



2023 First Quarter Update

The first three months of 2023 have been positive in both the bond and stock markets. As you can see from the chart below, stock indices in North America, Europe and Asia are all up by varying degrees.

We had a shock in March, with two U.S. banks failing and needing rescuing. The federal government stepped in to guarantee deposits of all customers to avoid a loss of confidence in the system. One of the causes was the rapid increase in interest rates for the U.S. Federal Reserve, which caused the reserves to lose value because they were held in longer duration bonds and decreased in value in the short run.

According to Bloomberg News, there have been over 500 U.S. bank failures since 2008. Many were small regional banks and did not make international headlines. There still are about 4,700 banks of various sizes in America. We can be thankful the Canadian banks are subject to stricter regulations and are much more stable.

The fight against inflation continues. Inflation rates in Canada have fallen to 5.2% in February (last data), down from 5.9% in January. The stubborn number is food prices, which are still up 10.6% year-over-year. The price growth was lowest in Alberta at 3.6% year-over-year as of February. One of the biggest sector drops was in childcare and housekeeping services, which was down 33.8%! This decrease is due almost entirely to the national childcare plan to reduce childcare costs. (*Statistics Canada Consumer Price Index, February 2023*)

We often mention our balanced portfolio in the quarterly update and thought it may be helpful to explain how it works. Balanced portfolios have an overall mix of about 60% stocks and 40% fixed income. The stock side is diversified in a few ways, including geographic, sector and size of company. It's wise to be invested outside Canada due to the limited variety of sectors we have (natural resources, plus some financial institutions).

The fixed income portion is made up of government bonds and cash for stability, although last year fixed income was negatively impacted by the rapid rise in interest rate. In the longer term, however, the fixed income portion of a balanced portfolio works to temper the volatility of the stocks in the portfolio. On a daily basis, many factors affect unit values, including:

1. Stock prices – could be up or down, depending on stock indexes
2. Interest rates – bond rates up (negative value), bond rates down (positive effect)
3. Canadian dollar vs. foreign indices – dollar up (value down), dollar down (value up)

The overall effect is to ensure some growth from the stock side and stabilize larger market swings with the fixed income side. The highs are not as high, but lows are not as low.

Our balanced portfolio is up about 3.5% to 4.5% so far this year, with the bond side adding 1.1% +/- to the overall total. The Canadian dollar had a slightly negative effect on returns as it was up a little against the U.S. dollar.

	Market	Dec 31/22	Mar 31/23	YTD
Canada	TSX	19385	20100	3.69%
U.S.	DOW	33147	33416	0.81%
U.S.	S&P 500	3840	4110	7.03%
U.K.	FTSE	7452	7746	3.95%
France	CAC	6573	7337	11.62%
Germany	DAX	13869	15605	12.52%
Japan	NIKKEI	26095	28041	7.46%
Canadian \$		73.53	73.93	0.54%
Oil (US\$)	WTI	80.26	75.68	-5.71%
Western Canadian Select	WCS	52.64	61.32	16.49%

**Source: CNN Money

April 2023

Bridget's Baby News!

Bridget and Adam welcomed the newest addition to their family, Spencer Peter Berg, on January 17, 2023. Everyone is doing well and getting at least a little sleep. Congratulations to Bridget, Adam and big brother Wesley!

Tax Refund?

Here are some tips for using your refund wisely:

1. Pay down consumer debt! Start with the credit card or loan that has the highest interest rate.
2. Top up your emergency savings. Consider opening a separate no-fee, high interest savings account for your emergency fund.
3. Contribute to a Tax-Free Savings Account. This is the best way to save for larger purchases in the future.
4. Contribute to an RRSP to increase your tax savings for next year!
5. Donate the money to a charity. There are significant tax savings to being charitable and it goes to a good cause.

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Investing in an Uncertain World

Several years ago, we featured a series of articles summarizing principles from the book *The Laws of Wealth: Psychology and the Secret to Investing Success* by psychologist and behavioural finance expert Daniel Crosby. Given the global events and economic factors that have not only made headlines but have also affected many aspects of our daily lives over the past year (or three!), it is not surprising that there is a great deal of unease among investors these days. Crosby's rules for managing your behaviour and investing process provide a good framework for understanding—and learning to curb—the occasionally irrational thinking we bring to the financial table. We thought it would be a good time to revisit some of these concepts, so this quarter we are reviewing an article that first appeared in our October 2017 newsletter. We hope this wisdom will help you as you face any uncertainty in the coming months.

The Laws of Wealth

The human brain is wired to hold on to negative events. This may have been key to our survival against predators long ago, but now can be a hindrance to becoming wealthy through investing. Our minds are naturally drawn to thoughts such as “What if the market drops and I lose all my money?!” We at Maude Financial have been asked some version of this question countless times! Investing goes against almost all our natural human tendencies. For that reason, we must rely on automation and the help of professional financial advisors. Together, they give us the reassurance that we are doing the correct thing, even though our minds are telling us to sell everything and run for the hills!

Previous newsletters reviewed Daniel Crosby's first and second Laws of Wealth*. Rule #2: “You Cannot Do This Alone.” He explained that research has shown investors who work with a financial advisor have greater rates of return over the long term. The research reveals that this outperformance is largely due to the advisors acting as your behavioural coaches, preventing you from making emotional investing decisions.

Rule #3: Trouble is Opportunity

Because we are human, we treat any downturn in the market as the end of the world. However, truth be told, “they arrive as regularly as spring flowers.” Market corrections occur on average one per year and bear market occurs on average every 3.5 years. That means as an investor, you can expect 10-12 bear markets in your lifetime. Despite the regularity of the market downturns, long term rates of return are still positive.

The problem with a market downturn is not that your account value has decreased, but rather your fearful reaction to that decrease. If you allow fear to take over, you will make irrational decisions. This is completely understandable considering how the human brain is hard wired. However, Crosby suggests that you think “bear markets, recessions and especially uncertainty are the psychological price you pay for strong returns.”

There is true opportunity in market downturns. We often equate market declines to a sale. Would you rather buy a pair of shoes for full price or when there is a sale on? Imagine a sale of 20% savings. That would be a great sale on shoes, so why not on the market?

Investing challenges the most basic human instincts. To be successful in investing requires you to change your perspective and trust in a good advisor that will assist you in setting up a plan that does not require you to rely on market timing. Advisors also keep you from giving in to fear. We are all human and in need of a confidence boost when the going gets tough.