WORRY FREE INVESTING

Scott M. Yates, *CIM*
Portfolio Manager

Raymond James Ltd.
Suite 4100, 525 – 8th Avenue S.W.
Calgary, AB T2P 1G1

T: **403-221-0359**
TF: **1-844-459-0359**

scott.yates@raymondjames.ca

www.raymondjames.ca/scottyates

Is "worry free" investing possible? I absolutely believe it is! In fact, I sincerely believe that you should never have to worry about your investments ever again – regardless of the state of the economy or your own stage in life.

This may seem far-fetched or unrealistic to some, but as far as I'm concerned it's as simple as using the right 'tool for the job'. In this case, the "tools" are cash, bonds, and equities – and the "job" at hand is the achievement of your investment goals. By knowing exactly what it is you are trying to accomplish, and when - I can formulate a prudent, worry-free plan to get you there. It really is that simple. Simple, but not 'easy'!

Here's the "tough" part. Success requires your cooperation, the right temperament, and a great deal of patience. As the saying goes, ***"Patience is the rarest commodity on Wall Street."*** This necessitates an understanding of the difference between speculating and actual investing. It involves not simply "owning investments", but rather taking ownership of a well thought-out, long-term focused, AND professionally managed, investment plan.

As many of you know, Benjamin Graham was Warren Buffett's mentor. Here is Graham's formula for success: ***"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."***

My job is to provide you with the 'sound intellectual framework for making decisions'. This piece is intended to describe that framework. However, you must have 'the ability to keep (your) emotions from corroding that framework.' No matter how sound the 'framework' might be, your plan can't succeed if it's thrown out at the first sign of trouble. ***Stock market volatility and economic woes are inevitable. That is precisely why we have a plan.***

Graham warned that ***"Individuals who cannot master their emotions are ill-suited to profit from the investment process."*** If you are prone to view each and every temporary setback as though you've actually somehow lost money, you are ill-suited to succeed – in ANY investment. The fact is, no serious (or dare I say "intelligent") investor actually loses any money at all during any temporary market decline. As per Graham again, ***"A serious investor is not likely to believe that the day-to-day or even month-to-month fluctuations of the stock market make him richer or poorer."***

To take this one step further, according to Warren Buffett, ***"Bear markets are where the real money is made – not lost."*** Temporary market downturns, when great businesses have just gone *"on sale",* must be viewed as opportunities for any serious *investor.* This approach is as logical as it is necessary for you to succeed.

Hopefully I have your attention. I'm quite sure you still have some questions though. You may be asking, how can anyone seriously invest in the stock market, and do so without any worry? Allow me to elaborate…

In my 26+ years of investment industry experience, I can broadly categorize every investor I've worked with into one of three basic groups: **(1) the retiree, (2) the pre-retiree, and (3) the long-term investor.**

Before I continue, I want to briefly discuss two additional 'groups' that I've come across over the years; **the short-term saver** and **the speculator.** Neither of these are investors, so they are not my target audience here.

Your **short-term** savings should never be invested at all – and as such, it is not exposed to the entirely unpredictable near-term ebbs and flows of the stock market. Your savings includes both money that you are planning to use for any short term goal (i.e. within a few years), as well as your emergency savings. **For the short-term saver, the right tool for the job is cash!** (The paltry interest they will earn at today's extremely low rates may be just cause for worry - for all the good worrying will do - but that's a different conversation altogether). **Remember: the short-term saver doesn't invest their money; they save their money.**

As for **the speculator,** they too are not investors, by definition (…even though most of them think they are investing?). They are gamblers, pure and simple. This category also includes those who would seek to trade in the stock market (i.e. 'traders'), who invariably have a short-term focus. In any case, just like the gambler at the casino, the odds are definitely stacked against the speculator. They operate with no identifiable historical track record of success whatsoever. Obviously this is not investing, and clearly this is also not you, my client. **The gambler/speculator/trader most definitely should be worried – now and always.**

Moving on then, let's discuss all three of the aforementioned **investor** groups in detail. I will also explain why I believe, in each case, there is no need to worry at all about short-term (and always temporary) market downturns or recessions. **Please feel free to skip ahead to the 'category' that best fits your own current situation.**

The Retiree

Key reasons why a temporary market drop should not cause you to worry:

- Your investment time horizon is longer than you might think.
- You too, can take advantage of temporarily low stock prices.
- The income you need from your portfolio is safe. You have ample money in cash and bonds.
- The risk isn't owning stocks; it's not owning enough of them.

Your investment time horizon is longer than you might think.
Unless you plan to spend **ALL of your retirement savings** within the next few years, you are still a long term investor. And if you DO plan to (or have to) spend it all within the next few years, your money shouldn't be in the stock market. It's that simple!

Here's the formula: **your true investment time horizon = 95 – your age**
(Of course, this depends on your current health status. Feel free to adjust the '95' to whatever life expectancy you believe reasonable.)

For those of you who will never spend all of your retirement savings in your lifetime, the actual time horizon for your portfolio is multi-generational! Regardless, a 75 year old retiree today could be investing for another couple of decades. And an investor retiring today at 60 or 65 will likely continue to own investments, in some fashion, for another 30 years or more!

Needless to say, dealing with today's – or the next – temporary market drop, please keep in mind that your time horizon is by no means short. This allows the equity portion of your portfolio to recover long before you may need to withdraw from it. As such, there really is no need for panic. ***Patience is a virtue, even for the retired investor.***

You too, can take advantage of temporarily low stock prices.
Not only can you survive a market downturn, you should thrive! How? By buying great, dividend paying businesses (i.e. stocks) at the bargain basement prices that only a bear market can provide.

As your portfolio manager, I've allocated your investments among cash, bonds, and equities. When stock prices are high and temporarily overvalued, I will seek to trim your equity exposure – adding to your cash and bonds. By doing so we are taking advantage of high stock prices within your portfolio (i.e. selling high).

Conversely, during a bear market/recession, when share prices are temporarily low, and great businesses are attractively priced, I can then use the excess amount in cash and bonds to add to equities. Buy low/sell high. Works just as well for a retiree, as it does for someone who is just starting out.

The key message here: ***You don't have to be adding any new money to your portfolio in order to take advantage of the temporary swings in market prices.*** And we'll always maintain more than enough in cash and bonds to cover your income needs, so we're never forced to sell any of your equities during a temporary market downturn.

I've saved the best for last. Perhaps the biggest benefit of a market decline for the retired investor is the high dividend yields that can only come available during a market drop. When share prices go lower, all else being equal, dividend yields go higher. As such, a market decline can actually enhance the amount of income your portfolio can generate for you, for the remainder of your retirement years.

Here's a recent example using Canada's "big 5" banks. At their previous peak prices (to date), the average annual dividend yield on Canadian bank stocks was 4.3% per year. That is the level of income a retiree would receive by owning shares of the Canadian banks, before the recent market downturn. Because of the recent market decline, the average dividend yield payable from those banks has gone UP to 6.4% per year, an increase of almost 50%! (At time of writing; April 21).

This is an example of how a retiree can actually increase the income their portfolio can generate, by taking advantage of a market downturn. As mentioned, not only can retired investors survive a market downturn, they should thrive!

The income you need from your portfolio is safe. You have ample money in cash and bonds.
While it'll be the equity portion of your portfolio that will provide the long term growth you need in order to offset inflation; the cash and bonds are there to fund your current income. By "cash" we're referring to the short term, safe, and liquid savings vehicles held within your portfolio. These are often described as "cash equivalents", which typically earn more interest than actual cash, while also providing you with safety and liquidity.

In addition to the cash equivalents, your portfolio also consists of a 'mini portfolio' (within your overall portfolio), of professionally managed bonds. This includes various government and corporate bonds from issuers all over the world. Bonds also pay interest, providing you with a fixed income.

Here's the main reason we own cash and bonds in your portfolio (despite today's low interest rates): cash has no correlation whatsoever to the stock market, and bonds typically perform 'counter-cyclical' to the stock market. So the next time you see or hear on the news that the stock market has tanked (…temporarily, of course) you can have comfort knowing that the entirety of your portfolio is not invested in the stock market. Your allocation to cash and bonds provides you with somewhat of a buffer from market volatility, while continuing to pay you interest.

For most of you, we have at least three to five years' worth of your current income needs, allocated to cash and bonds. This should provide us with plenty of time for the equity portion of your portfolio to recover from a bear market/recession.

The risk isn't owning stocks; it's not owning enough of them.
I believe today's retiree most definitely has to own equities (e.g. at least 'a piece' of the stock market) in order to sufficiently meet their retirement income objectives.

Generally speaking, the retiree's primary investment goal is to maintain their standard of living throughout their retirement years. (There are many other goals and objectives you may have, such as leaving a legacy, charitable giving, etc. Needless to say, these objectives must depend first and foremost on YOU maintaining your own financial independence).

What we're talking about here is the maintenance of one's purchasing power, i.e. the need for an increasing income in order to offset the impact of inflation throughout a retirement that may last up to two or three decades.

How might inflation impact your cost of living throughout your retirement? Looking back over the past 30 years, a "basket" of goods and services that cost $5,000 in 1990 would cost $8,900 today (according to Statistics Canada). For "yesterday's" retiree, they witnessed an increase in their cost of living of almost 80%! And this was at a rate of inflation of just 1.94% per year; which was the actual historical rate from 1990 to 2020 (again, according to Statistics Canada).

Longer term, the rate of inflation for Canadians has been closer to 3% per year. As such, and in order to build in somewhat of a buffer, I believe today's retiree should factor in a future rate of inflation of at least 3% per year.

While almost everyone seems to be focused on the recent stock market decline, such drops are always temporary. Hardly anyone is talking about inflation, which is permanent. The key risk for today's retiree is inflation, NOT stock market volatility!

At today's low interest rates cash and bonds are currently paying a little better than 1% per year. But the key here is, they provide retirees with little to no additional upside. Meanwhile, many of the top dividend paying Canadian stocks are currently yielding around 6% per year, AND provide you with plenty of long-term upside. In fact, historically the Canadian stock market has averaged around 9% per year (including dividends). So shouldn't retired investors be worried about the long term impact of inflation? Not if they own enough equities!

In summary, you own a professionally managed portfolio that includes:

- **Cash equivalents** for your current/near-term income needs.
- **Bonds** for additional interest on your money and to act as a 'buffer' from stock market volatility.
- **Dividend** paying 'blue-chip' stocks for both income AND to offset the long-term impact of inflation.

The Pre-Retiree

Key reasons why a temporary market drop should not cause you to worry:

- You have far more time than you might think.
- We have already begun the process of prudently transitioning your portfolio for your retirement.
- The risk isn't stock market volatility; the risk is not achieving your goals.

You have far more time than you might think

Congratulations! After working hard for decades now, there is finally 'light at the end of the tunnel'. Retirement for you is just around the corner. You've also worked hard to build up your retirement nest egg, and the last thing you want to do is lose it all.

I get it. At 51 years of age myself I can relate to many of you. But the fear of losing it all because of a temporary market drop is completely unwarranted (…unless the world comes to an end, which it won't. And if it has, you won't be reading this anyway!). First of all, your investment time horizon is far longer than you might think.

I would define a pre-retiree as an investor who is within about ten years from their desired retirement age. Many pre-retirees seem to think (or at least, behave as if…) this is also their investment time horizon. That is a mistake. I can assure you, I have never worked with or known of anyone who cashed in all of their investments on the day, or even during the year, they retired. Rather, they continue to be investors for many, many years – and even decades, to come.

Here is a brief example. Not long after my career started about 26 years ago, I began working with an absolutely amazing and delightful lady who retired just after she became a client of mine. She was my very first client to transition from pre-retiree to being fully retired. But by no means did her investing end on the day she retired. For our purposes, it had just begun.

The time period from when she and I began working together, to her retirement was definitely short; in this case, within a year. But neither she nor I viewed her as any sort of a short-term investor. Sadly, she passed away last year at the age of 91. She remained a very dear client of mine throughout. Her investment time horizon, at her retirement, was more than 2½ decades!

Your investment time horizon = 95 – your age.

(Of course, this depends on your current health status. Feel free to adjust the '95' to whatever life expectancy you believe reasonable.)

Your investment time horizon is not from now until when you plan to retire. It's from now until when you 'expire'. Therefore, you do not need to worry about any temporary market decline as you approach retirement.

We have already begun the process of prudently transitioning your portfolio for your retirement.

Even though your ultimate investment time horizon is still very long (as we have established), it is quite likely that you plan to start drawing an income from your portfolio when you retire. As such, the need for a steady source of income from your portfolio is not decades away, it is years away. We have already begun to plan for this.

Your portfolio today isn't nearly as 'aggressive' as it was when you were just starting out. We've begun the process of transitioning you to a more balanced strategy. As such, in addition to equities, your portfolio now also includes an element of cash and bonds. While this will no doubt hinder the long term growth of your portfolio from now until your 'expiry', it should give you some comfort during a market decline/recession, knowing that all of your money isn't even in the stock market.

To add further comfort, where I continue to have you invested in the stock market, you own 'blue-chip' dividend paying stocks. Not the type we need to lose sleep over during any temporary decline.

The risk isn't stock market volatility; the risk is not achieving your goals.

In order to achieve both your retirement savings goals, and perhaps most important to the pre-retiree, your retirement income goals, you need to own equities.

Historically the Canadian stock market has averaged around 9% per year. Today cash and bonds are paying around 1% to 2% per year depending on the duration. And finally, inflation in Canada has averaged around 2% per year in the more recent past, and closer to 3% per year throughout our history. The math is fairly simple. Traditional savings vehicles like cash and bonds have a real yield that is negative (after inflation). And this is before taxes are considered!

For any pre-retiree, it is likely impossible to reach your retirement goals without owning equities. While the stock market will continue to fluctuate (sometimes wildly) in the short term, you are a long term investor. Simply stated: equities have proven, time and time again, to be the best performing asset class for investors, over the long term.

The risk for you, the 'pre-retiree' investor, is not short term stock market volatility. The risk is not reaching your goals. With a prudently managed, balanced investment portfolio, and the temperament required to succeed, you most definitely can reach your goals - worry free!

The Long Term Investor

Key reasons why a temporary market drop should not cause you to worry:

- Your investment time horizon is long; VERY long!
- We're investing, not speculating.
- Volatility is your friend, not your enemy.

Your investment time horizon is long; VERY long!
You are more than 10 years away from retirement. Given that no-one completely stops investing altogether when they retire, your investment time horizon is from now until when you 'expire' (i.e. at life expectancy); not when you retire. As such, your time horizon as an investor is long. Very long!

Here's the formula: **investment time horizon = 95 – your age**
(Of course, this depends on your current health status. Feel free to adjust the '95' to whatever life expectancy you believe reasonable.)

Your success will be measured over decades, not years (…let alone weeks or months). As a long term investor, choosing the right 'tool for the job' is easy; equities! The stock market has averaged around 9% to 10% per year throughout history. Some decades have been far better than others. And on an annual basis, market returns can and most likely will continue to be all of over the map – with huge variances in return from one year to the next. Regardless, for the long term investor stocks have far outpaced other assets classes, such as cash, GICs, bonds, gold, commodities, and real estate.

We're investing, not speculating.
It's not about 'timing' the market; it's about 'time in' the market. Strangely, many long term investors fail to achieve those 'equity-like' stock market returns. How could this be? The answers are actually quite obvious. Numerous studies in investor behavior have revealed that, among other wealth destroying tendencies, many investors think they can somehow time the market. By attempting to do so, they often miss the best days, weeks, or even months in the market.

Who do you think made the following statement? ***"I can't predict short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month, or a year from now."*** You might think this is a quote from an uninformed investor? Perhaps someone just starting out. This could be anyone; your neighbour, friend, or a co-worker.

In fact, the above statement has actually been made repeatedly by Warren Buffett – the world's greatest investor and one of the wealthiest individuals on earth. So I would ask, ***if Warren Buffett can't 'time' the market, what on earth could possibly make anyone else think that they somehow can?!***

This admission, made by the world's greatest investor, is actually good news - and it should be very liberating for all of us. Buffett has shown that we don't need to have the ability to somehow see into the future in order to be successful; and in his case – wildly successful.

And yet so much of the financial 'news' media and market commentary continues to focus on trying to predict where the stock market or the economy will be in the near future? Esteemed portfolio manager, Tom Bradley, may have said it best; "Talking about where the market is going is investing's lowest common denominator. It's like talking about the weather, except it has less chance of being right."

Clearly there is a big difference between investing in great businesses, and speculating in the stock market. While the stock market has a stellar long term track record, those who would choose to speculate have the odds of success severely stacked against them.

As long term investors, we will invest our money. We don't gamble with it. True investors need not worry. (I say again: speculators, on the other hand, should be worried – now, and always).

Volatility is your friend, not your enemy.
Here is a pop quiz (from The Wall Street Journal's Jason Zweig): ***"Name the giant store where customers scoff at whatever goes on sale, but flock to buy whatever costs the most? It isn't a supermarket. It's the stock market."***

As long term investors, temporary market setbacks (i.e. recessions/bear markets) represent a golden opportunity to buy great businesses while they are temporarily on sale.' But please don't just take it from me!

Warren Buffett asked the following question, for every long term investor to ponder: ***"If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy when stocks rise. Prospective purchasers should much prefer sinking prices."***

In summary…

Regardless of your stage in life I believe you need to own equities in order to reach your goals. And while share prices will always fluctuate in the short term, market volatility is not the risk. The risk is not reaching your goals.

My 'product', and indeed my 'value add', is not a basket of randomly selected investments. My product is a long term investment plan. Your plan – uniquely suited to you, and designed with your goals, hopes, and dreams in mind.

With such a plan firmly in place, and strictly adhered to at the most pressing of times, any true investor need not worry.

It seems only fitting to allow the author of 'The Intelligent Investor' the final word:
"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."