Key Ideas for Wealth Building Success

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From listening to the media and online commentators, we have identified two key observations that can impact your efforts to build assets and wealth over time.

The first is the way many individual investors place one-way bets on their market investments. As long as the investment is making money, all is good. But the minute the investment sinks for a couple of days or goes negative (relative to their starting capital), they quickly sell.

As famed investor, Warren Buffet says, in the short term the investment markets are voting machines and in the long term they are counting machines - for your wealth. In other words, being too emotional and impatient in the short term may cost you returns and wealth-building opportunities in the long run. Buffet says the real rewards come over longer periods of time by investing in quality companies where profit growth inevitably leads to wealth growth of investors who own these companies via mutual funds or segregated funds.

The second observation is that many individual investors tend to expect that economic news is absorbed by economy and investment markets relatively quickly. These investors expect that new information is "priced" into markets almost instantly.

The challenge with this second observation is the "transmission effects" that determine the time it takes for economic changes to be felt at the household level. For example, when interest rates rise quickly over a short period of time, the impact is usually not broadly felt amongst the populace for up to two years. It can take time for higher interest rates to impact consumer debt or mortgages and the economy in general. One observer noted that - using 5 year term mortgages as an approximation - about 20% of mortgages in Canada renew annually, therefore the impact of the rising interest rates will likely have a ripple effect over several years.

During times of economic uncertainty, our advice is to stay focused on the long term as the economy absorb news or changes. The basics rules of investing remain the same and will seldom change as quickly as market conditions change.

The other chatter in financial news is about how quickly things will return to a pre-Covid "normal". There are several factors to consider when contemplating these ideas:

1. Rising inflation and rising interest rates are likely to affect overall economic activities for at least several more years. Governments globally are likely to create more money to meet budgetary and debt servicing needs. Since the start of the Covid crisis, the US alone issued the equivalent of about 40% of all the US government debt accumulated from 1776 to the present.[1]
2. The USD dollar is increasingly being replaced as the primary global trade settlement instrument. The recent rise of the BRICs currency regime is foreshadowing the likely continued decline of the US dollar as "King" of the global trade system. This new trading bloc is using other global currencies, such as the Chinese Yuan, and gold, to settle trade amongst their members.
3. Globalism - as an economic operating model - is increasingly being replaced by trade groups and blocs. This long-term shift will likely impact trade flows and the cost of goods for a decade or more. For example, the US is moving to "re-shore" some of their manufacturing capabilities - such as producing basic medicines and the mining of rare earth minerals - to replace Chinese facilities and supplies.
   Governments are also increasingly playing a larger role in their economies. Government GDP activity (as a share of overall economic activity) is increasing just about everywhere. The Canadian federal government accounts for about 40% of economic activity, and also for the largest proportion of new jobs created since the Covid Pandemic. In England, the number is about 54%, France about 65% and the US is closing in on 40%. This rise in Statism - and the belief that Governments can solve all of society's challenges - is leading to an increasingly centralized command and control approach by governments around the globe.

For all these above reasons, in the years ahead it will be even more important to have a carefully planned strategy for building and maintaining wealth.

Call us today for a review of your financial strategy [1] to ensure that your assets are properly positioned for today's economic realities.

[1] US National Debt Tops 30 Trillion [2]

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