IN THIS ISSUE

TD Wealth Private Investment Advice

Tel: 519-253-1028
TF: 1-800-287-1898
156 Ouellette Avenue, Suite 300
Windsor, ON N9A 1A4
www.brazierdupuiswealth.com

What Drives Us

Summer 2024

With summer's arrival we can officially wave goodbye to the first half of 2024. We hope you are enjoying all that the season has to offer with those dearest to you. For me, a true sign of summer is the start of Wimbledon, one of the most iconic events on the Tennis Circuit. For years, I enjoyed watching Roger Federer compete at the highest level. One of the sport's greatest, he had almost unparalleled success appearing in 31 Grand Slam Finals, winning 20 titles and spending a record 237 consecutive weeks as the world's top ranked tennis player.

Recently, Roger delivered an inspiring speech at Dartmouth's commencement ceremony where he highlighted that despite winning nearly 80% of his 1,526 professional matches, he only won about 54% of the total points played. He went on to explain that when you lose about every second point, your mindset is crucial. Roger's lessons can apply to many areas of life and the full speech is certainly worth your time.

We couldn't ignore the parallel to the investing world. If we look back to 1950, the ratio of positive days to negative days on the S&P 500 is about the same as Roger's winning points. If we extend the time to months, the percentage of positive results increases to about 60%. If you had the patience to wait more than 7 years, then your chance at a positive return was effectively 100%.

In other words, small wins over long periods of time can lead to incredible results. In this edition, we continue the focus on the idea of mindset being crucial by including an article about risk tolerance and emotions. On the back cover, we highlight some recent team activities, as well as a quick primer on the new capital gains inclusion rules.

Stay well,

Brad Brazier
Senior Portfolio Manager
TD Wealth Private Investment Advice

Brad Brazier
Senior Portfolio Manager

P.J. Dupuis
Senior Portfolio Manager

Samuel Lau
Associate Investment Advisor

Boraba Sordachanh
Administrative Associate

Brian Porter
Associate Investment Advisor

Risk tolerance is emotional and can't be measured easily

Felix Narhi, Chief of Investment Officer and Portfolio Manager

In the professional sphere, investment risk is defined in technical terms with mathematical ratios, such as standard deviation, Sharpe Ratio, Beta, R-Squared and so forth. These can be useful tools. In addition, each type of asset class has its own peculiar risks. For example, equity investors must understand the "trinity of risks"—business, valuation, balance sheet—of the individual enterprise. There are also risks associated with industry sector, geography, market capitalization, and so forth. Fixed income investments have interest rate and default risk among others. These can all be categorized as analytical risks and are important. However, even the father of security analysis and quantification Benjamin Graham observed "The investor's chief problem – and even his worst enemy – is likely to be himself." It's not the analytical mistakes and risks that derail investors. It is psychology that usually matters the most.

For most investors risk is, first and foremost, an emotional experience that cannot be easily measured analytically — but is all too real. Risk tolerance questionnaires which serve as guiding documents to delineate how much financial risk a person is willing to assume and the suitability of certain types of investments can give a false rating. Feelings of higher risk comfort levels are more likely to occur in tranquil periods or a bull market. It's only during periods involving tail risks, such extreme and unpredictable events as the Covid pandemic in 2020 or the Global Financial Crisis in 2009, that an investor can discover their "true" risk tolerance.

These types of extreme events trigger panic selling. If this results in capital losses and breaking the compounding cycle, it becomes a major risk. Time and time again, investors sell into falling markets and many struggle with the decision of when to return. The ease of online trading that enables investors to transact on their mobile phone with just a few clicks, makes it more difficult to put the brakes on an emotionally driven behavior. One survey found that people check their phones 144 times per day and at least half of investors check their investment performance once a day or more. This compulsive behavior can lead to something called "myopic loss aversion", a greater fixation on losses over gains leading to ill-considered trading actions with negative long-term consequences. A willingness to be uncomfortable with current market conditions while still staying the course is a habit worth developing.

The flip side is panic buying. When the market, or a stock, is rising rapidly, investors fear missing out on further gains. They may dive in at any price without regard to the inherent risks. We tend to internalize trends. During a bear market, investors anticipate price contraction and in bull markets investors expect price expansion. This is the context in which we make decisions.

It's hard to overcome our basic hardwiring. The survival instincts of our ancestors were honed through millennia. Quick reactions to threats often meant the difference between life and death. When they observed others in their group panicking, it served as an alarm system, indicating immediate danger without requiring each individual to directly perceive the threat. Those more attuned to these cues were more likely to survive and pass on their genes. Today, we inherit these instincts. But in the context of modern financial markets, herd behavior is a risk, especially during extreme periods when prices are dislocated from intrinsic value. The tendency to panic when others do can lead to impulsive decisions, like selling off investments during market downturns. This illustrates a fascinating aspect of human evolution: traits that once ensured our ancestors' survival can sometimes manifest as less beneficial behaviours in today's vastly different environment.

It's tempting to emulate the investment choices of media pundits or social media influencers but remember that there are a lot of different ways to make money. Or lose it. Each of us has unique goals and tolerances to real or perceived risk. Investors must select a strategy that suits their temperament and one they can maintain regardless of short-term market gyrations. Your ideal risk tolerance is easy to figure out: Select investments that align with your financial priorities without losing sleep. If you lose sleep, it's a clear sign you have taken on too much "risk".

Thank you to PenderFund Capital Management Ltd for this article: bit.ly/4eXrelp

Executive Conference & Capital Gains Inclusion Rates

BDWM from left to right: PJ Dupuis and Brad Brazier

Recently, Brad and PJ were in Ottawa to attend a TD Conference.. This was an opportunity to learn and collaborate with colleagues and provide valuable and direct feedback on the firm's strategic direction to senior management. As you can tell from the photo, they also found the time to have a little fun! Overall, it was a very productive gathering, and it is reassuring to see the continued investment that TD is making in the Wealth Management space.

Capital Gains Inclusion Change

What's changing and when? The capital gain inclusion is currently fifty-percent and it applies to individuals, trusts, and corporations. This means one-half of a realized capital gain must be included in income and is subject to tax at the taxpayer's applicable tax rate. The inclusion rate for realized capital gains that occurs on or after June 25, 2024 is changing. For trusts and corporations, the new inclusion rate is two-thirds. For individuals, the first $250,000 of realized capital gains will continue to have a fifty-percent inclusion rate, but amounts above that threshold would increase to a two-thirds inclusion.

These new rules will affect individuals, corporations and trusts differently. We strongly recommend consulting with your tax advisor. We're also available to discuss concerns. Below is an example of how the new rules would affect an individual with non-registered investments with large capital gains.

Individual Securities in a Non-Registered Account (June 25, 2024 and onward)

	Pre-June 25 ($)	June 25 Onward ($)
Adjusted Cost Base	1,000,000	1,000,000
Proceeds of Disposition	2,000,000	2,000,000
Capital Gain	1,000,000	1,000,000
Inclusion Rate of Gain	1,000,000 x 1/2	250,000 x 1/2 + 750,000 x 2/3
Taxable Capital Gains	500,000	625,000
Total Tax Payable (@53.53%)	**267,650**	**334,563**