INVESTMENT FOCUS

Personal Newsletter from Watermark Wealth Management

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Watermark Wealth Management

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Bull and Bear: Tortoise or Hare?

During strong market times like we experienced in 2024, or times of uncertainty, are you inclined to be more like a tortoise or a hare? As we begin another year, it's a perspective worth remembering: meaningful growth is often measured over decades, not months or even years.

In the excitement of the bull market's run in 2024, Warren Buffett's Berkshire Hathaway became the eighth U.S. company to join the trillion-dollar valuation club.[1] It's worth stepping back to put the magnitude of "a trillion" into perspective: A million seconds is just under 12 days. A billion seconds is around 32 years — roughly one-third of a lifetime. Yet, a trillion seconds is nearly 32,000 years — more than all of recorded history!

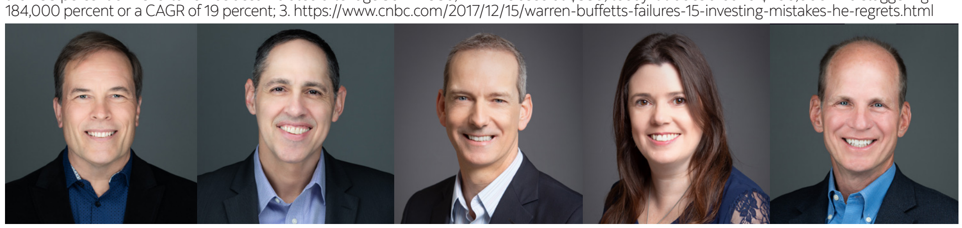
For companies achieving this milestone, success didn't happen overnight. Buffett's feat is nearly six decades in the making. When he took control in 1965, Berkshire Hathaway was a struggling textile mill valued at around $22 million.[2] Over the years, it has been fueled by time, compounding and perseverance, with profits reinvested into new investments, allowing the company's value to substantially grow. However, this success hasn't come without challenges: Buffett once suggested that the "dumbest stock" he ever bought was, ironically, Berkshire Hathaway. And, he has acknowledged plenty of other "mistakes" along the way.[3]

Buffett's journey may be reminiscent of the old Aesop's fable, where the slow-but-steady tortoise wins the race against the speedy-but-inconsistent hare. In investing, it's easy to become preoccupied with short-term expediencies. Current concerns — like Canada's declining productivity and lagging economic growth, or new questions about how far equity markets have advanced — often act to distract our investment focus. However, longer-term investors shouldn't fixate on what might happen tomorrow as this tends to be largely unpredictable. It can also strain our investing 'constitution' and shift focus away from longer-term plans. Just look at how much has changed in one year: we shifted to a falling rate environment, expectations of a hard landing evolved into a soft landing, inflation largely tempered and, despite many challenges, the markets continued to advance.

While the double-digit market returns of 2024 have been exciting, they are a reminder that growth in both markets and economies is rarely linear. Viewing investment timeframes over decades highlights the profound impact of time on compounding growth. Investing $100,000 today at an average annual return of 5 percent, a fair expectation over a full market cycle, would yield around $115,000 in 3 years. Yet, over 6 decades — mirroring Buffett's perseverance — it would grow to nearly $1.9 million!

Where will we be in a decade? With a focus on the longer term, a strong case can be made that both markets and economies will continue to advance. This doesn't mean that downturns or setbacks won't occur along the way, but viewing the wealth journey over longer periods allows us to view a full cycle of events — and the substantial opportunity should we choose to participate. While there's never any guarantee of what tomorrow will bring, the only way to miss out on future growth is to sit on the sidelines. Here's to a new year, the next quarter century — and beyond!

1. https://www.visualcapitalist.com/berkshire-hathaway-1-trillion-club-how-long/; 2. https://www.berkshirehathaway.com/letters/1985.html; More than 99 percent of his fortune was accumulated after age 50: In 1980, BRK-A closed at $380; today it trades around $700,000 — a staggering 184,000 percent or a CAGR of 19 percent; 3. https://www.cnbc.com/2017/12/15/warren-buffetts-failures-15-investing-mistakes-he-regrets.html



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Debunking the RRSP/RRIF Myths

Since the start of the millennium, participation in the Registered Retirement Savings Plan (RRSP) has declined, dropping from 29.1 percent of contributing taxpayers in 2000 to just 21.7 percent in 2022. While the introduction of the Tax-Free Savings Account (TFSA) in 2009 may be partly responsible, persistent misconceptions about the RRSP likely play a role. Let's address some of the common myths:

Myth 1: Non-registered accounts are better because only income/gains are taxed. A common belief is that a non-registered account yields better outcomes because only income and gains are eventually taxed (with favourable tax treatment for dividends and capital gains), whereas RRSP withdrawals are fully taxed at marginal rates. While it's true that withdrawals (usually from a Registered Retirement Income Fund (RRIF)) are fully taxed as income, what is often forgotten is the initial tax deduction at contribution. Remember that a $30,000 RRSP contribution is equivalent to an after-tax contribution of $18,000 at a marginal tax rate of 40 percent. If your tax rate remains the same at the time of contribution and withdrawal, you effectively receive a tax-free rate of return on your net after-tax RRSP contribution (see chart). In many cases, even if your tax rate is higher at the time of withdrawal, you may be better off versus a non-registered account due to the effect of tax-free compounding over longer time periods.

Myth 2: It's better to invest in a TFSA than the RRSP. The RRSP generally yields a greater benefit if you expect a lower tax rate in retirement. In practice, many contribute to their RRSP during higher-income working years and withdraw when income (and tax rate) is lower in retirement, leading to an advantage for the RRSP. Of course, there may be situations when the TFSA is a better choice, such as if you have a higher tax rate at withdrawal or face recovery tax for income-tested benefits like Old Age Security.

Myth 3: Saving too much in an RRSP/RRIF will result in a large tax bill at death. While the fair market value of the RRSP/RRIF at death is generally included in the terminal tax return and taxed at marginal rates, there may be ways to mitigate the potential tax burden. This includes a tax-deferred rollover to a spouse or financially dependent (grand)child. Another way to manage the potential tax bill is to engage in a "meltdown strategy," making withdrawals earlier when your tax rate may be lower than you expect at the year of death. For more information, please call the office.

RRSP vs. TFSA vs. Non-Registered Account (Illustrative)

	RRSP	TFSA	Non-Registered
Pre-tax income contribution	$30,000	$30,000	$30,000
Tax on income @40%*	—	($12,000)	($12,000)
After-tax contribution	$30,000	$18,000	$18,000
Growth: 30 years @5% annual return	$129,658	$77,795	$77,795
Tax on liquidation of account @40%**	($51,863)	—	($11,959)
Net after-tax proceeds	$77,795	$77,795	$65,836
Gain vs. non-registered account	**18.2%**	**18.2%**	**—**

*For the RRSP, assumes tax deduction of 40% is claimed to net taxes to zero. **Assumes capital gains for the non-registered account, taxed at a 1/2 inclusion rate or 50%.

Start Now To Make 2025 Less Taxing...

As we begin a new year, why not get ahead and make the year less taxing? Here are a handful of reminders to start the year:

Contribute to the RRSP. The deadline for the 2024 tax year is **Monday, March 3, 2025**, limited to 18 percent of 2023 earned income to a maximum of $31,560 (2024). Deferring the deduction may provide tax-planning opportunities: you can choose to delay the RRSP deduction to a future year, perhaps one in which you have a relatively higher income to offset the higher potential tax.

Fund your TFSA. The **2025 TFSA annual dollar amount is $7,000**, bringing the eligible lifetime contribution limit to $102,000. The latest statistics show that high-net-worth taxpayers have, on average, over 34 percent of unused contribution room.[1] Have you fully maximized this tax-advantaged account?

Split income, save tax. Review your family's potential tax bill to determine if there are income-splitting opportunities. For example, you may elect to split eligible pension income with your spouse (partner) on your tax return. Spouses may also apply for CPP pension sharing. There may be an opportunity to open a spousal RRSP. Business owners may consider paying reasonable salaries to spouses/children for services provided to a self-employed business or private company. For ideas, call the office.

Get organized for tax season. While personal income tax returns will not be top of mind for a few months, why not organize your records before crunch time approaches? This may prevent medical expenses, donations, business charges and other receipts from being overlooked or unclaimed.

Keep in mind that bare trusts are exempt from the 2024 filing. There has been much confusion surrounding the trust reporting rules that came into effect last year as they relate to bare trusts. This was complicated by a last-minute reversal by the CRA in late March 2024 that exempted bare trusts from filing for 2023. Since then, draft legislation has been introduced that "more clearly defines beneficial ownership arrangements subject to the reporting rules." If this passes, trusts with a fair market value of $50,000 or less throughout the year will be exempt from filing. If all parties to the trust are related, the exemption rises to $250,000 if only certain assets are held, such as GICs, stocks, bonds, mutual funds or ETFs. This will apply to bare trusts with years ending December 31, 2025, and later. For the 2024 tax year, bare trusts are exempt from filing.

Always consult a tax professional regarding your particular situation. 1. 2024 TFSA statistics for the 2022 year, with HNW taxpayers (defined as taxpayers with income over $250,000) having $28,064 of available contribution room (lifetime contribution room of $81,500).

In Brief: Easing Interest Rates & the Great Mortgage Renewal

Over 35 percent of Canadians hold a mortgage,[1] and in 2024 and 2025 alone more than 2.2 million mortgages have been facing renewal.[2] The Bank of Canada rate reductions over 2024 have been welcome news for mortgage holders, though many still face the prospect of higher mortgage rates at renewal. This is because a large number of these mortgages were issued when rates were at historical lows. In August 2021, the CMHC five-year fixed rate fell to 3.2 percent.[3] While rates have since risen, it's worth recalling that they remain well below the highs of the 1980s when rates soared to 21.75 percent!

What does this mean for borrowers?

For most Canadians holding fixed-rate mortgages, rate changes won't affect payments until renewal. Even a small increase in rates can lead to substantially higher costs. For example, a two percent increase on a five-year, fixed-rate mortgage of $330,000 (the average value of a new loan in 2024) could lead to over $100,000 in additional interest costs over the life of the mortgage (chart).

If you or a family member has a mortgage up for renewal, it may be an ideal time to reassess your options. Here are some considerations:

Assess whether your financial situation has changed. If your financial circumstances or goals have shifted, adjusting your mortgage may better suit your needs. With rising living costs, you might consider lowering payments by extending the term length or amortization period. On the other hand, if you have extra funds, paying down the mortgage faster could help offset the effects of higher rates and lead to lower interest costs over the mortgage's life.

Example: Impact of a Two Percent Mortgage Rate Increase

5-Year, Fixed-Rate Term	Mortgage Rate: 3.2%	Mortgage Rate: 5.2%	Difference
Mortgage Amount	$330,000	$330,000	—
Amortization Period	25 Years	25 Years	—
Monthly Payment Amount	$1,595.77	$1,957.04	$361.27
Total Interest Cost, 25 Years	**$148,731**	**$257,112**	**$108,381**

Consider re-evaluating your mortgage terms. This may be an excellent time to reconsider the options available. You may want to reassess whether a fixed or variable rate better suits your situation: fixed rates offer stability, while variable rates can provide savings if rates decline. Additionally, consider term length: shorter terms provide flexibility by not locking you into a long-term commitment, especially if rates decline. Reviewing payment frequency or amortization period can also impact both the speed at which you pay down the mortgage and the total interest paid over the loan's life. If you're thinking about refinancing or switching lenders, be sure to understand any associated fees and/or penalties.

If you need support, or for an in-depth discussion, please call.

1. www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/financial-well-being-mortgages.pdf; 2. https://www150.statcan.gc.ca/n1/daily-quotidien/240814/dq240814d-eng.htm; 3. Canadian Mortgage & Housing Corporation, Stats Canada T: 34-10-0145-01.

Investing Resolutions From the World's Best Investors

Happy New Year! As we begin another year, here are five investing resolutions and words of wisdom from the world's best investors:

> **"Sometimes the tide is with us, and sometimes against. But we keep swimming either way."** — Charlie Munger

1. Keep swimming. It's easy to feel confident when the tide is in our favour, as it was in 2024. Yet, Munger often emphasized the importance of discipline: keeping a steady stroke regardless of market conditions. Staying invested through the highs and lows, and resisting the urge to overreact to short-term tides, can be key to longer-term success.

> **"The best time to plant a tree was 20 years ago. The second-best time is now."** — Proverb

2. Don't overlook the value of time. After the rapid gains of 2024, it may be easy to overlook the importance of time and patience in investing. Meaningful growth is often measured over decades, not merely days or even years. Starting today, even a modest contribution like $19 per day can yield remarkable results. At an annual rate of return of 6 percent, this small daily amount could grow to over $1.1 million in 40 years — a powerful reminder of the impact of time.

> **"All these noises and jumping up and down along the way are really just emotions that confuse you."** — John Bogle

3. Pay less attention to the noise. On average, we're staring at our screens almost 7 hours a day, amounting to over 17 full years of our lifetimes! While the news we're being fed has always leaned negative to capture attention, this negativity has increased. This may explain why both economic and non-economic sentiment have declined over the last 50 years despite fewer economic setbacks.[1] Focusing too much on tomorrow's uncertainties is counterproductive: it often involves factors beyond our control, causes investors to make hasty decisions and shifts attention away from longer-term plans.

> **"Do not save what is left after spending, but spend what is left after saving."** — Warren Buffett

4. Save more. Saving is among the few elements of investing within our control, unlike factors such as stock market fluctuations, interest rate changes or the timing of economic downturns. Moreover, it is a fundamental pillar in the process of wealth accumulation. Building wealth is possible even with a modest income, yet it becomes improbable without a commitment to saving.

> **"Any sound long-range investment program requires patience and perseverance. Perhaps that is why so few investors follow any plan."** — John Templeton

5. Have confidence in your plan. In our work as advisors, we are here to provide support at every stage of the investment journey to help you achieve your goals. Research continues to show that investors who work with advisors build more wealth over time, with success driven by key factors including asset allocation, savings discipline and coaching to avoid costly mistakes.[2] Have confidence in your plan, and continue looking forward.

1. https://www.ft.com/content/af78f86d-13d2-429d-ad55-a11947989c8f; 2. https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=27821&lang=en_CA

Investing Resolutions for 2025: Find Your Retirement Purpose

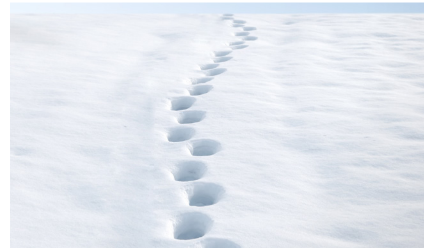
Today's retirees seem to be trading the "fountain of youth" for the "fountain of usefulness," with many stating that it is "more vital to feel valuable than youthful in their retirement years."[1] How about you — what will you do to find purpose in the years ahead?

As we begin a new year, have you considered that planning for the 'what' in retirement may be just as important as planning 'how' to get there? Many of us work hard, save consistently and invest wisely to achieve financial security in retirement. As advisors, we take this role seriously by helping support clients in this regard. Yet, while we often focus on securing our finances, we may spend less time thinking about how to use the time we will have in retirement. And, with increasing longevity, consider that this may end up being a lengthy portion of life — for many of us, one that could last for decades.

A surprisingly high number of retirees struggle with the transition.[2] Many do not realize how much their careers provided a sense of self-worth. Upon retiring, the overlooked benefits of the workplace are no longer there: daily routine, work interactions, social events, leadership status or a professional identity built up over many years. Others find it difficult to adapt to new circumstances, such as changes in relationships with spouses or family members, as more time at home reshapes dynamics in unexpected ways.

Without a doubt, growing older presents a host of new challenges — changes in health, confronting and coping with loss and letting things go, to name a few. However, it also brings new opportunities, including for many the abundance of time. Research continues to suggest that one of the keys to living well during this period is finding a sense of purpose.[3] Retirement coaches often highlight the Japanese concept of "ikigai" — loosely translated as a reason to live — suggesting that this focus can help to make retirement more fulfilling or meaningful.[4]

Does finding purpose lead to better outcomes? Studies in Japan have shown that ikigai can positively impact health, happiness and productivity, helping individuals cope with stress and even promoting greater longevity.[5] Individuals who considered themselves to have purpose were shown to have lower mortality rates and greater lifespans.[6] Researchers who study longevity often point to the "Blue Zones" — five areas in the world where people live some of the longest lives.



One of these zones is Okinawa, Japan, where it has been suggested that some of the keys to greater longevity are a strong dedication to community and a collective sense of purpose.[7] Closer to home, a 2021 study of around 13,000 participants over age 50 associated a stronger life purpose with healthier lifestyle behaviours, slower rates of progression to chronic illness and greater longevity.[8] Other studies suggest a similar outcome: purposeful living may have positive health benefits and is, indeed, associated with decreased mortality.[9]

Of course, the notion of "finding purpose" can mean different things to different people. However, with the luxury of time, retirement offers a unique opportunity for personal growth and exploration. This might include discovering new hobbies, pursuing higher education, continuing to work in a different capacity, volunteering for a worthy cause, becoming a mentor, building new relationships or engaging in more altruistic activities.

What will you do when you leave work behind? As advisors, we're here to help you plan your financial future so you can pursue whatever you choose. Yet, giving forethought to how you'll spend this time is equally important. As one retirement coach notes: "You can retire from your career, but you can't ever retire from life."[10]

1. https://agewave.com/wp-content/uploads/2023/08/08-07-23-Age-Wave-The-New-Age-of-Aging-Report_FINAL.pdf; 2. https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-one-seniors-take-on-how-to-avoid-spinning-out-in-retirement/; 3. https://fortune.com/well/2023/07/28/living-well-after-retirement-finding-purpose/; 4. https://www.marketwatch.com/story/why-this-japanese-idea-can-lead-to-a-more-fulfilling-retirement-11672779167; 5. https://www.weforum.org/agenda/2017/08/is-this-japanese-concept-the-secret-to-a-long-life/; 6. https://pubmed.ncbi.nlm.nih.gov/19539820/; 7. https://www.bbc.com/travel/article/20201126-why-so-many-japanese-live-to-100; 8. https://journals.sagepub.com/doi/abs/10.1177/07334648211027691; 9.https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2734064; 10. https://www.cnbc.com/2022/06/15/67-year-old-who-unretired-at-62-shares-the-biggest-retirement-challenge-that-no-one-talks-about.html

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