	2
Three Perspectives on Our Higher Cost of Living	2
To Defer or Not to Defer: Realizing Capital Gains	3
Does the Dow Matter? What's in an Index	3
Navigating the Investing Journey: Seven Common Investing Pitfalls	4

SUMMER BRINGS HOME-BUYING SEASON

FHSA OR HBP: REASONS TO PRIORITIZE THE FHSA

As a result of the federal budget increasing the withdrawal amount for the Home Buyer's Plan (HBP), some clients have asked which plan is better for younger family members: the First-Home Savings Account (FHSA) or the HBP, via the Registered Retirement Savings Plan (RRSP).

As a reminder, **the FHSA** is a registered account that allows tax-deductible contributions and tax-free withdrawals for the purchase of a first home. Annual contributions of \$8,000 to a lifetime limit of \$40,000 can grow on a tax-sheltered basis. The account can remain open for 15 years. **The HBP** allows first-time buyers to tap their existing RRSP, subject to conditions, for a tax-free withdrawal of up to \$60,000. The amount must be repaid within 15 years; otherwise, it will be considered taxable income. Until now, the repayment period began in the second year after the first withdrawal. However, the budget has proposed to temporarily defer this start by three additional years.

Simply put, the FHSA allows holders to save and grow funds, whereas the HBP acts as an interest-free loan from the RRSP. While both can be used to purchase a first home, if funds are limited, which should be prioritized?

In many cases, the FHSA may be beneficial and here are reasons why:

1. Starting early, you may be able to access a greater amount — With both the FHSA and RRSP, starting early allows greater time for

funds to grow on a tax-deferred basis. Given the FHSA's 15-year limit, if an investor opens the account at age 18, by maximizing contributions from the outset, at a five percent annual return the account could grow to over \$75,000 by age 33, more than the \$60,000 withdrawal limit via the HBP.

2. Greater withdrawal flexibility —

Funds can be withdrawn tax free from the FHSA for the purchase of a new home. HBP withdrawals are only tax free if repaid within a certain time.

3. Unused amounts — If not used to purchase a first home, FHSA amounts can be transferred to the RRSP. This won't affect existing RRSP contribution room and effectively increases the overall RRSP contribution room.

Of course, the choice may be impacted by various factors, such as timing. At the end of the day, both the FHSA and the HBP, through use of the RRSP, provide excellent tax-advantaged opportunities to build wealth for the purchase of a first home. Where possible, younger folks should maximize contributions to both. If you have family members needing assistance opening the FHSA, please call the office.



How Have Home Prices Changed in 40 Years?

"Back in my day, a house was affordable..."

In...	Avg. Canadian Home Price	% Growth (1984)
1984	\$76,351	—
1992	\$149,864	96%
2000	\$164,374	115%
2008	\$304,663	229%
2016	\$442,264	479%
2024	\$710,468	831%

https://www.huffpost.com/archive/ca/entry/a-look-at-canadas-housing-performance-over-time_b_9266608; 2024 CREA national home data from April.

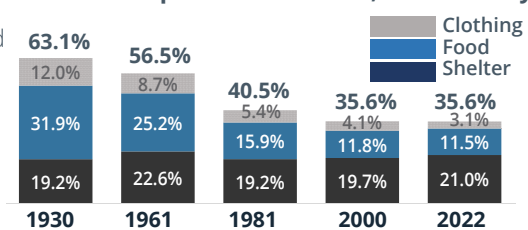
WHAT'S BEHIND OUR INCREASING EXPENDITURES?

THREE PERSPECTIVES ON OUR HIGHER COST OF LIVING

With higher inflation, the increasing cost of living has been top of mind for many Canadians. While there has been good news on the inflation front given continuing signs of easing, here are three perspectives on our rising cost pressures.

1. Today, less of our paycheques go to necessities. Despite a substantial rise in grocery costs, it may be surprising that the proportion of income spent on necessities has declined substantially over time. In 1961, Canadians spent 33.9 percent of family income on food and clothing; today, this has declined to just 14.6 percent. This is largely because incomes have grown faster.

% of Income Spent on Necessities, 1930 to Today

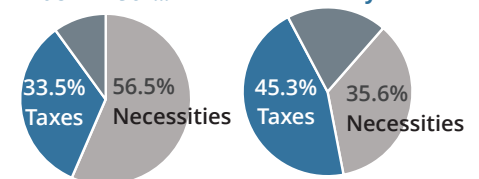


2. Which expenditure has grown the most? Taxes. According to the *Canadian Consumer Tax Index*, the average Canadian family spends 45.3 percent of income on total taxes, compared to 35.6 percent on necessities. Since 1961, there has been a 2,778 percent rise in the taxes we pay, outpacing increases in the Consumer Price Index (that

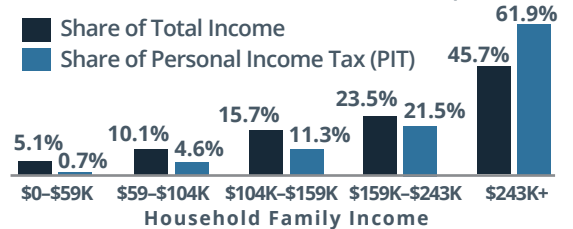
measures changes in prices), which has increased by 863 percent.

3. Higher-income taxpayers shoulder the heaviest tax burden. When comparing the share of taxes paid to the share of income, the highest income earners pay the most tax. The top 20 percent of income

Average Canadian Family's Tax Burden vs. Necessities, 1961 and 2022
Back in 1961... ...and Today



Share of PIT Paid & Total Income Earned, 2023



earners (with family income over \$243,000) pay 61.9 percent of personal income taxes (PIT) yet represent 45.7 percent of total income. Every other income group pays a smaller share of PIT. 1. & 2. <https://www.fraserinstitute.org/studies/taxes-versus-necessities-of-life-canadian-consumer-tax-index-2023-edition>; 3. <https://www.fraserinstitute.org/studies/measuring-progressivity-in-canadas-tax-system-2023>

INCREASES TO THE CAPITAL GAINS INCLUSION RATE

TO DEFER OR NOT TO DEFER: REALIZING CAPITAL GAINS

The proposed* increases to the capital gains inclusion rate have prompted some investors to ask the tax-planning question: *To defer, or not to defer?* Tax deferral is commonly viewed as a way for investors to create greater future returns, since funds that might otherwise go to paying tax can remain invested for longer-term growth. Yet, with increases to the capital gains inclusion rate, individuals may be evaluating the possibility of deferred taxation at higher rates against accelerated taxation at a lower rate.

As of June 25, 2024, the capital gains inclusion rate increases from 1/2 to 2/3 (50 to 66.67 percent) for corporations and trusts, and for individuals on the portion of realized gains in the year that exceeds \$250,000.

As one scenario, for a realized gain of \$100,000 at a marginal tax rate of 48 percent, an investor would save \$8,000 in tax by realizing a gain at the 1/2 inclusion rate, rather than realizing the gain at the 2/3 inclusion rate. However, this comes at the cost of “pre-paying” \$24,000 in capital gains taxes. If this amount was instead invested in a portfolio returning 5 percent per year, it would take 9 years of tax-deferred growth at the higher 2/3 inclusion rate to beat the \$8,000 in tax savings.

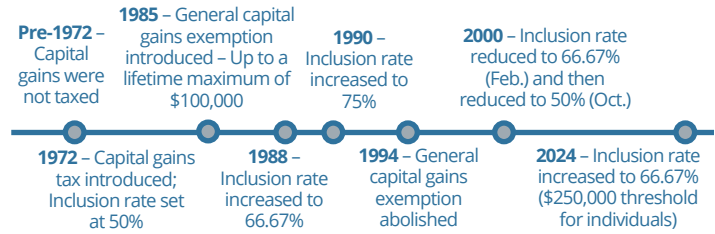
Here are some considerations for individual investors:

Spread gains over multiple years — Where possible, consider realizing gains over multiple years to make use of the lower inclusion rate (under \$250,000) compared to a larger realized gain in a single year.

Harvest gains — Deliberately selling and rebuying stocks to trigger a capital gain may be a way to reset book value over time. This strategy is often considered for years when an investor is in a lower tax bracket, but may be used to capitalize on the lower inclusion rate each year. The decision may depend on a variety of factors such as time horizon, current/future tax rates and potential growth rate of investments.

Donate securities — Assuming the new rules apply to the deemed disposition of assets at death, if you are considering donations to support a legacy, the use of publicly-listed securities may be beneficial.

A History of Capital Gains Tax in Canada



Source: <https://www.cbc.ca/news/business/a-primer-on-capital-gains-taxes-in-canada-1.231145>

Any accrued capital gain is excluded from taxable income and a donation receipt equal to the value of the donated securities will be received. *Note: For large donations other than in the year of death, the Alternative Minimum Tax may apply.*

Business owners — Evaluate whether certain assets should be held in the corporation or owned personally. For corporations, there is no \$250,000 threshold and 2/3 of realized gains are taxable.

How Much More Tax?

Additional Tax (%) on Capital Gains Over \$250,000 for Top Marginal Tax Rates*

Province	1/2 Inclusion	2/3 Inclusion	Additional Tax
AB	24.00%	32.00%	8.00%
BC	26.75%	35.67%	8.92%
MB	25.20%	33.60%	8.40%
NB	26.25%	35.00%	8.75%
NL	27.40%	36.53%	9.13%
NS	27.00%	36.00%	9.00%
ON	26.77%	35.69%	8.92%
PEI	25.88%	34.50%	8.63%
QC	26.66%	35.54%	8.89%
SK	23.75%	31.67%	7.92%

*Top marginal tax rates at 01/01/2024.

Plan Ahead: For many, the increased inclusion rate will mean higher future tax liabilities. Planning ahead is important. The use of insurance or other planning techniques may help to cover a higher tax bill, such as on the transfer of a family property or on death. For business owners, the use of corporate-owned insurance or an individual pension plan may support a business' tax strategy. Forward planning can also help access available exemptions, such as the lifetime capital gains exemption. As tax planning remains an important part of wealth planning, seek advice.

*Please note: Legislation has not been enacted at the time of writing.

A BRIEF LOOK AT INDICES

DOES THE DOW MATTER? WHAT'S IN AN INDEX

The Dow Jones Industrial Average (DJIA or Dow) is one of the most widely watched stock market indices and the second oldest in the world. Created in 1896 by Charles Dow, then-editor of the Wall Street Journal, it originally comprised 12 companies from traditional heavy industries, such as Chicago Gas and National Lead, giving it the name 'Industrial Average.' Today, the index represents 30 companies, with its composition constantly evaluated and periodically revised to include leading blue chip companies across a variety of industries.

What makes the Dow unique is that it is “price-weighted,” measured by the sum of component share prices divided by a divisor that adjusts for a stock split or dividend. In contrast, indices like the S&P/TSX Composite, S&P 500 and NASDAQ are ‘value-weighted’ based on constituent market capitalization (share price times outstanding shares).

Is the Dow a good gauge of the U.S. economy? Over its lifetime, it has faced many critics. Some argue it is too narrowly focused, while others suggest its price-weighted methodology is flawed because higher-priced stocks tend to have greater influence over lower-priced counterparts.

For example, the same price change for a lower-priced stock will not impact the index as much as that of a higher-priced stock, despite a greater percentage change for the lower-priced stock.

The Dow Today: Does It Matter?

What is particularly notable today is that the Dow's rise may signal more robust market breadth, suggesting that recent equity market gains are not largely driven by just the technology sector. Consider that the tech sector accounts for 58.8 of the NASDAQ and 29.0 percent of the S&P 500, yet only 18.6 percent of the Dow.

Taking a broader perspective, while indices often have their limitations, they remain valuable as indicators and benchmarks of performance. The long history and ongoing advancement of the Dow Jones Industrial Average, in particular, should remind investors of the enduring trend of economic growth and continued progress.



NAVIGATING THE INVESTING JOURNEY: SEVEN COMMON INVESTING PITFALLS

"It's good to learn from your mistakes. It's better to learn from other people's mistakes."

— Warren Buffett

While we can learn much about successful investing by studying the best investors, there may be valuable lessons learned by examining our mistakes. The CFA Institute has identified 20 of the most common investing mistakes, and here are seven notable pitfalls:

1. Having too high expectations — Having reasonable return expectations can support good decision-making, risk management and long-term planning. Yet, investors tend to have higher expectations than those who manage money professionally. One study suggests that Canadian investors expect an average annual return of 10.6 percent on investments, whereas financial professionals anticipate 6.5 percent, leading to one of the highest expectation gaps globally.¹ Consider that the 50-year average return of the S&P/TSX Composite Index (dividends not reinvested) is 5.9 percent.²

2. Not focusing on investment goals — As the saying goes: *"If you don't know where you are going, you will probably end up somewhere else."* Sometimes, investors may become preoccupied with the latest investment fad or on maximizing short-term returns, instead of focusing on a portfolio that is designed to achieve their longer-term investment objectives. Consider that even a modest investing program can yield significant dividends down the road. Investing just \$20 per day at an average annual return of 6 percent would yield over \$1.2 million in 40 years.

3. Failing to diversify — A well-diversified portfolio is important to achieve an investor's appropriate level of risk and return. Having too much exposure to a single security or sector comes with risks. Diversification is intended to protect from the downturns that may affect sectors at different times, while also giving access to the best performers. Consider the difficulty in consistently picking individual winning stocks over long periods: only 21.4 percent of U.S. stocks beat the market over 20 years from 1927 to 2020.³

4. Reacting to short-term noise — Reacting to short-term noise can cause some investors to second-guess their original strategy and make hasty decisions. By one account, this may account for 50 percent higher transaction fees paid by investors who hold a short-term view.³ As the CFA Institute notes: *"There are two timeframes that are important to keep in mind: the short term and everything else. If you are a long-term investor, speculating on performance in the short term can be a recipe for disaster because it can make you second-guess your strategy and motivate short-term portfolio modifications."*⁴

5. Buying high and selling low — Not surprisingly, investor behaviour during market swings can hinder overall performance. While a



fundamental principle in investing is to 'buy low and sell high,' many investors do the opposite because they may be motivated by fear or greed. It has been estimated that the loss in returns by buying high and selling low versus a buy-and-hold strategy is on average around 2 percent annually,³ which can accumulate and become meaningful over time.

6. Trading too much — Timing the markets is difficult, if not impossible. Even if you were to exit the markets before a downturn, you'd need to reenter before the markets resume their upward climb, and this often happens with little warning. While many active traders try and time the markets, studies have shown that the average underperformance by the most active traders annually (versus the U.S. stock market) is 6.5 percent.³

7. Reacting to the media — In this modern era of connectivity, we are being fed news at a rapid rate and studies show that the news continues to be increasingly negative.⁵ In periods of market declines, this can often trigger fear, which can cause investors to make rash decisions that may not be in their best interests.

As advisors, we do our best to prepare clients by putting a plan in place to set priorities and using a disciplined approach that emphasizes asset allocation, strategic diversification, risk management and a focus on quality to guide us through the different cycles. We can also choose to integrate different techniques into investing programs to reduce impulsive decision-making, as many investing errors result from succumbing to our behavioural biases. This may include regularly rebalancing portfolios, using managed products to put buy/sell decisions in the hands of experts or incorporating systematic investing programs like dollar-cost averaging or dividend-reinvestment programs.

We are here to help keep you on course and limit the impact of these and other pitfalls as we chart the path to longer-term success. For a visual of the 20 most common investing mistakes, see: <https://www.visualcapitalist.com/20-most-common-investing-mistakes/>

1. <https://www.visualcapitalist.com/portfolio-return-expectations-by-country/>; 2. S&P/TSX Composite Index 12/31/1973 — 1,193.56; 12/29/2023 — 20,958.40; 3. <https://www.visualcapitalist.com/20-most-common-investing-mistakes/>; 4. <https://www.cfainstitute.org/-/media/documents/support/future-finance/avoiding-common-investor-mistakes.pdf>; 5. <https://www.bbc.com/future/article/20200512-how-the-news-changes-the-way-we-think-and-behave>

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