Nexus Notes

December 2022
Vol. 27, No. 4

Featuring:

Invest *Thoughtfully*™

NEXUS

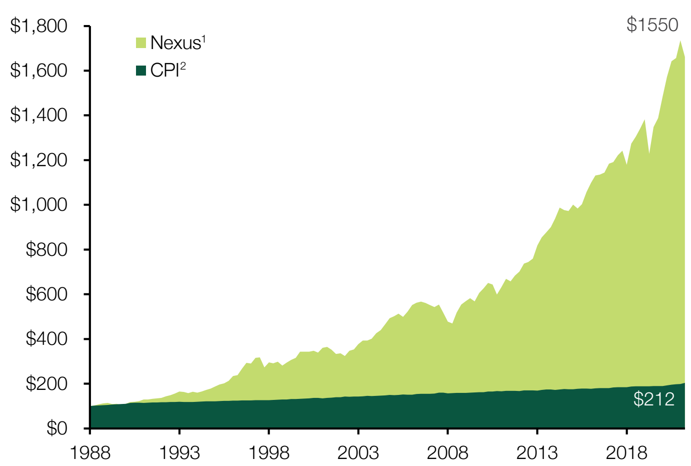
Our market-resilient investment strategy focuses on long-term results, providing investors with peace of mind through all stages of life.

Building Value for Clients

Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term.

The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,550 at September 30, 2022.

$100 Investment with Nexus in 1989



NEXUS

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1 "Nexus" reflects the performance of a composite of Nexus accounts managed to a balanced mandate (until September 30,1997) and the Nexus North American Balanced Fund (thereafter). Returns shown prior to the deduction of investment management fees.

2 CPI is the "all-items" Consumer Price Index for Canada, not seasonally adjusted.

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To download a copy of this issue, or to access more resources go to: nexusinvestments.com/insights/nexus-notes-quarterly/

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FROM THE EDITOR

Wish List:

Whether it's unfinished holiday shopping or a project you're still in the middle of, December tends to sneak up on us. And so, I'm probably not alone when I find myself repeating that I can't believe it's the end of another year.

At the end of November, Nexus held its annual client event in person for the first time since 2019. It was an opportunity to meet new faces, as the latest additions to the Nexus team were there to meet our clients, old and new. It was also a chance to try a new format for the annual event; one focused more on appreciating and celebrating you: our clients. We invited a guest speaker, Bruce Kirkby, an acclaimed explorer, writer, photographer, and television host. He shared with us some of his amazing travel adventures and brought perhaps a bit of inspiration in how to view the world and adversity.

The year also brought with it the passing of Nexus's founder, Bill Berghuis. When I started with Nexus in the summer of 2019, Bill was still a frequent fixture in the office. I had only a brief period working with Bill before the pandemic had us all sequestered in our homes. But I'm proud to be a part of the firm he built. John Stevenson shares more about Bill's accomplishments in his "In Memory of our Founder."

Also in this issue, Jim Houston draws on his lifetime of experience to advise younger adults on why they should plan for the future. Geoff Gouinlock provides insights into the art and science behind long-term investing with his article, "Lessons From the Art World and Beyond." And learn about an exciting update to our website from Alex Jemetz.

Finally, if it is unfinished holiday shopping you are contending with, I've asked Devin to lend a hand.

Your Nexus Holiday Shopping Guide from Devin Crago!

Are you plumb out of gift ideas to put under the tree? At Nexus, we're here to help with our tongue-in-cheek Shopping Guide. Not only are these perfect gifts, but they're also produced and sold by the very companies that you own in your Nexus portfolio. Like the magic of the season, these suggestions are sure to bring a sparkle to the eye of your loved ones as well as good tidings to the bottom line of your investment portfolio.

1. If you're looking for a gift that makes a statement, how about putting an oversized bow on a BMW i7 Electric? Not only can this vehicle go from 0 to 100 km/h in only 4.7 seconds, but it's also fully electric and has a range of up to 512 kilometers. Imagine how many post-COVID in-person visits to our office you could make on just one charge! While you're visiting us for a portfolio review, we would be delighted to highlight the BMW shares we own, the compelling 6.7% dividend yield and attractive valuation.
2. If luxury German automobiles don't speak to the loved one on your list, perhaps you ought to go even bigger. How about a GMC Hummer EV? It's not just a truck, it's a super-truck. It has 1,000 horsepower. It is equipped with CrabWalkTM technology, which uses all four wheels to drive the car diagonally at low speeds. It can also be outfitted with GM's Super Cruise driver-assistance technology for hands-free driving. It can raise itself an additional 6 inches, in case you need to pass over any pesky bags of coal. And of course, the Hummer's off-road capabilities are legendary, making it just the thing for navigating your way through construction to Nexus headquarters in downtown Toronto.
3. Looking for something a little less splashy? Something rare and hard to find? Why not stock up on Children's Tylenol at a CVS drugstore across the border? Nexus's Dianne White and Devin Crago recently did just that, filling up their sacks for delivery to the team at Nexus and their families. While it might seem simpler to visit Rexall or Shoppers, global supply chain woes have made this product hard to find north of the border. Thankfully the shortage appears to be only temporary and the boys and girls of Canada, alongside their pediatricians and parents, should be well-stocked to begin the new year.
4. Are you hosting a larger family get-together than was possible for the past few COVID-restricted years? Head to Metro to load up on freshly baked holiday treats, yule logs, panettone, fine cheeses, sustainable seafood and eggnog. Just don't forget the ultra strength Tums. We're sure you'll be delighted with the quality and will discover that, despite inflationary pressures, you'll be able to find a deal to your liking in the Metro weekly flyer. In fact, this week roast beef is on sale for 6.88/lb!

On behalf of everyone at Nexus, we wish you a happy and healthy holiday season.

Brad

Brad Weber, CPA, CA, CFP

IN MEMORY OF OUR FOUNDER

William Warren Berghuis

(1932-2022)

by John C.A. Stevenson, CFA

"The culture of the firm today owes everything to the seeds that were planted by Bill Berghuis."

On Thursday, November 10, 2022, Nexus's founder, Bill Berghuis, died in Toronto. He had recently celebrated his 90th birthday and danced at the wedding of his eldest grandchild. He lived a full and happy life.

In the summer of 1988, Bill had the courage to walk away from the established investment firm that then employed him to hang out his shingle and start a new firm, Berghuis Investment Counsel. While pursuing a successful career in the institutional investment field, Bill attracted a number of individual clients. By 1988, Bill decided that this was what he most wanted to do, and he founded his new firm dedicated to private clients. The transition made sense, as Bill liked nothing more, his whole life, than to help other people.

The last 34 years have been a remarkable journey for his firm. Denys Calvin wrote a detailed history[1] in December 2021, and in December of 2018 Alex Jemetz interviewed Bill[2] for Nexus's 30-year anniversary. Suffice it to say, the success of the firm was rooted in Bill invariably saying "yes" to some new idea, even though an easier or more comfortable solution might have been "no". One of these "yes" moments was the proposal to combine the fledgling Berghuis Investment Counsel with Vantage Investment Counsel. Effective January 1, 1996, this combination led to the birth of Nexus.

Nexus has grown to be a substantial firm in the private client segment in Canada. Bill was incredibly proud of what the firm has achieved. Importantly, the culture of the firm today owes everything to the seeds that were planted by Bill Berghuis. Long before the days of regulatory "know your client" rules, Bill believed that we needed to know our clients so well that we were certain that everything we did was in their best interest. No detail was too small to ignore when serving clients. Integrity mattered more than anything else. We needed to earn and maintain the trust of our clients by the actions we took every single day. Moreover, Bill's love for investing was infectious.

It seemed that Bill knew everyone in Toronto's investment community. Having worked in the investment business all of his life, and having served terms with the Toronto Society of Financial Analysts and the Toronto Stock Exchange, everywhere he went he was greeted with warmth and appreciation. All you had to do was walk with him from one building to the next in downtown Toronto, stopping every 50 paces to chat with someone different, to appreciate how much he was loved and respected.

Every employee who ever worked at Nexus was inspired by Bill in some way. We will dearly miss him.

1 https://nexusinvestments.com/insight/in-memory-of-our-founder/

2 https://nexusinvestments.com/insight/celebrating-nexus-at-30-an-interview-with-bill-berghuis/

On Thursday, November 10, 2022, William (Bill) W. Berghuis died in Toronto, surrounded by his family. He had recently celebrated his 90th birthday and danced at the wedding of his eldest grandchild. He lived a full and happy life.

Born on October 6, 1932 to William and Corinne Berghuis in Fergus Falls, Minnesota, Bill attended Blake School in Minneapolis, Princeton University (Class of 1954) and Harvard Business School (Class of 1956). It was at Harvard that he met his beloved wife of almost 65 years, Faith (née Heward), before heading to Japan as a First Lieutenant in the U.S. Army.

With a lifelong passion for investing, Bill built a career in the investment business, ultimately founding Nexus Investment Management in Toronto. He served on many boards, both professional and in his community.

His values, work ethic, and kindness were rooted in his small-town upbringing and Dutch heritage. He engaged and was generous with all who crossed his path. His greatest joy was spending time with family in the Thousand Islands near Brockville. An avid tennis player, Bill was active on the court into his late 80s. He especially loved many lively Fernbank cottage dinners, kicked off with his signature bourbon sour cocktails, and spirited banter amongst three generations. He was immensely proud of his four children and eight grandchildren, now living in Toronto, Baltimore, New York and Chicago.

In addition to being devoted to his wife, he was a great role model to his children: Brian (Heidi), Derek (Jessica Chutter), Kate Stevenson (John), and Willa Baynard (Rob). He will be dearly missed by his grandchildren: Anna Berghuis; Andrew, Jennifer and Kevin Berghuis; James (Mairéad) and Willa Stevenson; and Kate and Caroline Baynard. He was predeceased by his sister, Katherine Berghuis Gray.

We are grateful for the compassionate care of the doctors and nurses at St. Michael's Hospital.

The family will hold a private burial service. A celebration of Bill's life will take place early in the new year. In lieu of flowers, the family wishes that donations in his memory go to St. Lawrence Anglican Church, Brockville, Ontario, or Grace Church on-the-Hill, Toronto.

Happy Days Were Way Back When

A Young Person's Guide to Boring

by
Jim E. Houston, CIM, FCSI

Sung to the 1930's tune of "Happy Days Are Here Again!"

Happy days were way back when.
When retirement savings meant nothin',
You had a decent pension, way back then. Happy days were way back when!

Just a couple of generations ago, during most young adults' grandparent's heyday in the mid-fifties, the average retirement age in the U.S. was 68.4 for men and 67.8 for women. The good news was that life expectancy was 68.7 years. Ipso facto, not much worry about how to fund one's retirement. And if you were so bold as to live beyond the age that you were actuarially expected to die, then you were probably supported by your former employer's defined benefit pension plan.

Well. How things have changed. Although, as the Monty Python troupe described the hardships of their youth, today's young adults may not have had to "walk three miles to school, through deep snow, uphill both ways", they do face a much greater task of successfully executing retirement plans. The average retirement age in Canada is now 64 years old, and the life expectancy of a person currently aged 65 is 85.0 for men and 87.6 for women. As recently as 2017, the probability of one survivor of a couple living to 100 was 8.7% for a couple aged 65, 12.1% for a couple aged 45, and

15.7% for a couple aged 25. These days it's probable that individuals will need to fund retirements that could last anywhere from 20 to 35 years.

The funds to support lifestyle expenses through retirement will generally come from three sources – government plans, private pensions, and personal savings.

The most commonly utilized government plans in Canada are CPP and OAS. The current maximum benefit from the Canada Pension Plan (CPP) for someone who begins to claim at age 65, is approximately $15,040 per year. The annual maximum from Old Age Security (OAS) is about $8,225, (this begins to get clawed back when your total income from all sources rises above $82,000 per year). These government programs are indexed to inflation so while the number will be greater in future years, you are not gaining any purchasing power. So, there's your fall back. The best you can do with government plans works out to about three-quarters of what the average apartment in Toronto would rent for.

It's possible that you may have contributed throughout your working years to a company pension plan, but that defined benefit plan that I talked about earlier is likely not your type. As life expectancies rose through the 1960's, 70's and 80's, employers and pension consultants realized that it would be tougher and tougher to fund and maintain the extended flow of benefits to their plan members. Defined benefit (DB) plans quickly gave way to defined contribution (DC) plans, where employers are obliged to contribute to the plan on behalf of working members, but no longer obliged to pay defined benefits to its retirees. With this change, the responsibility of managing the investments in the plans shifted from an industry of investment professionals to individuals more interested in their children's soccer schedules and summer vacations. Sounds dangerous.

The final source of common retirement funding is personal savings. Setting money aside from an early age can significantly supplement the retirement funds available from government programs and private pensions and is generally necessary to support a lifestyle similar to that lived while working. Considering that you may be spending it for 30-odd years, it's not ridiculous to think that you should be saving for the same period.

So, what's a (young) person to do?

Take advantage of the power of compounding.

The Rule of 72 allows you to calculate how many years it will take money to double, given an annualized rate of return. Dividing an annual return of, say, 7.2% into 72 means that your money will have doubled in 10 years. If you were to set aside $500 per month for 30 years and achieve a 7.2% annual return, after 30 years, your combined $180,000 in savings would be worth $634,613.

Take advantage of government savings vehicles.

Tax-Free Savings Accounts (TFSAs) shelter investments held within from tax on interest and dividend income, and capital gains. Savings should be made in a TFSA before using a non-registered account. The maximum contribution room for a person born before 1992 is currently $81,500. Each year, that amount increases. In 2023, the annual additional contribution will be $6,500.

Registered Retirement Savings Plans (RRSPs) can help reduce your income tax bill. Contributions made to an RRSP are tax deductible, thereby reducing the taxes you pay in the year the contribution is made. Investment returns within the RRSP are not taxable, but eventual withdrawals are. The higher your income and tax rate, the greater the benefit provided by making RRSP contributions.

Tax-Free First Home Savings Accounts (FHSAs) were proposed in the 2022 federal budget. While not currently available, if you imagine saving for your first home, it is proposed that the FHSA will allow you to make tax-deductible contributions, shelter your investment returns, and withdraw the funds to purchase your first home without paying any tax. FHSAs will effectively combine the best components of TFSAs and RRSPs.

Invest responsibly.

If you're lucky, there may be a time when you can afford to lose all of the money invested in a risky investment. If so, then "swing for the fences" with the amount that you can afford to lose. However, your retirement savings should be invested in a high quality, disciplined, conservative manner. Permanent loss of capital caused by a bad investment is the greatest enemy to long-term returns.

Don't count on inheritance.

With increased life expectancy, inflation and taxes, Mom and Dad will be hard pressed to make their own retirement savings last. While there may be something coming down the road, best not to count on it.

Young adults have a lot of exciting things going on in their lives – advancing careers, getting married, buying houses, having babies. All those things make the saving for retirement discussion seem pretty stodgy and boring. But speaking as a sixty-something, I'll tell you that you won't regret acting early

Sources:

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Lessons From the Art World And Beyond

by Geoffrey J. Gouinlock, CFA

I began my career on Bay Street in 1982 trading Government of Canada bonds at what was then called Dominion Securities.[1] It was a simpler time. The bond market was a loose, free-wheeling environment and filled with characters who had toiled through the vicious bear market engineered by then Fed Chairman Paul Volker to stamp out the ravages of inflation.

People smoked at their desks and drank at lunch. Foul-mouthed tantrums were commonplace. Many of the most senior and capable traders on the street had little formal education. Analytical calculations used ponderously slow bond calculators, of which there might be only one or two on a desk of six or seven traders. Risk management was primitive at best. Neither credit nor duration exposure was accurately quantified or tracked. We established trading positions based on a limited amount of stale economic data and a very limited understanding of economics. Our trading room was driven by a singular focus on the short-term. Alas, unbeknownst to all of us, we were on the cusp of one of the great bull markets in history – basically a 40-year one-way trade where yields declined from 18% to 0.50%. It was a trend that supported many careers and many egos. Ahh, those were the days!

Eventually though, a degree of sophistication arrived in the trading room. The introduction of personal computers with specialized math chips made calculations more widely available and accurate. As a result, trading desks came to understand far better the risks they were assuming and how to hedge their exposure when needed. By 1988, I was working at JP Morgan, running a trading desk under the exacting eye of a transplanted Frenchman, Hervé Huas. He had an impeccable education, considerable comfort with financial math, and he applied both math and logic to the decisions made in the trading room. I remember him exhorting me, “Geoff, 2 + 2 equals 4. Not a number between 3 and 5!” In a short period of time, precision came to matter in a trading room. Those who embraced it were successful and made arbitrage profits. Those who continued to pursue gut feel and hunches eventually succumbed to trading losses.

Investing and trading are fundamentally different.

I left JPM in 1995, and joined Nexus in 1996. In my time here I have been fortunate to work with individuals who bring a lot of brain matter to the analysis of securities and portfolios. No smoking, no drinking and no foul-mouthed tantrums! One of the first things I learned when I was getting started, was the difference in time horizon necessary to make good decisions. We discuss daily news developments, but we invest for the long-term. Our investment decisions incorporate an assessment of many factors including: an understanding of what drives business profitability and growth, the quality and experience of management, and valuation of the security in question. There is almost no discussion of the short-term. It is a qualitative as well as a quantitative process. By design, it is entirely different from what happens on a trading floor. In fact, the pursuit of precision, so necessary on a trading desk, can in fact be the enemy of long-term investment success.

Impressionism or Still Life.

Why might this be? The answer is straight-forward. It is because portfolio managers are always and unavoidably making decisions in an environment of uncertainty. When you are investing for the long term, you must accept that there is likely to be a wide difference between your expectations and how the world unfolds. In this respect, it is the words of the French Impressionist painter Henri Matisse, rather than my former boss, Hervé Huas, that are more instructive. Matisse declared, “Exactitude is not truth.” This is true for great artists and it is great advice for portfolio managers. The “art” of portfolio management is in the style of the Impressionists and accepts that demanding the precision of a “still life” painting subtracts from the chances for long-term success. The world does not sit still for the portfolio manager.

Portfolio Management – A Marriage of Art and Science

A good portfolio manager understands that the future is unpredictable, and that forecasting is helpful for context, but not essential for long-term investment success. There are qualitative (art) and quantitative (science) aspects to creating properly diversified portfolios. The trick is to be able to blend both skills together. It is a balance that our investment team works at constantly.

Another practical method to raise the probability of long-term success is planning. The wealth planning process is inherently focused on the long term. When laying out the financial requirements over the span of a client’s life, it is easier to avoid the temptation of short-term investment decision-making and more natural to consider the appropriateness of a long-term investment approach.

The world seems an especially unsettled place these days. The issues that inject an air of uncertainty cover a broad spectrum of worrying health, geo-political, and economic news. It is an environment where it is hard for investors to keep a long-term focus. It is tempting instead to concentrate on the short-term. But, over the arc of my career, I have come to strongly believe that such a temptation is unrewarded in the long term. Having a long-term plan and sticking to it is the best way to raise the probability of long-term success.

“Exactitude is not truth.”

1 Now called RBC Capital Markets.

by Alexandra Jemetz, CIM

Ok, we might not be as sophisticated as Amazon or Google, and we won't be eavesdropping on any of your conversations. But we did learn a few things we could be doing better from our client survey earlier this year. Again, we thank all those who participated for your thoughtful and valuable input. We are listening, and we thought we'd take just a moment to share a sampling of the conclusions.

One of the takeaways is that we need a convenient and trusted place for our clients to go for Frequently Asked Questions (FAQs). Think of it as a Nexusized Alexa! Certain common themes cropped up in the feedback we received from our clients, including portal accessibility, how to understand our reporting, how fees are calculated, and many other topics. As a taste of what's to come, you can read some examples to the right.

We also learned that our onboarding process has room for improvement, primarily in the communication of what the client should expect once they say, "I want to be a client". So, we are preparing a client-friendly, onboarding document outlining exactly that – a sort of "What to Expect" for new clients.

We also received some feedback on ways to improve our quarterly presentations, most notably to focus more on the holdings in our portfolios. We're also exploring other ways to do this, beyond our investment presentations.

Another important take-away is that clients who use our wealth planning service find it valuable. There were some questions on how often a plan should be updated and when to do a check-in on how a client is doing. We are looking at ways to better present this information, so expect to see some information in the FAQ section, and possibly some changes in our reporting in the future.

As always, we're here for you. If you have any questions or concerns – or more feedback – you can contact your Nexus Relationship Manager at any time.

Ask **aNexa!**

Q: I didn't know I could get my reporting online. How do I go about setting that up?

A: Yes, you can get your reporting online, in paper form – or both! You can also suppress certain reports, if you choose to. If you would like to change the method of receiving your reports, or which reports you want to receive (RBC and/or Nexus), contact your Portfolio Administrator or your Relationship Manager.

Q: I've forgotten how to access my client portal. Can you remind me?

A: Sure! On our website you will find a "Client Login" button on the top right menu. To log in, you'll need your email address that Nexus has on file for you and your Password. Your Password is either the one you received automatically when you signed up for the Portal, or the one you last changed it to. If you have forgotten it, simply click the "Forgot Password" button and you will be directed how to change it. Your Portfolio Administrator or Relationship Manager can help.

Gritty By Design

A Nexus Annual Event
featuring acclaimed explorer

Bruce Kirkby

> "In a world where disruption, volatility, uncertainty, and change never cease, GRIT is more critical than ever."
>
> – **Bruce Kirkby**

After three years of virtual celebrations, we are thankful to have hosted our annual event in person this year.

Missed the event? Watch a recording featuring an introduction from Nexus's Alex Jemetz and a moderated Q&A with Bruce and Nexus's Dianne White and Devin Crago.

https://bit.ly/nexus2022pres

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Nexus Holiday Hours

The Nexus office will be closed on the usual statutory holidays (December 26th, 27th and January 2nd) as well as the Friday before Christmas (the 23rd). Otherwise we'll be at our posts, including on Wednesday, Thursday and Friday, December 28th, 29th and 30th.

Worth a Thousand Words...

A little humour makes the world a better place.

A regular feature in *Nexus Notes* is the inclusion of a topical and insightful editorial cartoon. While some may address more serious or controversial issues, we particularly delight in amusing reflections on our current society. We hope you enjoy.

"Hells yes I do."

Image used with permission: David Ostow, The Cartoon Bank/The New Yorker Collection

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Thoughtfully™

At Nexus, we offer thoughtful wealth planning and investment management with unparalleled personalized service to private clients and foundations.

NEXUS

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