The Stan Clark Financial Team's

PERSPECTIVES

In this issue...

Pg. 1 Five tools to avoid the pitfalls of Financial Sirens
Pg. 2 Inflation and stock market returns
Pg. 3 Copycatting Buffett – or maybe just learning from him
Pg. 4 CIBC Miracle Day: Making a difference for kids in need
Pg. 5 SCFT Trivia

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Stan Clark
Senior Wealth Advisor

This month I continue our look at how emotions can lure us into unwise decisions – often at great cost. I describe the tools our team uses to steer your investments clear of such pitfalls, or Financial Sirens. Michael Chu discusses whether the current inflation will be transitory or long-term, as well as possible impacts on the stock market. Michael also suggests what we can learn from famed magnate Warren Buffett about investing. And Sylvia Ellis shares how our donation of all fees and commissions on CIBC Miracle Day goes toward helping children in need.

Stan

Behavioral finance

Five tools to avoid the pitfalls of Financial Sirens

By Stan Clark - Senior Wealth Advisor

Last month, we explored the *Ulysses Contract* – the powerful strategy that helps avoid making investment mistakes due to ingrained biases. Based on Homer's classic story, this agreement commits us to wise actions we won't later change on a whim.

In the original story, Ulysses arranged for his crew to plug their ears with wax, then row him past the sweetly singing Sirens. According to the agreement, the crew would keep Ulysses bound with rope to the mast, his own ears unplugged. That way he could hear the Sirens' hauntingly beautiful song without the risk of leaping into the sea under their lethal spell.

In this issue, let's talk about some important tools we can use to avoid the pitfalls of *Financial* Sirens.

Readers of my articles on behavioral finance know that a wide range of natural biases makes it hard to invest without emotion. Even knowing about the biases won't guarantee avoiding the errors they cause. Like Ulysses, we will be better off using tools, as he did with the wax and the rope, to keep from being influenced too much by biases.

Here are five of the specific tools we use at the Stan Clark Financial Team:

1. Disciplined Stock Strategies – Intuitively it's appealing to learn a company's story, or "get to know" the CEO or top management. However, a smooth-talking CEO, or a company that seems on a roll, can be like the Sirens. They look and sound good, and may be difficult to resist. This can lure even experienced investors into making big mistakes. But by using objective rules to select stocks, rather than relying on subjective judgment and faulty intuition, you can avoid making serious emotional mistakes.

2. Investment Policy Statement (IPS) – With this document, you set guidelines for managing your portfolio, such as how to spread out your money and what strategies to use. An IPS also lays out how to manage risk through diversifying your investments by strategy, country and industry. Making those decisions up front and writing them down helps you avoid the common mistake of buying high and selling low.

3. Equities Targets – You set a fixed percentage of your portfolio to hold in equities. By setting an equities target and sticking to it, you automatically add stocks when markets are low, and reduce them when markets are high. This helps you avoid the common errors that come from trying to time the market. It also helps you to automatically profit from the market's ups and downs.

4. Discretionary Managed Portfolio – Here you authorize an advisor to manage your portfolio on your behalf, following your IPS guidelines. Your advisor can now make decisions without your having to approve every buy and sell. This is a good way to stick to your investment strategy, especially if you are the sort of investor who would otherwise get overly involved in buying and selling decisions.

5. Personal Financial Plan – This written plan helps you make saving and spending decisions by evaluating the trade-off between your short-term and long-term financial goals. Your plan helps you decide if you can retire early, or if you need to work longer. It's also a useful way of getting investors who tend to focus too much on short-term results to adopt a longer-term perspective. And, it helps you stick to your investment plans.

Our team uses tools like these to avoid the pitfalls of Financial Sirens. These tools help you avoid many common financial errors – so you can enjoy the sweet song of financial success!

Knowing about these biases can help. But merely knowing about them doesn't make them disappear. We have to constantly guard against being influenced by them. It sometimes helps to use certain tools, or tricks, to help us make the right financial decisions. I'll write about these next month. ■

Team Talk:

Stan Clark

Senior Wealth Advisor

Daughter Jess with husband Dan

Any major events in the family over the past year?
Our younger daughter Jess married Dan last month. They got engaged August 2019. After postponing a 2020 wedding due to Covid, and with the pandemic continuing this year, they decided on a small family wedding at our home in Whistler. A bigger celebration is planned for more family and friends in 2022, when hopefully Covid is more under control and we can all dance!

The other big news is our older daughter Lindsay and her husband Tom are expecting their second child in March 2022. Our grandson Ryan just found out he will be getting a baby sister. We are all very excited!

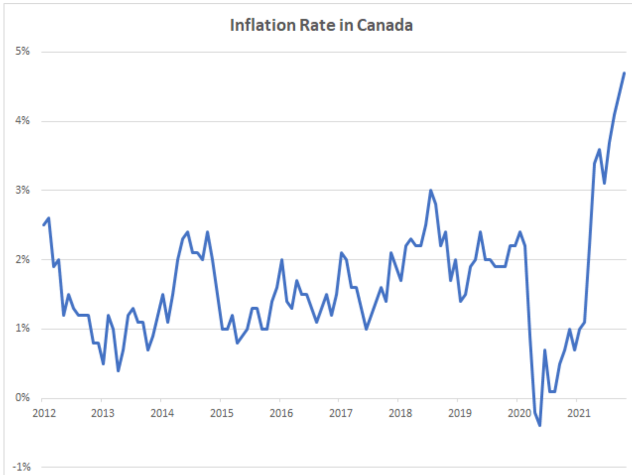
Did you go on any trips this year?
My wife Joanne and I love seeing the world on cycling trips. Although we haven't been out of the country since Covid started, we have enjoyed a couple of wonderful trips locally. Exploring the Gulf Islands on bike has certainly helped us to appreciate how blessed we feel to live in beautiful BC!

Asset Allocation

Inflation and stock market returns

By Michael Chu, Senior Wealth Advisor

Inflation is a big topic these days. Now, whether inflation is transitory or long-lasting – that's still up for debate. But it's hard to deny that prices have been rising across a wide range of goods and services.



Source: Bloomberg

The spike in the above graph might fall back to the 2% goal set by the Bank of Canada. But who knows the longer-term effects of the pandemic and unprecedented government spending? Even in normal times, predicting inflation is difficult, if not impossible.

Ben Carlson of Ritholtz Wealth Management talks about what we're seeing today – and suggests some reasons why this recent bout of inflation could be transitory:

1. Supply shortages, as companies did not see the economy coming back online this soon and will be adjusting
2. People spending money now that things are opening back up, so there is a burst from pent-up demand being satisfied
3. Demand should slow down once extra unemployment benefits and government cheques expire
4. Supply chain bottlenecks should resolve.

Carlson also suggests some reasons inflation could be more elevated going forward:

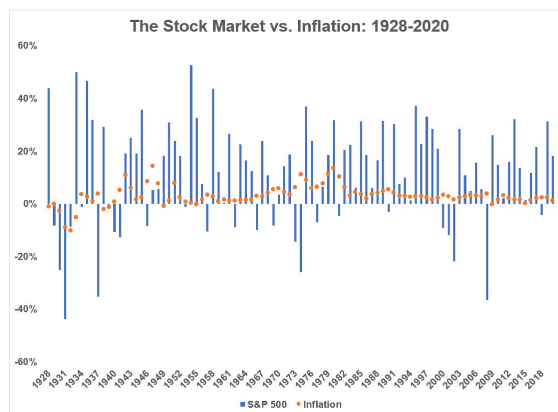
1. Homeowners buying more things with their paper gains
2. Wages are rising and may not revert
3. Lower interest rates might be here to stay, leading to higher borrowing/spending than normal
4. Psychology plays a role, too, driving more demand in anticipation of future higher prices.

At the Stan Clark Financial Team, we're leaning more towards the transitory camp. Price increases could be with us for a while longer, especially as new variants and vaccine hesitancy cause the pandemic to stretch out longer than expected. But we believe central banks have tools to fight inflation. And, we believe that technology and innovation will continue to contribute to lower prices over time.

However, as there's never been an economic experiment of this size before, it's helpful to be prepared for either scenario. No one knows how all these trillions of dollars will impact the trends that were underway before the pandemic in demographics, interest rates, prices, spending, and supply and demand.

Jeremy Siegel, finance professor at Wharton, who last year predicted an upward run in prices when few others did, expects 20-25% of cumulative inflation over the next two to three years in the U.S. before such inflation subsides – which would still be considered as transitory. But Siegel also thinks that inflation could grow worse if the Federal Reserve doesn't get a handle on money-supply growth – which might mean higher interest rates or more bond-tapering sooner than expected. He attributes most of the inflation to a stimulus-triggered surge in demand, rather than to supply issues.

If higher inflation were here to stay, it might seem to be a risk to the stock market – an inflation scare could spook investors. But let's look at some historical data. Here are the annual returns on the S&P 500, along with annual inflation, going back to 1928.



Source: Ben Carlson

As you can see, there's no clear pattern here. Even when past inflation has been high or higher than it is now, the stock market has held up pretty well.

The following table ranks the highest calendar-year inflation rates with the corresponding rates of return on the stock market.

The average return is 9.4%, in line with the long-term average over the last 100 years. In fact, eight of the 17 years shown above had double-digit returns. Note that these are nominal returns, so on a real or after-inflation basis, returns are less – but it's not like things were a disaster, given higher inflation.

So, how *does* the stock market seem to hold up, given higher inflation? A good reason might be that company profits – the main factor in long-

Inflation	S&P 500	Year
14.4%	5.2%	1947
13.6%	31.7%	1980
11.3%	18.5%	1979
11.1%	-25.9%	1974
10.9%	19.2%	1942
10.3%	-4.7%	1981
9.1%	37.0%	1975
8.5%	-8.4%	1946
7.9%	23.7%	1951
7.7%	5.7%	1948
7.6%	6.5%	1978
6.5%	-7.0%	1977
6.2%	-14.3%	1973
6.1%	20.4%	1982
6.0%	25.1%	1943
5.8%	3.6%	1970
5.7%	23.8%	1976

Source: Ben Carlson

term stock market returns – actually provide a pretty good hedge against inflation. Think about it. Inflation occurs when companies raise their prices, and revenues rise as prices rise. If company revenues and costs both increase at the rate of inflation, then company profits, being the difference between them, will also increase at the rate of inflation. This won't be the case for every company, but across the broad range of companies represented by the stock market, profits tend to be hedged this way. This contrasts with fixed-income investments, most of which clearly lose more as inflation rises.

Now, we're not saying the stock market is impervious to inflation. It's just that the two don't necessarily go hand in hand as one might expect. Nobody knows what inflation will be, nor what the stock market will do in the short term in response. Many factors affect prices. It is usually the surprises – the things no one is anticipating – that have a greater effect. In any event, the stock market does seem to be a good hedge for moderate inflation. Best strategy is, be prepared for a variety of situations (including deflation!) and have a good financial plan to help you navigate the future. ■

Michael Chu is a Portfolio Manager and Senior Wealth Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

Investing

Copycatting Buffett – or maybe just learning from him

By Michael Chu, Senior Wealth Advisor

Warren Buffett is one of the world's greatest investors – also one of the richest. And Buffett makes no secret of his process, which is *long-term, value investing*.

Buffett's investment process involves looking for companies with excellent long-term prospects, but priced at a discount to their *intrinsic value*. That's sensible and sounds easy enough. Yet figuring out the intrinsic value – what a company is really worth – is tricky. Intrinsic value is very important, but it's also highly subjective.

If Buffett is so good, why don't others, including us, invest using a subjective process?

That's a good question. A lot of people say they can copy Warren Buffett. But can they, really?

This reminds me of golf. When playing, I sometimes find water between me and the green. Should I go for it, and try to hit the ball over the pond? Or perhaps do something more reliable, like take a couple of chip shots around the water? Sometimes I think I will be lucky and make it over the water. But most of the time, I'm better off taking the conservative approach.

So, I make the more conservative shot. A friend remarks, "Hey, Tiger Woods would have gone over the water. Why didn't you?" It's quite obvious why I would seldom try to play the same shots as Tiger Woods. *Because I can't!* I recognize that Tiger has skills I simply don't.

I'd argue that, like Tiger Woods, Warren Buffett has unique skills that make him special. Buffett has extraordinary analytical skills and independent thinking that allow him to go against the crowd. He has an unusual ability to recognize long-term trends, along with good business management skills and uncommon common sense. Many investors might *think* they have these same skills. Few truly do. So, if you don't have Warren Buffett's skills, then take care in trying to invest like him!

Also, Buffett rarely sells his companies. Perhaps this is yet another skill of Buffett's, as it is very hard to predict which companies will be able to have long-term, above-average growth.

Buffett has a further advantage: tremendous influence. Because he is such a good strategist, he can help "create" growth in his companies. If you don't have these special abilities, the only way to get better growth is to sell sub-par companies, then move on to better ones. You could also argue that Buffett tends to hold on to companies because it's very hard for him to sell, given his business size and iconic status. When Buffett was less well-known, and managed less money, he did trade more often.

Don't take this the wrong way. I'm not trying to shoot down Warren Buffett! Far from it. I think Buffett is amazing. I regard him highly. His approach works great – but maybe just for him. A lot of his approach requires unusual skills that most people just don't have.

At one of Buffett's famed shareholder meetings, a question came up. Why doesn't he have more copycats? Buffett's response: His process is simply "too hard and slow."

The good news is that our approach at the Stan Clark Financial Team follows some of Buffett's most important lessons. But our approach is also within reach of most people. In our *Stock Strategies* guide, we include the following quote from Warren Buffett: "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." We believe this describes our own approach pretty well. ■

Michael Chu is a Portfolio Manager and Senior Wealth Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

CIBC Miracle Day

Making a difference for kids in need

By Sylvia Ellis, Senior Estate Planning Advisor

This year, CIBC's annual Miracle Day was held on December 1. For that special day, we at the Stan Clark Financial Team donated all fees and commissions to the CIBC Children's Foundation.

CIBC founded the Children's Foundation, a registered Canadian charity, in 1984 with the belief that by working with our clients, employees and children's charities, we can make a difference for children in need.

CIBC covers all administrative costs associated with running the Foundation. That means 100% of all funds raised on CIBC Miracle Day go to children's charities across Canada. Since inception, CIBC Miracle Day has raised over $110 million for children's charities across Canada – and $260 million globally.

The Foundation has three areas of focus:

- help for high-needs children
- healthy, active living
- well-being and enrichment.

With its goal of improving the quality of life for children in need, CIBC Children's Foundation is dedicated to helping them prepare for future successes. By focusing on health, education and well-being, the Foundation provides these children with the opportunity to participate in programs that might not otherwise be accessible to them. Such enrichment opportunities are vital in supporting young people in the formative years, encouraging personal and professional growth.

The Stan Clark Financial Team is proud to be a part of CIBC Miracle Day. As we do every year, we invite you to suggest causes that are close to your heart. Last year at your suggestion, we directed funds to 19 charities, including:

- **Sunshine Foundation** – Since 1987, Sunshine has been fulfilling custom-made dreams for Canadian kids living with severe disabilities or life-threatening illnesses.
- **BC Adaptive Snowsports** – Formed in 1973, Adaptive Snowsports enhances the quality of life for children and youth with physical and cognitive disabilities, and for their families and volunteers, by providing opportunities to experience the joy, freedom, and health and wellness benefits of adaptive sports.
- **Cassie + Friends** – The only charity in Canada dedicated 100% to the pediatric rheumatic disease community, Cassie + Friends has raised over $3 million since 2007. These funds help transform the lives of kids and families affected by juvenile arthritis and other rheumatic diseases. Working with patients, caregivers, healthcare professionals, researchers and other friends, the charity provides life-changing support, education, community and research to help kids and families face the ups and downs of life with a chronic condition.
- **HEROS** – The Hockey Education Reaching Out Society is a volunteer-driven charity that uses the game of hockey to teach life skills and empower Canada's marginalized youth. By providing a safe and stable environment for young people to succeed, connect and learn, HEROS guides its participants to become constructive citizens within their communities.
- **Science Fair Foundation BC** – Established in 1997, SFFBC is the largest volunteer science outreach network in the province, supporting science and technology education by inspiring curiosity through the Science Fair program. More than 1,500 science and technology educators and professionals volunteer as mentors, judges and science fair hosts. Students gain the confidence and ability to progress from local and regional events to national and international competitions, where Team BC has consistently excelled.

We thank you in advance for your support!

And, as noted above, we warmly encourage you to let us know about any Canadian children's charities you would like us to consider. ■

Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

CIBC Wood Gundy | The Stan Clark Financial Team

Where planning, investing and behavioral finance meet

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SCFT Trivia

Play our trivia – support the cure!

For every correct entry we receive in our trivia contest, the Stan Clark Financial Team will contribute $1 to CIBC's "Run for the Cure" to raise money for breast cancer research. Each correct entry will also be entered into the draw for this month's prize. Email or phone in your entry today.

Answer all four questions to be entered into the draw for this month's prize. *Hint: You can find the answers inside this newsletter.*

1. Once we're aware of the pitfalls, or Financial Sirens, our emotions can lure us into, we should:
   a. Rest easy in the knowledge that we will henceforth be able to withstand our emotional urgings
   b. Go further than just being aware, and use specific tools to keep our investments on a solid, steady course
   c. Watch for TV features and news articles on the latest, hottest stocks
   d. Congratulate ourselves on being as wise as the classical hero Ulysses

2. In his argument that the current inflation may be transitory, Ben Carlson of Ritholtz Wealth cites as one reason:
   a. Predicting inflation is difficult, if not impossible, so we might as well be optimistic and assume it won't last
   b. People got used to shopping less in the pandemic, so they're unlikely to spend big-time ever again
   c. Supply shortages, as companies did not see the economy coming back online this soon and will be adjusting
   d. Instead of worrying about inflation, we should concentrate on getting that all-important booster shot

3. With a little effort, everyone can copycat investor Warren Buffett in his ability to recognize long-term trends, along with his good business management skills and uncommon common sense:
   a. True
   b. False

4. In the season of giving, CIBC holds its annual Miracle Day. On this special day, all fees and commissions go to the CIBC Children's Foundation, which focuses on:
   a. Help for high-needs children
   b. Healthy, active living
   c. Well-being and enrichment
   d. All of the above

Email answers to: **stanclarkfinancialteam@cibc.ca**
or call (604) 641-4361

One prize winner will be chosen by a draw from all those who submit correct answers. The draw will take place on December 31, 2021.

Trivia challenge runs December 1 - 30, 2021. No purchase necessary. There is one prize to be won. Simply complete the trivia questions correctly to be entered in the draw. Limit 1 entry per person.

Chances of winning depend on number of eligible entries and whether you correctly answer the trivia questions. Open to adult Canadian residents (excluding Quebec). For full challenge rules, write to: The Stan Clark Financial Team, CIBC Wood Gundy 400-1285 West Pender St, Vancouver, BC V6E 4B1.