

The Prittie Perspective

Winter Edition 2018



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An Investment Lifeboat Drill Now Can Help Weather Future Disaster

Calm water makes a lifeboat drill much easier. We aren't fighting the waves or the fear we feel during an emergency. Still, if the worst happens, and the drill becomes reality, at least we've rehearsed. We'll know exactly what we are supposed to do.

With the markets relatively calm, now is the perfect time for a lifeboat drill. But to get the most out of this drill we need to remember how we felt nine years ago when the markets were getting scary.

Remember the days when even smart, reputable people shouted gloom and doom from the rooftops? If not (or if you've blocked it out), let me give you the abridged version: It was terrifying for some.

The United States government was bailing out private companies that were "too big to fail." We were reading shocking headlines on a regular basis:

- Stocks Take Record Tumble, Down 777 Points
- For Stocks, Worst Single-Day Drop in Two Decades
- How Low Can The Stock Markets Go?

With those memories and emotions in mind, let's start the first drill.

Take out a blank piece of paper. Grab two Sharpies, one red, one black. Write \$250,000 in black in the upper left corner. Then, write \$225,000 in the lower right corner. Use the red Sharpie to draw a down arrow from left to right to represent a market drop of 10 percent. How do you feel?

It's probably feels a little uncomfortable, but you're prepared. You've read about market corrections. During the last 70 years, *markets have undergone 27 corrections*. They aren't unusual. You'll buy stocks through the dip, perhaps through automated purchases through a retirement account.

For the second drill, pull out another piece of paper. Write \$250,000 in the left corner and \$200,000 in the right corner. Draw a scarier red arrow because now we're talking about a loss of 20 percent. Things are more serious at 20 percent.

After all, market declines of 20 percent or more qualify as bear markets. But you're still O.K. You'll grit your teeth and continue to buy more stock at regular intervals because you believe Warren Buffett, who says you should be greedy when others are fearful.

The next drill will prove the most challenging. We're going to focus on the "or more" part of the last drill. Think back to the market highs in 2007 and the market lows in 2009. The broad stock market index dropped over 50 percent. Write down those numbers on a third piece of paper. That's \$250,000 and \$125,000. What will you do?

To be clear, I'm not predicting a correction or stating that we're in the midst of a bubble. Since 1945, however, we've averaged one correction every couple of years. We haven't had a correction of 10 percent or more in roughly 67 months.

Even if we plan to buy through the next dip, no matter how big or small, we're fools if we miss the opportunity to practice how we'll react. The correction might only be a 10 percent decline. But it also might be 40 percent. We don't know, and that's the point.

The key is to understand what you own and how it ties into your time horizon. We construct portfolios with a broad mix of quality public and private investments that should prevent you from jumping overboard if they all don't fall at once. If there's even a possibility that you might have a hard time staying in the boat, now is the time to figure it out – lets talk! Lastly, if you have a large withdrawal in your mind...let us know so we can prepare and set aside an extra margin of safety for that need.

As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely, *Michael*

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5 money secrets to a happy retirement

How much should you save? Where will your income come from? A retirement guru has the answers you need for a happy retirement. The guru is a student of what makes retirees happy and has identified five money secrets of what goes into a successful retirement. Only four of them are money-specific. The other secret, Guru's first, is the most important: deciding what you want to do with all that retirement money.

Turns out the happy retirees are those who are passionate about at least three "core" pursuits. By contrast, "unhappy" retirees have less than two core interests.

The Guru is only 38 but is fast becoming an expert for those who aspire to a happy retirement. By day, he's a mild-mannered money manager, the chief investment strategist for Atlanta-based Capital Investment Advisors. In addition, he's the host of a live radio financial advice show called Money Matters, which airs in Atlanta. He's the author of three books, including one that focuses on the five money secrets: You Can Retire Sooner Than You Think.

Oh, did I mention he was famously a participant on Donald Trump's hit TV show, The Apprentice? He got half way through season two in 2004. In an interview with me, he confesses: "If I were to make a recommendation to a younger adviser, I'd say never go on a reality TV show, but it worked out. I got out unscathed. I didn't win but there was no damage." And living in the spotlight for a while set the stage for Guru's career as a public speaker and broadcaster.

Now about those five secrets. Once you've decided on what you're going to do in retirement, you need to figure out how much money you need to save to achieve this. Here's where one of Guru's most popular concepts comes in. In a nutshell, Guru has developed a Thousand Bucks a Month Rule that says you need to save \$240,000 for every \$1,000 a month you will require in retirement income. This assumes a retirement that begins no earlier than 60, and the money you save is the amount needed to fill the "gap" between what's provided by government-issued retirement benefits and employer pensions and what's needed for your projected lifestyle.

Let's assume you are getting \$1,500 a month from the Canada Pension Plan, Old Age Security and possibly the Guaranteed Income Supplement as well. Assume another \$1,500 will come from your employer pension. So you have \$3,000 coming in but your aspirations require \$5,000 a month, so your monthly "gap" is \$2,000. Based on the Thousand Bucks a

Month Rule, you'd need two chunks of \$240,000, or \$480,000 in invested capital to generate that extra \$2,000. Fortunately, \$480,000 is almost exactly the magic number that most "happy retirees" view as the minimum necessary to achieve their retirement objectives.

Guru's Rule is based on generating a 5% annual investment return. That's slightly more than the 3% or 4% guideline championed by financial planner and author William Bengen, but it's a return that Guru believes is eminently achievable through his fifth money secret: become an income investor. He recommends building a portfolio of dividend-paying stocks, high-yield bonds and alternative investments. You may not quite make it to a portfolio that generates 5% in income, but even if you have to slowly break into your capital, most nest eggs should last several decades.

Secret three, by the way, is to pay off your mortgage in as little as five years, which is exactly what I've always argued: the foundation of financial independence is a paid-for home. And Guru is in the U.S., where the wisdom is that mortgages can be dragged out because the interest is deductible.

Secret four is to develop an income stream from at least three or four sources, not just one. Unhappy retirees too often have only government benefits and an employer pension to live on. Guru wants to see multiple streams of income even if some of them are mere rivulets: real estate rental income, part-time employment income, investment income, income from royalties, etc.

In our interview, I ask Guru if there is a contradiction between planning for both extended longevity and early retirement. "A legitimate question," he concedes, "they are a little contradictory. We all know people who have lived a long time: I have several clients in their 90s. But then there are those who left this world too early: couples who retired only when they were financially set and six months later the husband is gone with cancer. Sure, maybe we will all live longer but so many people don't. I want to help people enjoy the time they do have."

We agree financial planning would be so much easier if we just knew the exact moment of our deaths. But who's in that situation?

<http://www.moneysense.ca/save/retirement/5-money-secrets-to-a-happy-retirement/>

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Canadians owe \$1.67 for every \$1 of disposable income and the \$27.5 billion we borrowed in Q1 was mostly mortgages

Canadian household debt as a share of income dipped in the first quarter but remained near record highs, says report

Canadian household debt as a share of income dipped in the first quarter but remained near record highs, Statistics Canada said on Wednesday in a report likely to reinforce concerns that consumers are becoming overextended.

The ratio of debt to disposable income edged down to 166.9 per cent from an adjusted 167.2 per cent in the fourth quarter. That meant Canadians owed \$1.67 for every dollar of disposable income.

The Bank of Canada – which warns borrowers that interest rates will one day move up from near record lows — last week said rising consumer debt levels and an unbalanced housing market had raised household vulnerabilities.

The Teranet-National Bank Composite House Price Index, which measures changes for repeat sales of single-family homes, showed prices rose 2.2 per cent last month.

While other recent data suggested activity in the Toronto market cooled in May, Wednesday's report pointed to accelerating price growth in the resale market.

Low rates allow consumers to pay down more of their mortgage principal. At the end of the first quarter, households spent more on principal payments than on interest payments for the first time since Statscan began compiling the data in 1990.

On a seasonally adjusted basis, households borrowed \$27.5 billion in the first quarter, down from \$27.6 billion in the previous quarter.

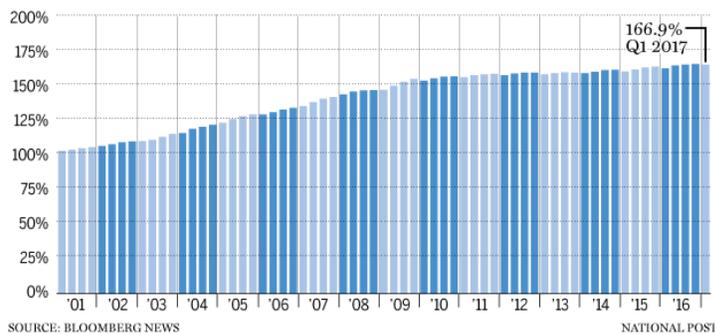
Mortgages made up \$20.9 billion of this, an increase of \$2.7 billion, while consumer credit and non-mortgage loans fell \$2.8 billion to \$6.5 billion.

Consumers' ability to pay their debt also remained relatively easy. The interest-only debt service ratio held at a record low of 6.1 per cent, while the household savings rate fell to 4.3 per cent from 5.3 per cent.

The household debt service ratio, with its obligated payments of both principal and interest as a proportion of disposable income, edged up to 14.2 per cent from 14.1 per cent in the fourth quarter.

CANADIANS' DEBT LOAD DIPS

CREDIT MARKET DEBT TO DISPOSABLE INCOME, QUARTERLY, IN PER CENT



Separately, data showed Canadian home prices rose in May as Toronto remained robust despite recent government efforts to cool the market, while prices in Vancouver picked back up to hit a fresh peak.

Policy makers are worried about a possible bubble in both cities. Years of low rates since the global financial crisis, as well as rising home prices, have prompted Canadians to steadily increase their debt.

RBC Economics economist Laura Cooper said the slight dip in the household debt ratio reflected a "seasonal slowing in debt accumulation in the quarter rather than an improvement in household balances".

<http://business.financialpost.com/personal-finance/debt/canadians-owe-1-67-for-every-1-of-disposable-income-and-the-27-5-billion-we-borrowed-in-q1-was-mostly-mortgages>

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Why you need to spread your money around

Diversification can be your investments' best friend

You're probably over-exposed to Canada. I know I am. Well, here is a word you need to get a handle on: Diversification.

You've probably heard the term 'don't put all your eggs in one basket' before. What does it mean and why am I talking about it? If you're new to investing you might be slightly confused. Here's where I'm going with this: if you put all your eggs (i.e. all your money or investments) into one basket (say, the agriculture sector) then you're at risk because if a clumsy hen tips over your basket (or there's a calamitous agriculture sector market crash) then all of your eggs are smashed (all your money is gone) and in both scenarios, you have nothing with which to make delicious omelettes because your eggs are kaput and you're broke.

Make sense? Uh, yeah, I guess you still don't know where I'm going with this. Here's the thing. If you're a new investor and have just put your money into the market but might not know a tonne about what you're supposed to do with it, there's an important factor to take into consideration. Don't put all your investment eggs in one basket. Make sure your money is spread out across various sectors and different types of investment products to make sure you're comfortable with the risk you're taking on.

Here's another fact about if you're a new investor in Canada. You're probably woefully overexposed to the Canadian stock market. You might be in mutual funds that invest in Canadian stocks. Or ETFs that follow Canadian-based indices. And if you're enrolled in a workplace pension plan or a stock plan, boy, forget about it. Most of your precious eggs are in the warm, cozy and seemingly safe Canadian basket. We invest in what we know, and while sometimes it can get us in trouble, like when Canada's oil sector crashed a few years ago, for the most part it means that you're missing out on better returns elsewhere.

Canada's market is minuscule when it comes to the global markets. You say you're investing in THE stock market. But the Canadian market makes up about 4 per cent of the global stock market. So if 75% of your investments are in Canadian-focused stocks or products, then you're shunning the sweet, sweet returns that can be found in emerging markets, for example.

Now, what can you, a young, newbie investor, a stumbling chick who for some reason has tons of eggs to spread out across baskets, do?

This all sounds fairly complicated, I know. Here's the first, simple thing you should do to offset any diversification issues you might have in your young, burgeoning portfolio. Just look at what percentage of your portfolio is invested in stocks versus bonds. There are plenty of technical things you can learn about this topic, but understanding where your portfolio stands in equities versus fixed income is the most practical thing you can do at this point. Your asset allocation may be different depending on your goals but if you were to go the tried and true Classic Couch Potato route, you should be in 60% equities (spread out across stocks, ETFs and mutual funds) and 30% in fixed income like bonds.

Then, look at your geographic exposure. "If you're a do-it-yourself investor, I would caution against the common mistake to just load up on Canadian banks, for example. There are probably worse companies you could overweight in a portfolio, but diversification is a real important recipe for investment success and risk minimization." So, an example of a good split between geographical regions is 30 per cent Canadian equities, and 30 per cent U.S. equities and another 30 per cent in foreign investments.

This is just a starting point and a call to evaluate where your eggs are right now. You don't want to be unaware when that basket tips and you realize you've lost most of your money—or if 20 years from now you're lamenting the fact that you could've had way, way more eggs.

Bottom line; you set yourself up for stronger returns. And, even more important, you set yourself up for less RISK.

<http://www.moneysense.ca/save/investing/why-you-need-to-spread-your-money-around/>

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5 science-backed ways to break your phone addiction

How long do you think the average work email goes unread? Ten minutes? Five minutes? One minute?

Try six seconds.

In reality, 70 percent of office emails are read within six seconds of arriving.

Some might say that they're not addicted to technology — they just enjoy it. But those same people probably say things like, "I wish I had more time to do the things I love." The price of anything is the amount of life you exchange for it.

Well, people average three hours a day on their phones. In the pre-smartphone era that number was just 18 minutes. And what happens when you ask young adults if they'd rather have a broken bone or a broken phone?

There's a study that was done asking people, mainly young adults, to make a decision: If you had to break a bone or break your phone what would you prefer? Forty-six percent of people would prefer to have a broken bone than a broken phone. But even for the 54 percent of people who say they'd prefer to have a broken phone, it wasn't a snap decision. They agonized over it.

No doubt, Steve Jobs changed the world with the iPad. But what most people don't know is he wouldn't let his children use one. As he told The New York Times in 2010, "We limit how much technology our kids use in the home."

We live in an age of anxiety. And phones can soothe that anxiety. But they can also add to that anxiety. Some researchers refer to smartphones as "adult pacifiers." We get cranky, bored, or distressed and the pacifier soothes us.

Okay, so what do we do about it? Here are a few tips from psychology we can use to get a handle on things...

When you don't absolutely have to have your phone by your side, put it somewhere you can't easily reach it. Across the room is a good option. (France may be a better option but let's keep it simple for now.)

You can basically design the environment that you're in to maximize your own well-being. There are two main ways to do this: one of them is to ensure that temptation is far away. So if there's something that you

keep doing obsessively, make sure that it's not in your environment and you're less likely to do it. That's a much more effective way of preventing yourself from using it than say keeping it nearby but trying to just suppress the desire to use it.

And when you need it nearby, turn off all non-essential notifications.

Turn off the "ding" sound when you get a text message so that instead of your phone saying, "Hey, check me now," you decide when it's time to check. You're removing the control from the phone and you're bringing it back to yourself. You can also take the apps that are most addictive for you, and bury them in a folder on the fourth page.

The cycle: you check email, Facebook, Twitter, and Instagram... And by the time you've done all that, it's time to check it all again. You may call this your "happy place." Researchers call it a "ludic loop." It's what slot machines are designed to produce.

The "ludic loop" is this idea that when you're engaged in an addictive experience, like playing slot machines, you get into this lulled state of tranquility where you just keep doing the thing over and over again. It just becomes the comfortable state for you. You don't stop until you're shaken out of that state by something.

Proximity is destiny, right? When you sit on the couch, make sure the phone is far away and a book is within reach. So now you're not just gritting your teeth trying to not check your phone. You're substituting a good habit for the bad one. When you want to check your phone, you grab a book instead.

Addiction is really about soothing a psychological ill and that's true no matter what the addiction is. People who have a strong social support network, who have a very full life, tend not to develop addiction.

So the long term solution is not about the phone. It's about getting closer to that special someone and spending more time with them. And letting that bond soothe the worries you're running to your phone for.

So if you're reading this on your phone, text or email that person. Let them know you care. Set a time to see them.

And then put the phone away.

<http://theweek.com/articles/688639/5-sciencebacked-ways-break-phone-addiction>

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Fall Activities

Taste in the Glebe

January 18th

http://www.gnag.ca/enterprise/Events_TasteinTheGlebe

Gatineau Winter Beerfest

February 2nd – 3rd

<http://www.festibiere.ca/>

Ottawa Boat Show

February 22nd – 25th

<http://www.ottawaboatshow.ca/>

Kids Fest

March 3rd – 4th

<http://kidsfestottawa.ca/>

Ottawa home and Garden Show

March 22nd – 25th

<https://ottawahomeshow.com/>

Upcoming Events:

Stay tuned for the latest happenings

Client Seminar:

January TBD

Client Seminar:

February TBD

Client Seminar:

March TBD

Client Seminar:

April TBD

Client Seminar:

May TBD

Children's Movie Day

June TBD

Winterlude

The 40th edition of Winterlude runs from February 2 to 19, 2018.

Winterlude, the Capital's winter celebration, is held in Ottawa–Gatineau each February. It was created in 1979 to celebrate Canada's unique northern climate and culture.

Skate on the world's largest skating rink, check out the ice carving competitions or enjoy yourself in a huge winter playground surrounded by majestic snow sculptures. There's fun for the entire family, and all sites are open on Family Day.

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