



Important Topic:

Decision: What to do with Short-Term Funds?

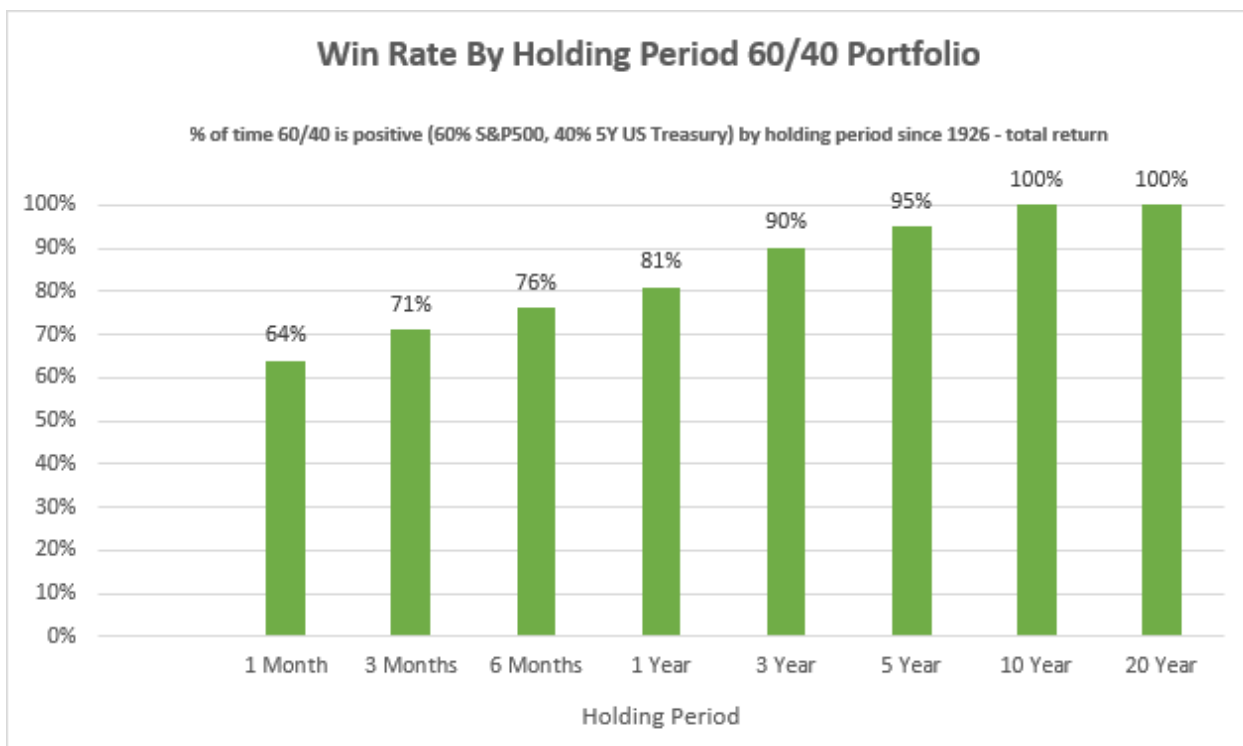
Many times, investors debate whether to invest “short-term funds” into their investment plan. (Short-term funds being those that are earmarked for a short-term goal.)

The fear is that these funds are needed, soon. If invested in the markets, it is possible that the amount falls in value before the withdrawal date.

As a result, many investors leave such funds in money market funds (think one day bonds) or in Guaranteed Investment Certificates (GICs). In these cases, the amount never falls.

Is this the right strategy?

The following graph shows the historical results of investing in a 60/40 (think pension-like) portfolio in the form of percentage of time the portfolio is higher.



Conclusions

If investing for less than a year than the money market/GIC route clearly makes sense.

Imagine setting aside \$50,000 to buy a car but after the year you have less than \$50,000 and need to tap into other sources of funds.

If investing for 5 years or longer, however, than the odds are clearly in your favour by investing in the portfolio.

The more difficult decision is when one is investing for 2-4 years.

Simply put, there is no correct strategy. The final decision will come down to personality and preference.

It makes sense to keep the funds safely invested in money market/GIC if:

- One feels fear and regret of failure much more strongly than greed and satisfaction of success
- One avoids risk in general and does not wish to put these funds at risk
- The funds are critical, and any shortfall would be difficult to make up
- One simply prefers to know the short-term goal will be met and there is no risk to it.

It makes sense to invest the funds in the portfolio if:

- One feels greed and satisfaction of success more strongly than fear and regret of failure
- One does mind a little risk and is convinced the profits will be helpful
- The funds are not critical, and if there is any shortfall it can be made up from other parts of the portfolio.

Specifically, if the portfolio is down in the short-term, funds will be taken from the bond allocations, allowing the equities to rebound

- One is not sure if the timing of the goals is 2-4 year and it could be much longer (ex: buying a house)

A compromise is to invest the funds in the bond allocations, temporarily adjusting the portfolio to an overall higher bond allocation.

In other words, one can adjust the plan from 60% equity and 40% bonds to 55% equity and 45% bonds where the 5% shift represents the short-term funds.

Note that this does not ensure a positive income but greatly improves the odds as bonds are less volatile and less risky than equities.

Market Update: October 2024 – Markets Were Lower

October proved to be a down month with most market segments moving lower.

While many investors fear October (due to historical downturns occurring in this month), most Octobers have been positive.

Regardless, as we remind everyone often, we are convinced that trying to time the markets is impossible.

Though, admittedly, it still remains the impulse behind many investment discussions, we continue to argue that it is far better to invest funds when they become available than wait and try to time the investment.

I am writing this before the election in the US. I have no insights into who will win but I will surmise that the markets may react, either way (!). If the markets fall it is very likely that they recoup their losses over the coming months. If the market rise, then it is likely that the extent of the increase is muted over the coming months. In short, it is a time when emotions can easily override thought. I would not read too much into either outcome.

We continue to believe that the economy will continue to push forward, likely a tad slower, but that a recession is unlikely in the near future. Earnings continue to grow, consumers continue to defy expectations and spend, wages remain strong, jobs are available, and there are still several trends, such as technology and health care, that are stimulating much change.

The rest of 2024 is very uncertain as it will likely depend on the outcome of the election, but we remain positive and optimistic about the medium, and long term.

Most importantly, we are confident that working together we are able to meet your, our client's, objectives. At the end of the day this is all that truly matters.

Index	Quarter	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	- 1.00%	3.00%
Canadian Equity - S&P/TSX 60 Index - CAD	0.80%	17.20%
US Equity – S&P 500 - USD	- 1.00%	19.70%
International – MSCI EAFE Index - USD	- 5.30%	7.00%
Emerging Markets - MSCI Emerging Markets Index - CAD	- 0.30%	16.40%
Real Estate - Dow Jones® Global Real Estate Index - USD	- 4.70%	6.20%
S&P/TSX Preferred Share Index - CAD	- 1.10%	18.10%



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