CIBC PRIVATE WEALTH

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

IN THIS ISSUE:

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Irrational impulses can lead us to unwise decisions. But sometimes, as I discuss in this month's behavioral finance article, they can also prompt us to acts of generosity. There's no self-interest involved – yet, as research shows, giving makes us feel good! On a similar theme, Sylvia Ellis lets us know that CIBC's annual Miracle Day will be December 7. On this special day our team donates all fees and commissions to children in need. And, comparing inflation now and in the 1970s, Michael Chu suggests today's inflation just may have a better outcome.

Stan

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Behavioral Finance

GIVING UNTIL IT FEELS GOOD

By Stan Clark, Senior Wealth Advisor

In his 1964 research study *Altruistic Behavior in Rhesus Monkeys*, **Dr. Jules H. Masserman, M.D., put six rhesus monkeys in a cage. Also in the cage were two chains. If the monkeys pulled the first chain, they received a lot of their favourite food. If they pulled the second chain, they were fed a small amount of a less tasty food. They all quickly learned to pull the first chain.**

After a few weeks the system changed. One monkey pulled the chain and a monkey in a different cage was shocked with electricity. All six monkeys heard him scream and saw him grimace in pain.

The reaction was immediate. Four of the monkeys stopped pulling the first chain. A fifth monkey stopped pulling either chain for five days and the sixth monkey stopped pulling either chain for 12 days. They starved themselves – so that a monkey they didn't even know wouldn't be hurt.

It turns out that people behave in a similar way. Economists usually assume people are rational and act in their own economic self-interest. But research in behavioral finance has documented hundreds of biases that cause us to act "irrationally," at odds with our own self-interest.

Those biases may cause us to do silly and destructive things that harm our finances, including: taking on too much credit card debt; overpaying for fad-like stocks; and bailing out of the stock market after it has fallen. The biases usually result from our emotions manipulating our rational thoughts. As Benjamin Franklin said in his autobiography: "So convenient a thing it is to be a reasonable creature, since it enables one to find or make a reason for everything one has a mind to do."

Although this "irrational" behaviour often leads to harm, it can sometimes lead to good. One puzzle of traditional economics is: Why do people act kindly to others, even when there is clearly no self-interest involved? Why give a tip to a server after the meal has been served, even if you are in a restaurant in another city and will likely never see that person again? Why are millions donated anonymously to charities each year? Why do we do things to help out people we don't know, who will never be able to return the favour?

Brain research shows that a sense of sympathy and caring about other people is deeply embedded in our emotional mind. The research reveals that, if a person has damage to the specific part of their brain responsible for this caring sense, they will lack feelings for others – sometimes with terrible consequences. But most people do have a strong emotional instinct to help other people. Indeed, brain scans have found that when people help other people, the pleasure centres of their brain light up. Giving makes most people feel good.

In 1994, Mother Teresa gave a speech in Washington, D.C. attended by President and Mrs. Clinton, Vice-President and Mrs. Gore and 4,000 others. A main theme of Mother Teresa's talk was *giving until it hurts*. Many people find that giving until it hurts actually feels good! Like massaging a knotted muscle, doing some hard exercise or eating spicy food, sometimes a little pain actually does feel good.

The winter holiday season is approaching, so again we will discover the joy of giving.

TEAM TALK

Heather Guzak
Wealth Advisor

What was the biggest highlight of the past year?

One of the biggest memories my family and I made this year was surprising our kids, Quentin and Tayla, with a trip to Disneyland. Dwayne and I did not get to go to Disneyland as kids so having the opportunity to watch the magic through our kids eyes was amazing!

The weather was perfect, we enjoyed almost every ride and ate a lot of food! The kids got to meet the characters they enjoyed watching in some of their favorite movies and got to explore sets that mimicked Cars and Star Wars.

My husband and I felt like kids for a whole week! We made so many memories that it was emotional to leave. We walked about 30,000 steps a day so it was almost like we needed a vacation after this vacation!

Disneyland, August 2022

Asset allocation

TODAY'S INFLATION – COMPARED TO MASSIVE INFLATION OF THE 1970s

By Michael Chu, Senior Wealth Advisor

The combination of persistent inflation and rising interest rates is a hot topic these days. Both the U.S. Federal Reserve and the Bank of Canada have been hiking interest rates to combat inflation – but they risk hurting the economy if they raise rates too much or too fast. They're in a tough spot. The alternative would be to act too late, and risk inflation getting so bad they'd have to bring the hammer down even harder.

But what, exactly, are they so scared of? In the 1970s inflation was persistently high for the entire decade. Both Fed Chair Jeremy Powell and Treasury Secretary Janet Yellen are quoted saying it was a "terrible period" and "no one wants to see that happen again."

From 1970 to 1981, the average inflation in the U.S. was nearly 8% per year for the decade. In that period there were also four recessions. Canada's inflation boom occurred a few years later, but averaged around 9% for 10 years. That means if a chocolate bar originally cost $1, it would cost more than $2.37 after 10 years, thanks to inflation.

So is that where we are heading? There certainly are similarities. Both in the 1970s and today, we have seen lots of government spending and an increase in money supply. Both periods also experienced food and energy shortages, as well as rapid wage growth. The latter is a big worry for central banks as there's a strong relationship between wage growth and inflation, which makes sense as we'd all spend more money if we made more money.

But there are many differences as well. One of the simplest reasons there likely won't be a repeat is that Fed officials have studied that period and the mistakes their predecessors made. Similarly, there wasn't a replay of the Great Depression in the 2008 financial crisis because Fed officials studied *that* period and the mistakes made. Our knowledge of the 1970s and the scars it left will be one of the biggest reasons a '70s-like outcome probably won't be repeated.

Through the 1960s and '70s, Fed officials and politicians were opposed to raising interest rates to a level that would slow inflation. It wasn't until Paul Volcker took over as Chair in 1979 that the Fed decided enough was enough. Volcker promptly raised interest rates from 10% to over 20%, causing two recessions in three years and sending the unemployment rate to double digits. In the 1960s and 1970s, the Fed originally focused on jobs over inflation. But by the early 1980s, Volcker decided inflation was more important than jobs.

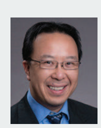
During the pandemic, the Fed decided that keeping businesses alive and people working was its top priority, which succeeded. But now the Fed has shifted its focus to inflation. The new Fed plan has had little success so far – but we must remember these things take time.

We've all noticed the rise in oil prices in last two years, especially at gas stations. However, it's nowhere close to what people had to deal with in the 1970s. Oil prices went from $2/barrel at the start of the 1970s to $34 by 1981. That's a 17-fold increase. In 2020, oil was around $60. To match the 1970s increase, oil would have to go to more than $1,000/barrel! It's about $90/barrel today. Energy also comprised a greater proportion of household budgets in the 1970s than it does today, averaging around 70% back then to 35% today.

There's also a lot of other structural forces at play today that make it unlikely we're in for a repeat of the 1970s. Technology is a huge deflationary force and the pace of technological improvements has been exponential. Labour unions were much more powerful in the 1970s, leading to more rapid wage hikes while limiting the supply of competing labour. Globalization has also reduced costs. Although we might see less globalization going forward, it's not like we're heading back to the way things were in the 1970s.

Demographics is another big factor. In the 1970s, the baby boomers were reaching their prime working and spending years. But they also dwarfed every other demographic, so there was no other generation to offset their spending. Today, millennials are the biggest demographic, and are now entering their prime working and spending years. But the baby boomers still exist and are in or entering their retirement years. In other words, there's a countervailing force to the millennials that didn't exist for the boomers in the 1970s.

It's difficult to predict in the short term how inflation will turn out. It could remain stubbornly high for another year or two. But it's unlikely to be a repeat of the 1970s. There are significant differences in the structure of the economy. And, central banks today have the big advantage of having seen this movie before – its lessons are still fresh in their minds.



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.

Financial & Estate Planning

CIBC MIRACLE DAY: MAKING A DIFFERENCE FOR KIDS IN NEED

By Sylvia Ellis, Senior Estate Planning Advisor

This year, CIBC will hold its annual Miracle Day on December 7. On that special day, we at the Stan Clark Financial Team will donate 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. 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 20 charities, including:

- **Stigma Free Society** – The Stigma Free Society is committed to combating stigma of all kinds, with a focus on mental health. Through its Vision and Mission, the Society fosters programs that cultivate, encourage and educate diverse communities to be inclusive and compassionate by building awareness and understanding through education, support and leadership.

- **Kids Help Phone** - Kids Help Phone has a pioneering history of creating innovative supports for critical issues young people face. It began as a unique telephone counselling service to provide free, accessible support to any young person reaching out from coast to coast. The focus was supporting young people experiencing abuse, but almost immediately young people let the service know they needed more than one focus and more than one way to get in touch.

  Kids Help Phone now concentrates on staying relevant to youth, recognizing the complexity of issues they face, and helping to ensure professional counsellors and volunteer crisis responders are ready to address young people's continuum of emotional and mental health needs. These needs can range from crisis situations to the everyday concerns of growing up.

- **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 connections and research to help kids and families face the ups and downs of life with a chronic condition.

- **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 interest and 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.

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. Researchers have found that when we give to others, e.g., by charitable donations or tips to servers:
   a) We cut back on other spending to make up the difference.
   b) The pleasure centres of our brains light up. Giving makes most of us feel good.
   c) Later, realizing there's been no benefit to ourselves personally, we regret it.
   d) We will give again, but next time less generously.

2. As it is today, inflation was a concern in the 1970s. Both then and now, we have seen lots of government spending and an increase in money supply:
   a) True b) False

3. One reason today's inflation shouldn't reach the extent it did in the 1970s is that:
   a) Today's inflation will be worse.
   b) People will clamp down more severely on their spending than they did in the 1970s.
   c) Officials at the U.S. Federal Reserve have studied that period and the mistakes their predecessors made – and will avoid those mistakes.
   d) Baby Boomers, who are a big segment of the population, are heavily into downsizing.

4. 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. The Foundation 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 30, 2022.

Trivia challenge runs December 1 - 29, 2022. 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.

CIBC WOOD GUNDY | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

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