

Nexus Notes

March 2023

Vol. 28, No. 1

Featuring:

How Much?

Don't Worry, Be Happy

Pearls of Wisdom

Getting to the "Good Life"

Worth a Thousand Words

A photograph of three business professionals (two men and one woman) sitting around a large wooden conference table in a modern office setting. They are all smiling and looking towards the camera. The background shows large windows with a view of a city building.

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

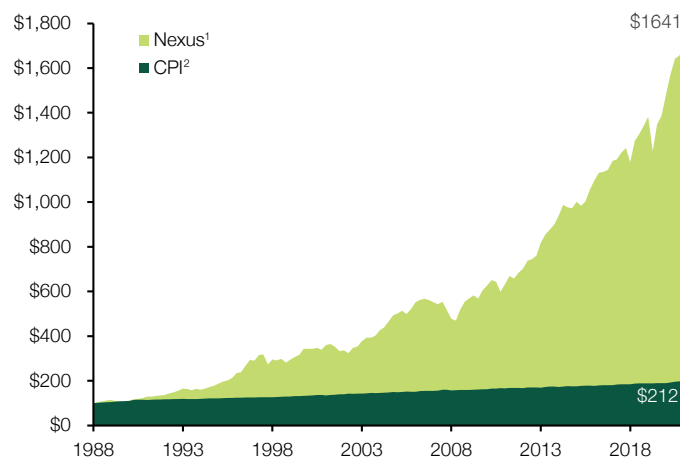
Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term.

The chart illustrates the impact of this long-term investment thinking – a \$100 investment in a balanced portfolio in 1989 has grown to \$1,641 at December 31, 2022.

NEXUS

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\$100 Investment with Nexus in 1989



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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FROM THE EDITOR

How Much?

Canadians love talking about real estate, particularly the affordability of housing in cities like Toronto and Vancouver. In fact, wondering how young people will find the money to buy a house could be a national pastime. Perhaps in response to this preoccupation, the government has introduced a new program, the Tax-Free First Home Savings Account (FHSA), to aid people in getting started as homeowners. It allows individuals to contribute a lifetime maximum of up to \$40,000, parcelled out in \$8,000 annual limits, and features a variety of tax benefits. Indeed, many of these benefits are reminiscent of the Canadian "registered home ownership savings plan (RHOSP)" that was phased out in 1985.

The FHSA represents a collection of features from other types of registered accounts. Like an RRSP, contributions are tax deductible and don't need to be claimed in the year they are made. Instead, one can carry the amount forward to future years if one thinks that might be an advantage. But unlike the RRSP, if you want the contribution to count in the current year, you must make the deposit by December 31st. Contributions in January and February of the following year can't be applied back to the previous year. Similar to the TFSA, if the withdrawal is used to purchase a first home, there are no taxes payable on the money withdrawn. And as with both the RRSP and TFSA, any investment income earned in the FHSA is tax-sheltered.

The FHSA fills a similar role to the RRSP's Home Buyers Program (HBP), as they are both meant to help first time home buyers purchase a property. But neither program is clearly superior to the other. Which program will work best depends on a first-time buyer's individual financial circumstances. For instance, one can build a higher amount in the FHSA, and the withdrawal doesn't need to be paid back, but it will take a minimum of 5 years to fully fund the FHSA. In theory, the HBP could be funded in two years but needs to be paid back.

Settling which is best may be beside the point because they can be used together, borrowing \$35,000 from an RRSP through the Home Buyers Program and saving \$40,000 in the FHSA. When combined that's \$75,000 in total (or \$150,000 for a couple), using both programs could be a powerful tool. Although saving this amount of money might be a stretch for many young people,

we know that many parents are preparing to help their kids meet the challenges of getting into the housing market.

Some of the unique features of the FHSA worth highlighting include the following:

- One can carry forward unused contribution room, but that is only triggered when an account is opened.
- A maximum of one year's worth of room can be carried forward.
- If you name someone other than your spouse as the beneficiary of the account, there could be tax consequences to said beneficiary. If there is a balance in the FHSA at death, the non-spouse beneficiary must include it in their taxable income. This is very different from when you add non-spouse beneficiaries to an RRSP or TFSA account.

It is early days, and only time will tell how much this new program will improve housing affordability. At this time, there remain some formidable administrative challenges to managing these accounts. So, whether we can play a role in managing such accounts is still undecided.

As stated earlier, the utility of the FHSA and the HBP differ according to an individual's circumstances, and we are here to help our clients (and their children) navigate the best way forward. We hope you'll feel encouraged to discuss the suitability of these programs with us.

Also, in this issue of *Nexus Notes*, John Stevenson makes an argument for optimism with our long-term investment approach in "Don't Worry, Be Happy." In a similar theme of positivity, Kathleen Peace delves into the Harvard Study on what drives happiness in our lives.



Brad Weber
CPA, CA, CFP





DON'T
WORRY



BE
HAPPY

An optimistic view of the future is what drives our investment outlook.

A recent article by David Brooks in *The Atlantic* magazine argues that, despite the heavy shroud of pessimism that envelopes most of our current discourse, there is a surprisingly strong case for optimism about the future.¹ Some might recall the keynote speaker at our (virtual) annual client event in 2021, Matt Ridley, who wrote a well-regarded book on this same topic: *The Rational Optimist*. It is a theme that we have discussed before and one that we think is important.

We first would like to recognize that what we argue is excessive pessimism actually has its roots in evolutionary biology. As a species, we're physically and emotionally wired to be most sensitive to threats and risks. It's the survival of the fittest. It explains why bad news sells more newspapers than good news. It's why we believe someone telling us bad news more readily than someone telling us good news – subconsciously, we think the bearer of bad news is trying to help us; we worry the bearer of good news may be trying to trick us. Instincts cause most people to be pre-disposed to see the glass half empty rather than half full.

For certain, there is lots to be concerned about as we look at the world around us: the Russian invasion of Ukraine, the state of political discourse and the quality of our political leaders, the effects of climate change on our planet, and the inevitable collapse of the Leafs in the first round of the playoffs. However, as Brooks points out, "Negativity is by now so deeply ingrained in American media culture that it's become the default frame imposed on reality." A Gallup poll in January 2022 found that 17% of

Americans were satisfied with the direction of the country compared to 69% in 2000. Interestingly, the people who are most pessimistic are the affluent and most highly educated. In Canada, the same pessimism is in evidence. A recent Leger poll found that 67% of Canadians agreed with the statement that "everything in the country is broken right now."²

In reality, every decade in modern history has had its challenges for Canadians and Americans. Pessimism is more the rule than the exception. Brooks points to the 1890s as being a particularly worrisome time: unemployment in America surged from 3% to almost 19% among the working class, and there was "savage inequality, rapid technological disruption, pervasive political dysfunction, and controversial waves of immigration... And yet, the 1890s didn't lead to American decline – they led to the American century."

In contrast with the lugubrious mood in society, both Brooks and Matt Ridley highlight the numerous ways in which our current world is objectively better off than that of our forebears. There are big historic trends, such as the fact that from 1980 to 2018 the number of hours an average person had to work to afford the basket of commodities required for a middle class lifestyle fell by 72%. There is also the fact that 75% of adults raised in working class households today have a higher inflation-adjusted income than their parents did. And that 28% of American children lived in poverty in 1993, but only 11% did in 2019 – still too high, but a remarkable improvement.



by John C.A. Stevenson, CFA

The future also remains bright despite the obvious challenges that Canadians and Americans face. Brooks believes that “a society can get a lot wrong so long as it gets the big thing right.” In his view, that “big thing” is a culture of creativity and innovation which remains vibrant in open economies and societies such as Canada and the U.S. He points out that America ranks second in the Global Innovation Index, behind only Switzerland. It leads the world in foreign direct investment. Investment in U.S. venture capital has surged to \$332.8 billion in 2021 from only \$45.4 billion 10 years earlier. And since 2020, there has been a surge in small business formation. The pandemic drove people indoors, but not everyone binged on Netflix or spent their days riding a Peloton. Many started new businesses. For example, there were 28% more Black small-business owners by the end of 2021 than before the pandemic. As well, the collapse of supply chains during the pandemic caused many manufacturers in Canada and the U.S. to realize that outsourcing supply to far away places might be cost effective, but too risky. We expect a renaissance of investment and hiring among many North American manufacturers as supply chains are brought closer to home.

Brooks believes that entrepreneurial energies evident in the world around us will allow our society to deal with most of these existential challenges. Free and open economies have a remarkable ability to adapt and turn challenges into opportunities. He argues that a society declines when it loses energy. Canada and the U.S. are filled with energy.

Why do we think this is so important? It is because an optimistic view of the future is what drives our investment outlook. We don't think that the world is going to hell in a hand basket. Opportunities abound to reinvent the way our world is powered, how we care for our fellow citizens, and how our quality of life can be improved even further. The stunning development of mRNA vaccines is just one recent example of such innovation. Not every new idea will change the world or prove to be a good investment opportunity. But we are confident that Canada and the U.S. will enjoy continued economic growth in the years ahead. And for wise and careful investors there will be lots of opportunity to grow portfolios and prosper.

¹ David Brooks, “Despite Everything You Think You Know, America is on the Right Track”, *The Atlantic*, January 13, 2023. The quotes and statistics in this essay are all sourced from this article.

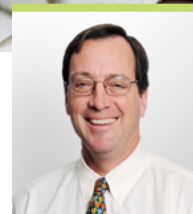
² *The Globe and Mail*, February 16, 2023.

Pearls of Wisdom

Reading is one of the principal occupations in our profession. As we digest a wide range of material, interesting ideas and surprising facts – some serious and some light-hearted – rise to the surface. We attempt to share a few of those with you in this issue of Nexus Notes.

Karma Anyone?

In January 2010, a pair of young sisters, (2 ½ years old and 5 years old) responded to a fund-raising drive in Sault Ste. Marie, Ontario, after a devastating earthquake in Haiti had killed thousands of people and left much of the country in ruins. When the local chapter of the Red Cross set up a donation table during a Greyhounds hockey game, the sisters donated the entire \$61.38 that they had saved in their piggy bank. On January 7, 2023, 18-year-old Juliette Lamour (the older of the two sisters) won a \$48-million lottery jackpot, making her the youngest winner of such an enormous payout. Incredibly, it was the first lottery ticket she had ever purchased. She stopped at a convenience store to buy some ice cream for a visit with her grandfather and when she called to ask him what flavour he wanted, he urged her to buy a ticket now that she was 18. Juliette works as a part-time pharmacist's assistant in the Soo while she studies biology at Algoma University. The windfall won't change her priorities. She will continue with her four-year program, with a goal to attend the Northern Ontario School of Medicine and come back to practice in Northern Ontario. After the win, she said, “Money doesn't define you. It's the work you do that will define you.” Wise indeed. (*SooToday*, February 5, 2023)



by
Jim E. Houston,
CIM, FCSI

Wardrobe Worries

Vanessa Friedman, chief fashion critic of *The New York Times*, was once asked by a reader (whose husband has very few items of clothing and believes in minimalism), “How many pieces of clothing do I actually need?” That's a loaded question! In an attempt to answer the unanswerable, Ms. Friedman offered three perspectives. 1) A survey from ClosetMaid, found that the average American woman owned about 103 pieces of clothing. 2) The Pareto principle would suggest that 20% of one's wardrobe is worn 80% of the time, and 3) From the book *Marie Kondo's Kurashi at Home: How to Organize Your Space and Achieve Your Ideal Life*, “Taking the time to assess and make sure each garment serves a purpose and sparks joy in your life is more important than focusing on the amount of what you have.” (*New York Times*, October 10, 2022)

Shower Thoughts

Turns out that some of a person's most creative thoughts may come to them while in the shower. In fact, a 2019 study of 98 professional writers and 87 physicists found that ideas that came to them away from their jobs were just as creative and important as the ones they had at work. While some researchers have suggested that such “mind-wandering” has a disruptive negative effect on performance, the author of this study feels that “mind-wondering,” which is playful and curious, may actually be helpful. According to another study, most creative, spontaneous thoughts were reported during a moderately engaging activity rather than a boring one. (*Washington Post*, January 12, 2023)

Getting to the “Good Life”



*“What do I need for a
good retirement?”*



by Kathleen Peace, CFA, CFP

Enter the question “What do I need for a good retirement” into Google, and you will find links providing advice on investment mistakes to avoid before retirement, the amount of money one needs to retire, and, if in doubt, calculators to determine whether you’ve saved “enough” for the next stage in your life.

We can all agree that “enough” money is necessary to retire. Investing properly and planning well for our clients so they achieve financial *peace of mind* are Nexus’s primary goals. Having money allows for choices, expands our options, and can increase the potential for living your “best life”, whatever that may mean to you. But what, besides money, makes for a “good” retirement? How can we live our best, long lives?

This question is increasingly on our minds, so much so that we launched our “**Living to 100**” campaign last year to provide insights on living well now and into the future. We recognize that a healthy, sustainable financial plan is only one piece of the puzzle. Good nutrition, regular exercise, having purpose – these all have their roles to play in a fulfilling life. But what makes the most impact? How can we be assured of a solid return on our “wellness investment”? To answer this question, we took a deep dive into the Harvard Study of Adult Development – the longest in-depth longitudinal study of human life ever done.

The Good Life: Lessons from the World’s Longest Scientific Study of Happiness⁽¹⁾

In 1938, Harvard set out to understand human health by studying what makes humans thrive. It followed the lives of two generations from the same families for more than 80 years. One critical factor stands out for its consistent impact on physical health, mental health, and longevity: good relationships.

The Science

“To say that humans require warm relationships is no touchy-feely idea. It’s a

hard fact. Positive relationships are essential to human well-being. Our relationships are the investment of a lifetime. They keep us healthier and happier. Period.”¹

Think of the good feelings we experience when we share a laugh with a friend, bond over a shared experience with a colleague, or take pride in the achievements of a loved one. These feelings are connected to our biological processes, which respond positively to contact with others. Our brains say to us: Yes! More of this please, because these positive interactions tell our bodies we are safe. When we feel safe, our physical defense mechanisms are calmer, and our sense of well-being is increased. The subsequent impact on our health includes lower stress, better and faster healing, and, yes, a longer life.²

Contrast that with negative interactions, which create the sense that we're in danger. This strain stimulates our bodies to produce stress hormones like adrenaline and cortisol. These in turn produce feelings of pressure, tension, and strain. Unchecked stress and its negative impact on our thoughts, feelings, and behavior are well-known. The resulting health problems, such as high blood pressure, heart disease, and depression, to name a few, are unquestionable hindrances to a long and happy life.³

Social Fitness

So how can we build strong relationships – keep them in good health – and thus reap the resulting emotional and physical rewards? The Harvard Study recommends that we endeavor to improve our “social fitness.” Just as we must make a conscious effort to move our bodies when striving for physical fitness, so must we also make the effort to maintain our relationships.

It's not always an easy task. For instance, how does a person gauge the current health of their relationships? And if we feel that an important relationship is suffering, how do we bring it back to life?

The Study recommends that we first need to determine the current reality of our social sphere. Begin by creating a list of the important people in our lives. From there, the Study's practitioners offer a process of mapping our social universe, assessing the quality of each relationship, and deciding what – if anything – we might like to change. A daunting prospect to be sure. But the potential rewards, “The Good Life” tells us, are significant.

It's Never Too Late

One of the more comforting conclusions of the Harvard Study is that it's never too late to improve our relationships, and it's never too late to start new relationships. The physical and mental benefits start accruing immediately and compound over time. With that in mind, why wait? Here are some of the principles from the Study to help you start the process of revitalizing your relationships today:

You get what you give.

- Support in a relationship goes both ways. Are you giving what you'd like to receive in your relationships? And in turn, are you receiving what you need?

Curiosity improves connection.

- Being curious helps others to feel understood and appreciated. It encourages others to be more open with us, which in turn helps us to better understand them – an energizing process for all involved.

Time and attention cannot be replenished.

- Thanks to social media and a never-ending news cycle, we all suffer from “continuous partial attention.” Think about the last 24 hours... what absorbed your attention? Was it the people with whom you want positive relationships?

Investing in our “Longevity Portfolio”

Our founders established Nexus on the very basis of their relationships with each other, some of which span over 30 years. Our ever-deepening relationships with our clients ensure that we are increasingly capable of helping them achieve financial peace of mind. We do so with an increasing awareness of other, equally important assets in which your “Longevity Portfolio” might be invested. Thanks to our friends at Harvard, we know that relationships are the most precious of these assets. Deciding how to invest in them is one of the most important decisions we can make.

¹ The Good Life: Lessons from the World's Longest Scientific Study of Happiness, Robert Waldinger and Marc Schulz, January 2023.

² “5 Benefits of Healthy Relationships”, Northwestern Medicine, September 2021.

³ “Stress Management”, Mayo Clinic.

Living to 100

*Insights on how to live
your life now, and well
into the future.*

[www.nexusinvestments.com/
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Worth a Thousand Words...

**A little humour makes the world
a better place.**

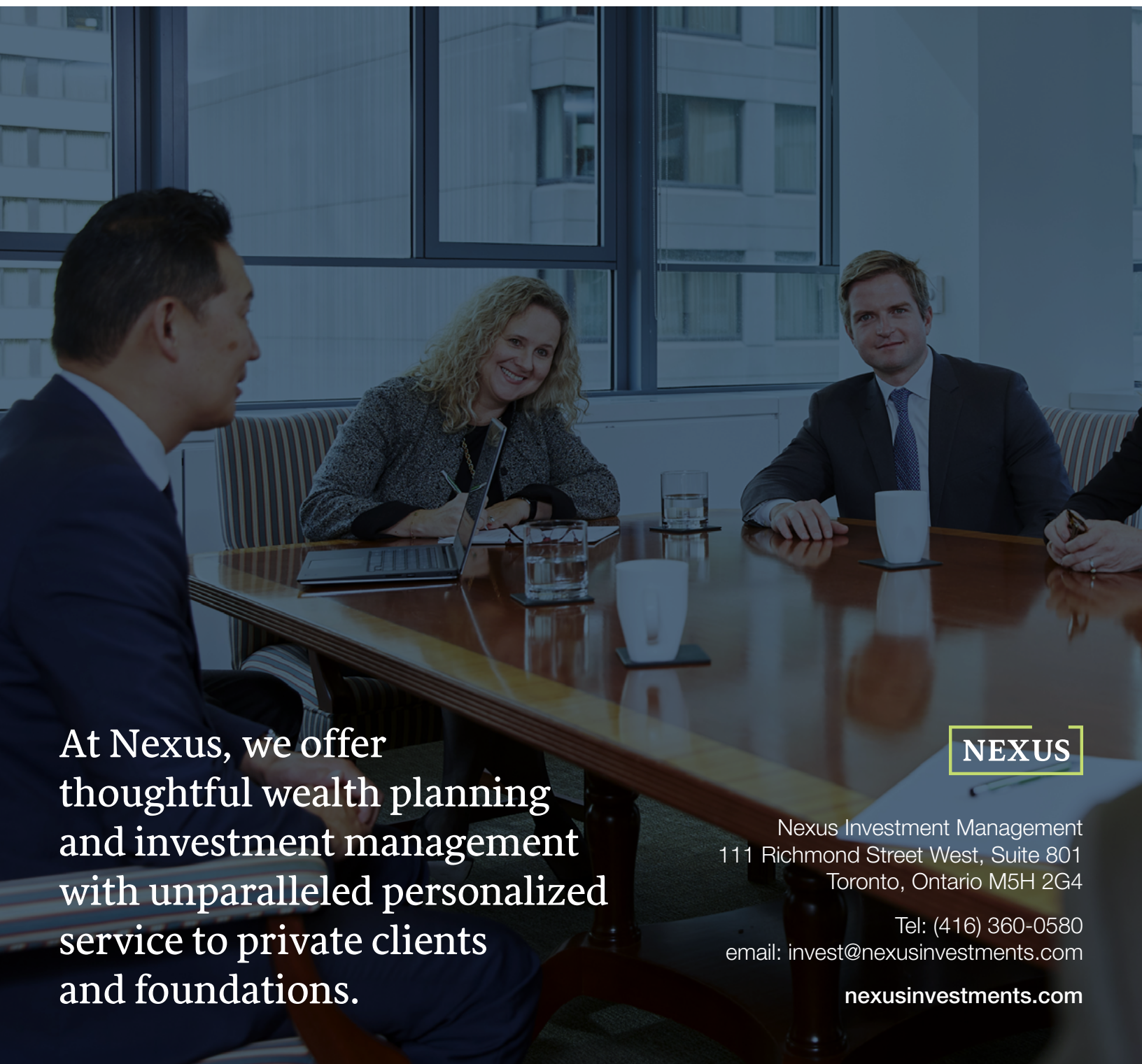
A regular feature in *Nexus Notes* is the inclusion of a topical and insightful editorial cartoon. While some may address more serious or controversial issues, we particularly delight in amusing reflections on our current society. We hope you enjoy.



*“Nowadays, they have to share the
expense of owning a castle.”*

*Image used with permission: Frank Cotham,
The Cartoon Bank/The New Yorker Collection*

Invest
Thoughtfully™



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

NEXUS

Nexus Investment Management
111 Richmond Street West, Suite 801
Toronto, Ontario M5H 2G4

Tel: (416) 360-0580
email: invest@nexusinvestments.com

nexusinvestments.com