Express Innovation

Episode 2

Compounding Simplicity

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Compounding Simplicity - Episode 2

On This Week's Episode - Saturday December 21

- We will discuss the value of compounding.
- The straightforward ways to drive this form of growth.
- Where some of our decisions affect compounding and our returns.
- View our weekly stock example - pulled at random from our portfolio.
- Key headlines in the investing news.
- Closing thoughts for next week

Before We Begin:

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The Value of Compounding

- "Avoid disrupting the power of compounding."
  Recent studies and market analysis continue to emphasize the importance of long-term investing and letting compounding work its magic, particularly in the face of volatile markets (e.g., Vanguard's "The Case for Long-Term Investing," October 2024).
- "I need to earn income while waiting for the value of my investments to grow."
  As seen in recent earnings reports and market behavior, many investors are turning to dividend stocks and other income-generating assets during periods of market uncertainty (e.g., BlackRock's quarterly report, November 2024).
- **Patience is crucial—fewer moves and consistent reinvestment are essential for long-term success.**
  Market data over the last few months shows that investors who stayed committed to their strategies, with fewer tactical shifts, outperformed those who frequently traded (S&P 500 Performance, Q3-Q4 2024).
- **The "Hot Tip" or "Hot Sector" fallacy—speculation may play a role, but it should account for less than 5% of your strategy.**
  A surge of speculative behavior in sectors like AI and EVs has led to overinflated valuations in recent months, yet experts continue to advise against concentrated bets (Morningstar's "Avoiding Speculative Bubbles," December 2024).
- **Be cautious of FOMO and media influence—focus on gathering facts, not emotions.**
  Recent market fluctuations and commentary surrounding the election show how sentiment-driven decisions can lead to misguided investment choices (Bloomberg's "How Election Talk Distorts Market Sentiment," November 2024).
- **Post-U.S. election market surge—extreme price movements tend to correct and return to the average.**
  Data from the immediate aftermath of the 2024 U.S. election shows parabolic moves in specific sectors, but historical patterns indicate that these sharp rises typically revert to mean within a few months (JPMorgan "Historical Trends in Post-Election Markets," October 2024).
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Summary of Growth Strategies with Recent Insights

1. **Dividend Reinvestment**
   Reinvesting dividends is a proven strategy to leverage the power of compounding. By automatically reinvesting dividends, investors can significantly boost the long-term growth of their portfolios. This strategy has gained popularity, especially among conservative investors seeking consistent returns in a low-interest-rate environment.
   Recent Insight: According to Vanguard's report on "Dividend Investing in 2024" (October 2024), reinvested dividends can contribute up to 50% of total returns over extended periods.

2. Laddered Fixed Income
A laddered fixed-income approach—dividing bond investments into different maturities—helps mitigate interest rate risk and provides liquidity as bonds mature. This strategy ensures that reinvestment opportunities are spread across varying interest rate cycles.
Recent Insight: BlackRock's "Bond Market Strategy" (November 2024) highlighted that a laddered bond portfolio has outperformed traditional fixed-income strategies during periods of interest rate volatility.

3. Portfolio Rebalancing
Regular portfolio rebalancing is essential to maintaining an investor's risk profile and ensuring that the asset allocation aligns with long-term goals. This disciplined strategy helps lock in gains and avoid becoming too concentrated in any single asset class, especially in periods of high market volatility.
Recent Insight: In their Q3 2024 report, Morningstar found that portfolios that were rebalanced quarterly outperformed those left unchecked by 1-2% annually, demonstrating the importance of maintaining balance.

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Key Points for Optimizing Growth

- **Limit Moves**: Reducing the frequency of trades can help minimize transaction costs and avoid emotional, reactive decisions, which often lead to suboptimal outcomes.
  Recent Insight: A report from Fidelity (December 2024) found that investors who traded less than once per quarter saw an average return of 2-3% higher than those who traded more frequently.
- **Tax Loss/Gain Strategies**: Tax-loss harvesting and strategic capital gain recognition can be crucial in minimizing tax liabilities. This can be especially beneficial in volatile markets, where short-term gains and losses are more frequent.
  Recent Insight: A study by Charles Schwab (November 2024) demonstrated that tax-loss harvesting can enhance after-tax returns by as much as 1-2% per year, especially in taxable accounts.
- **ETF vs. High-Fee Funds**: ETFs generally offer lower fees and are more tax-efficient compared to actively managed, high-fee mutual funds. Over time, the difference in costs can lead to significantly higher returns.
  Recent Insight: According to Morningstar's "ETFs vs. Active Funds" report (October 2024), ETFs consistently outperformed high-fee mutual funds by an average of 1.5% per year over the last decade, due to lower expense ratios and greater tax efficiency.

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Decisions That Affect Growth

1. In and Out in a Day or Two – Covid-19 Trading or Blackjack Mindset

Frequent trading based on short-term market movements—often driven by panic or news (such as during the Covid-19 market crash)—can resemble gambling more than investing. This approach can lead to higher transaction costs and missed long-term growth opportunities.

- **Recent Insight**: According to **CFA Institute's report** on "Behavioral Biases and Market Volatility" (November 2024), investors who engaged in high-frequency trading during volatile periods, such as the 2020 Covid-19 crash, underperformed long-term investors by an aver 4-5% annually due to emotional trading and transaction costs.

2. Paying for High Multiples – Chasing Valuations

Chasing stocks with high valuations in hopes of continued price appreciation can be risky. Buying at elevated multiples—especially in the case of growth stocks—limits potential upside and exposes investors to the risk of correction.

- **Recent Insight**: **JP Morgan's "Growth vs. Value" report** (October 2024) warns that stocks with high price-to-earnings (P/E) ratios—especially those significantly above the market average—have underperformed by 7-10% annually over the past three years, as the market begun shifting from growth to value stocks.

3. Missing Dividend Cycle – Not Following Buy-and-Hold Strategy

Failing to reinvest dividends or not maintaining a buy-and-hold strategy can reduce long-term growth potential. Missing key dividend payouts prevents compounding from maximizing returns, especially in low-interest environments where dividends provide consistent income.

- **Recent Insight**: **Vanguard's "Dividend Investing Outlook"** (October 2024) highlights that long-term investors who consistently reinvest dividends saw up to 30% higher total returns over a 10-year period compared to those who took dividends as cash.

4. FOMO – Deviating from a Diversified Portfolio

The Fear of Missing Out (FOMO) often drives investors to overconcentrate in high-risk or trendy sectors, such as tech or AI. This increases portfolio volatility and exposes investors to higher downside risk, especially during market corrections.

- **Recent Insight**: A **BlackRock study** (November 2024) found that portfolios concentrated in speculative sectors like AI or electric vehicles (EVs) underperformed by 5-7% in Q3 2024, as market sentiment shifted and high valuations began to correct.

5. Overweighting Speculation – Too Many Higher-Risk Stocks

Allocating too much capital to speculative stocks can yield short-term rewards but significantly increases risk. Speculative stocks—such as biotech, cryptocurrencies, and startups—are highly volatile and prone to sharp corrections, which can hurt portfolio growth during periods of market instability.

- **Recent Insight**: According to **The Wall Street Journal** (December 2024), portfolios with over 20% allocated to speculative stocks saw losses of 15-20% in the final quarter of 2024, as broader market corrections hit high-risk sectors hard.

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Review the Master Spreadsheet

Review YTD Results in the Sample Portfolio

Discuss a Headline in the Financial News

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Compounding Simplicity - Episode 1

December 21, 2024

Review the Master Spreadsheet

2021 Jan 1				
Non Registered - TFSA, Canadian Margin, US Margin	**Total Value**	**Cash**	**Invested**	**% Cash**
Cash Accounts	$5,000	$5,000	$0	0
CDN Margin	$15,000	$1,000	$24,000	7%
US Margin	$15,000	$1,000	$24,000	7%
TFSA	$80,000	$0	$100,000	0%
Totals	**$115,000**	[illegible]	$108,000	[illegible]
Registered - RRSP/RESP	**Total Value**	**Cash**	**Invested**	**% Cash**
RRSP+Commuted Pension $	$250,000	$5,000	$295000	2%
Totals	$250,000	$5,000	$295000	2%
Grand Total All	**$365,000**	$12000	$403000	3%
House Value	$400,000			
Auto Values	$20,000			
Other Assets	$55,000			
Total of All Assets	**$840,000**			
Total Liabilities	$275,000			
Total Assets Net Liabilities	**$565,000**			
Available TFSA Contribution	$5,000			
Available RRSP Contribution	$5,000			
Forecasted Investment Income				
USD CAD =	1.33			
Mortgage Rate	4.5%			

Key Data::

Non-Registered Accounts - YTD Returns = 32%; Profit/Tax Loss Harvesting Plans; Adding safety in fixed income 5% overall?, reducing total names for 2025.

Registered Accounts - RRSP Contribution room to Feb, 2025, adding safety in fixed income?, Reducing total names - shift out of mediocre names.

No Moves Week of December 16th - See Charts!

Other Assets:

- Home - Value of Home
- Autos - Value of Autos
- Other - List with values

Debt:

- Mortgage - Total amounts owing
- Line of Credit - Total amounts owing
- Auto Loans - Total amounts owing

USD/CAD - Document for Quarter
Mortgage Rates - Document for Quarter
LOC Rates - Document for Quarter

TOTAL ASSETS LESS LIABILITIES - QoQ and YoY Growth/Decline
Highlight Contributors to Growth or Decline

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Quarterly Top Three Account Performance and Activity - Thom's Sample

Returns and Top/ Bottom Equities	US Margin	Action	Can Margin	Action	RRSP	Action
10 Year Return	256%	Target 97%	83%	Target 97%	59%	Target 110%
5 Year Return	143%	Target 40%	53%	Target 40%	28%	Target 48%
Top Three						
1						
2						
3						
Bottom Three						
1						
2						
3						
Other Holdings						
ETF's Listed Above						
Considering						
Other Notes	Returns do net reflect dividend income; Canada market assumed to "catch up" some of gap to USA over next three years, USD to fall back once USA drops interest rates in line with EU and other G7 countries, ETF participation with Vanguard or Blackrock but looking at adding others. Portfolios structured to include Transports, Pharma, Telecom, Tech, Financials, Energy and Technology. Moving to 25% ETF to capture broader market while maintaining top names by sector where possible.					

Review YTD Results

Key Data::

10 Year Returns - US Margin 256%; Canadian Margin 87%; Canadian Registered: 56%

5 Year Reruns - US Margin 146%: Canadian Margin 46%; Canadian Registered 32%

US Markets driving overall portfolio growth including USD at 1.41 CAD.

Top US Names: Apple, JP Morgan and Uber

Top Canadian Names: TC Energy, Royal Bank of Canada, XAW ETF

What are we looking at:

Profit taking in Q1 to harvest some gains.
Adding fixed income as % of overall portfolio - Bull run has been great and we fully participated.
Adding to laggards with positive financials.

Other:
Alibaba Rollercoaster
Bell Canada Disaster
TD Bank Struggles

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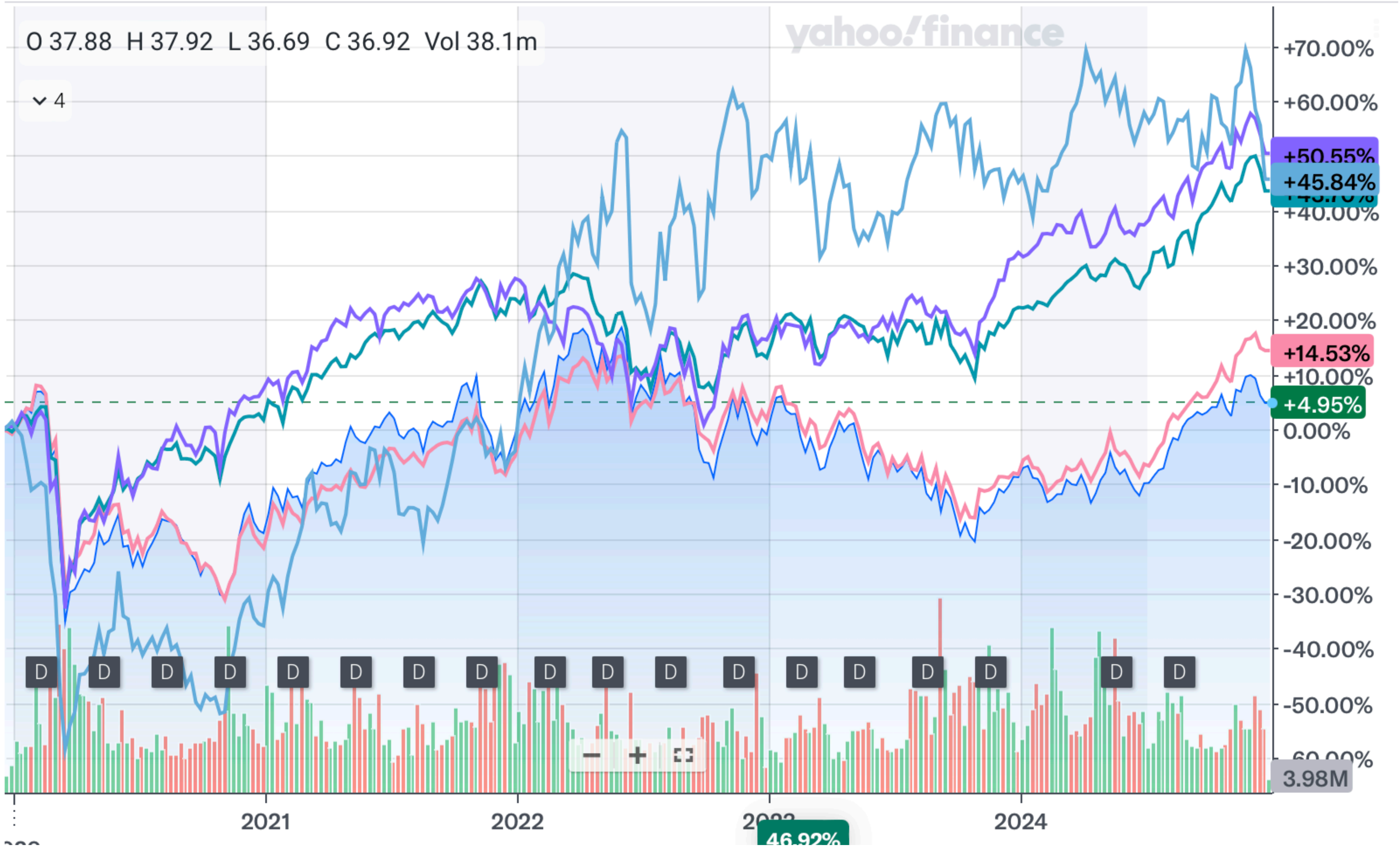
Pick A Stock - Enbridge



Vanguard Energy
S&P
DOW
Enbridge

Five Year View
Enbridge Underperforms
Optimism in new Admin
Strong Performance
+20% plus dividends

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Pick A Stock - Enbridge

AVERAGE SCORE

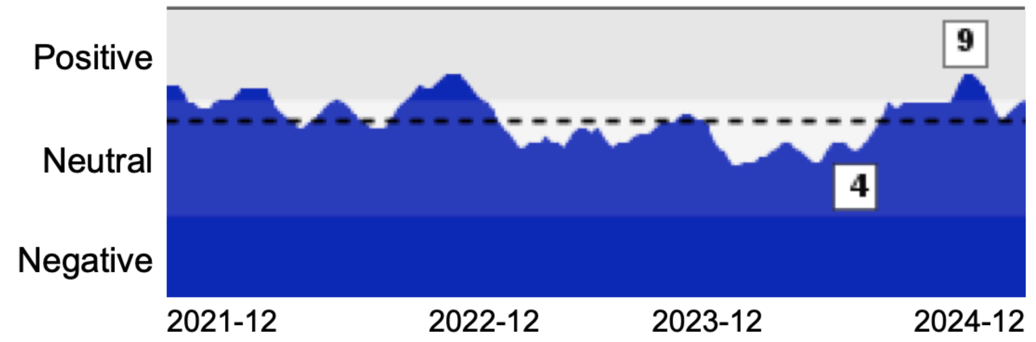
AVERAGE SCORE **7**

NEUTRAL OUTLOOK: ENB's current score is relatively in-line with the market.

Score Averages

Oil & Gas Equipment & Svcs. Group:	7.1	Large Market Cap:	7.5
Fossil Fuels Sector:	6.1	TSX Comp Index:	7.2

Average Score Trend (4-Week Moving Avg)



Peers	-6M	-3M	-1M	-1W	Current	1Y Trend
ENB	7	8	7	7	7	
TRP	6	8	7	7	7	
PPL	8	7	6	6	6	
TVK	8	8	8	8	6	
SOBO	NR	NR	NR		5	

HIGHLIGHTS

- The score for Enbridge Inc last changed from 6 to 7 on 2024-11-10 and has remained the same for 6 weeks.
- In the past 3 years, the best score was 9 on 2024-09-29, and the worst score was 4 on 2024-05-12.

I/B/E/S MEAN

Buy
22 Analysts

Mean recommendation from all analysts covering the company on a standardized 5-point scale.

Strong Sell	Sell	Hold	Buy	Strong Buy

Financial Condition	GAAP Data					Growth Rates		
	2019	2020	2021	2022	2023	1-Year	3-Year	5-Year
Cash / Short Term Inv.	488.8M	355.4M	225.7M	644.4M	4.4B	580%	NM	NM
Current Assets (B)	6.7	5.8	7.1	9.1	10.7	18%	85%	66%
Current Liabilities (B)	12.1	11.0	14.4	15.2	12.9	-15%	18%	16%
Working Capital (B)	-5.4	-5.2	-7.3	-6.1	-2.3	NM	NM	NM
Short-Term Debt (B)	4.0	3.2	6.1	6.0	4.8	-20%	50%	49%
Long Term Debt (B)	45.0	49.4	53.6	54.6	55.5	2%	12%	22%
Total Debt (B)	49.0	52.6	59.7	60.6	60.3	-1%	15%	24%
Shareholders Equity (B)	49.8	48.2	48.0	44.8	45.6	2%	-5%	-13%

Ratio Analysis						Trend		
	2019	2020	2021	2022	2023	1-Year	3-Year	5-Year
Operating Margin	17%	20%	17%	15%	21%	Higher	Higher	Higher
Net Margin	11%	8%	12%	5%	13%	Higher	Higher	Higher
ROE	9%	5%	11%	5%	11%	Higher	Higher	Higher
ROA	3%	2%	4%	1%	3%	Higher	Higher	Higher
Current Ratio	.6	.5	.5	.6	.8	Higher	Higher	Higher
Interest Coverage	3.8	2.5	3.9	2.4	3.0	Higher	Higher	Higher
Dividend Payout Ratio	112%	219%	116%	269%	125%	Lower	Lower	Lower
L-T Debt/Equity	102%	117%	128%	137%	137%	Lower	Higher	Higher
Total Debt/Total Cap	47%	51%	53%	55%	55%	Lower	Higher	Higher

Performance: +20% plus dividends

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Weekly Headline - Extreme Volatility