



Royds Report

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The 54% Rule for Investors

The Globe & Mail reports that formerly top ranked tennis singles player, Roger Federer, won almost 80% of all the professional tennis matches he played, yet he only won 54% of the points in his career. He once gave a speech in which he said, “When you lose every second point, on average, you learn not to dwell on every shot.” In the speech, he explained that “The goal isn’t to win every point. It’s to play the next one with full commitment. The Globe writer goes on to say that, “That mindset – intense focus in the moment, but letting it go after the moment has passed – has surprising relevance in investing. In 2021, BlackRock portfolio manager Ronald van Loon published research in the Journal of Portfolio Management asking a simple question: How often do professional investors actually need to be right to beat the market? His answer: not very often. In U.S. equities, outperforming the market required a success rate of just over 53 per cent. You can be wrong almost half the time and still win – if your strategy is sound and you get the cornerstone decisions right.

This isn’t just a technical insight. It’s a psychological reset. Many investors act as if each trade must be a winner, each financial choice perfectly timed. But as Mr. Federer’s point-win ratio shows, individual outcomes matter less than the pattern of decisions over time.

In fact, overconfidence in precision often backfires. Research consistently shows that **frequent traders underperform**. One study found that **the heaviest traders lagged buy-and-hold investors by more than seven percentage points annually. The problem wasn’t intelligence; it was obsessing over daily price movements instead of focusing on long-term wealth-building fundamentals.**

The same principle holds in personal finance. **Success often comes down to a handful of choices: building an emergency fund, saving consistently, avoiding high-interest debt, and staying invested through market cycles. Get those mostly right, and you’re on track. ...**

There’s **also evidence that wealth often hinges on a few foundational life decisions**. Married couples build wealth faster – one study showed a 77-per-cent increase in net worth over single people, with gains compounding year over year. Geography matters too: moving from a high cost to low-cost city while maintaining income can yield enormous long-term savings. Yet people often stress more over optimizing grocery bills than over these life-altering choices.” The section below on the lifestyle choices

of millionaires may offer more useful hints on what dramatically impacts wealth accumulation. Source: Sivarajan, Sam (2025, Jun 21). The 54-per-cent rule for investors: You don't need to win every time, The Globe and Mail.

Some Habits of Millionaires May Help Us All

If you want to be become a great tennis player, don't watch and study how we play. Watch someone like Roger Federer. **If you want to grow richer, don't emulate someone who lives paycheque to paycheque, but look at the habits of those who succeeded in accumulating wealth.**

Thomas Stanley and William Danko wrote a book called, "The Millionaire Next Door". In it, they reveal the most common characteristics of the millionaires they studied. Here is a summary of the main points from their book about what the average millionaire is like, as taken from awealthofcommonsense.com:

The Millionaire Next Door

1. They live well below their means.
2. They allocate their time, energy and money efficiently, in ways conducive to building wealth.
3. They believe that financial independence is more important than displaying high social status.
4. Their parents did not provide economic outpatient care.
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting market opportunities.
7. They chose the right occupation.

Source: Stanley & Danko

We're not suggesting that the pursuit of wealth is the be all and end all or should be a person's goal. Life is a balance between building some degree of wealth, and the security and opportunities it can bring, and pursuing what brings joy and fulfillment to life. Regardless of what relative value one places on wealth versus other goals, the points above, especially 1, 3 and 4, contain some valuable life lessons.

Are you looking for a graduation present for anyone in your family? This book might be a book that puts a new grad on the right course for a more secure financial future.

Investing In Resources, Gold or Stock Markets

You have probably heard us say for years that we don't like investing in resources. Oil is up this year (although down from last year). One reason we don't think we are wrong about this is that resources are commodities. Producers don't have control over the prices they sell at. Producers must sell their product at the same price as everyone else, so usually only the low-cost producer usually makes good money. One thing that illustrates this is an ETF with the symbol XLE, that tries to mirror the energy market. As of last month, it still had not recovered to the high it was a before the Great Financial Crisis

(also known as the Great Recession) of 2007-2009. In over 17 years, one wouldn't have made money on the general energy market, at least with this representative ETF. Source: Bloomberg, Energy Select Sector SPDR – December 31, 1998, to May 23, 2025. (2025, May 26) Arrow Capital Management, Exemplar Growth & Income Weekly Overview – week ending May 23, 2025. Your timing needs to be good for resource investing and the only timing of the market that we believe works is to invest after a big downturn (20% or more), because you know you are not investing at the peak. However, because you could lose out on significant returns while waiting for a 20% drop, we don't plan to wait for a big downturn. We favour investing regularly so you buy in all types of markets and some of your money gets invested for longer. Generally, longer is better. There is a saying regarding the best time to invest that makes sense for many people – “the best time to invest is when you have the money to do so”.

If we look at gold, a star performer this year, long-term (50 year) returns are not impressive. **At the end of 1974, the price of gold was \$187.50 USD. 50 yrs later, by the end of 2024, the price was \$1,932.50 USD. The gain was 931%. By comparison, the S&P 500 index at the end of 1974 was 68.6, but by the end of 2024, it was up to 4769.8, a gain of 6853%. One needs good timing to make money investing in gold, and we believe that good timing is largely a matter of luck.** So, we'll stick with investing in companies through the stock markets, where investing in quality at good prices and then being patient has been a consistently winning recipe over the long-term. Source: Glawson, Joshua D. (2024, Nov 22). A Look Back Through Time: Exploring the Fascinating Gold Price History and Its Impact on the Global Economy, Money Metals., Macrotrends, S&P 500 – 100 Year Historical Chart.

More on Market Timing

We passed one big temptation this year to sell, when the market was down almost 20%. We shall face many more temptations, perhaps even in the short term. One never knows. In case you ever succumb to such a temptation, or if perhaps you are already trying to practice market timing, it could help to change your perspective. Here's another way of looking at holding cash or selling out in down markets:

“Everyone makes mistakes. The trick is to avoid compounding those mistakes. What if you panic sold right when things seemed the bleakest right before that crazy 10% up day in early April [April 9] and then panic bought back in the next day: **It's hard to believe you could miss out on an entire year's worth of gains on a single day from one mis-timed trade.** What would you do right now if you were given a big lump sum to put to work? How would you invest it? **The market timing decision is a sunk cost. Move on and figure out how you want to invest going forward.** The problem with sitting on a slug of cash in your portfolio is that it can become addicting. When markets are going up you tell yourself you need to wait for another correction to put it to work. When markets are going down a cash position becomes your security blanket, and you just keep waiting for stocks to go lower and lower to the point where you don't ever re-invest it. **Market history would say to just buy back in and move on with your life.** Human nature often makes it difficult to rip the Band-Aid off, so most investors are more comfortable averaging back in. Your plan of attack for putting cash to work matters less than your ability to follow said plan. You could average back in, put it all in at once, use trend-following rules, put more money to work if/when the market falls or some combination of these strategies, but the most important thing is to make a plan ahead of time that you're willing and able to follow. Whatever the plan is, you have to realize the market timing decision is a sunk cost. It's over. The market moved on. It could rise or fall from here, but you have to figure out how to get over a cash attachment. Investing is hard enough without having to guess what comes next in the short run. Don't make it any harder than it needs to be. Source: Carlson, Ben (2025, May 16). The Sunk Costs of Market Timing, A Wealth of Commonsense.

Thinking About Risk

Did you ever consider that not taking enough risk in investing could be risky to your financial future? This and other useful concepts are outline on the Ontario Securities website www.getsmarteraboutmoney.ca. They have quizzes about your biases and personality. If you like to keep a lot of money in GICs, we recommend you explore the website thoroughly. For others, this summary and link may suffice:

“Knowing your risk tolerance includes:

- Understanding your [investing personality](#) and how much money you’re comfortable losing.
- [Learning about insights](#) that might better explain your investment decision.
- Not feeling pressured into an investment if you don’t feel comfortable.
- Not adjusting your portfolio based on an emotional response — take the time to assess your risk tolerance before making a change.
- Being aware that your risk tolerance may change based on changes in your life, your [time horizon](#), and personal preferences.”

Source: <https://www.getsmarteraboutmoney.ca/learning-path/understanding-risk/what-is-risk-tolerance-in-investing/>

Here are some other thoughts about whether investments sometimes thought of as safe are actually safe:

“GICs ... principal value doesn’t fluctuate and their returns are guaranteed, ... that stability comes at a cost – several costs, actually.

First, GICs don’t offer any growth potential. If you invest in a five-year GIC that yields 4 per cent (a rate you’d be hard-pressed to find right now, by the way), you’ll make 4 per cent annually – no more, no less. ...History has clearly favoured stocks over GICs. Over the past decade, the S&P/TSX Composite Index has posted an annualized total return of about 9 per cent, including dividends. No GIC can keep up with that. True, the stock market had plenty of ups and downs over that period, but volatility is the price investors pay for the superior returns that stocks deliver.

A second drawback is that GICs lock up your money for a fixed period. If you need the cash to buy a new car or replace your furnace, you won’t be able to access your funds ...

A third downside of GICs is that the interest is taxed at your full marginal rate. This isn’t a factor in a TFSA, registered retirement savings plan or other registered account in which investment earnings are not subject to tax. But in a non-registered account, the tax hit on interest tops out at more than 50 per cent in most provinces for the highest income bracket. ... On an after-tax basis, GICs may not even keep up with inflation.

Dividend stocks and dividend ETFs don’t have the same drawbacks. In addition to providing the potential for capital appreciation, dividend stocks and ETFs also typically increase their income over time. Many companies – such as banks, utilities and power producers – have been raising their dividends for years, driven by their growing earnings, out of which dividends are paid. The yield of a GIC, on the other hand, is fixed.

Stocks and ETFs are also more liquid than GICs. If you need the money for an unexpected expense, you can always sell a portion of your holdings.

Finally, dividend stocks and ETFs also win in the tax department. Thanks to the dividend tax credit, the income from dividends is generally taxed at much lower rates than interest from a GIC. In Ontario, for example, someone with \$100,000 of income would pay combined federal and provincial tax of 31.48 per cent on interest but just 8.92 per cent on eligible dividends.

In the lowest income brackets, the tax rate on dividends is actually negative in many provinces. According to TaxTips.ca, an Ontario resident with taxable income of \$52,886 or less would have an effective tax rate on eligible dividends of negative 7.55 per cent for 2025. Because the dividend tax credit is a non-refundable credit, the government won't send you a cheque for the negative amount, but you can use the credit to offset your other taxes owing." Source: Heinzl, John (2025, Jun 21). GICs are a safe but lousy way to build wealth, The Globe and Mail.

The Dangers of Passive Investing

Here's a logical and somewhat mathematical perspective from Canada Life's weekly Soundbytes series, that points out how passive investing, for example in passive ETFs, could get increasingly dangerous. Passive investing refers to buying everything on the market or in an index without being at all selective. The idea is to get market returns, minus only a small fee since there is no cost of analysis or research, since all purchases and sales are rules based to mimic the composition of stocks in the index. One should never significantly underperform the market and one could never outperform the market.

"Passive investing offers easy access to markets ... but at what cost? ... the buy-at-any-price strategy [just to match the index] undermines normal valuation, distorts liquidity. Passive investments like ETFs create conditions that are ultimately unhealthy for markets and could lead to equity overvaluation, says Morten Springborg, global thematic specialist with C WorldWide Asset Management. ... passive investing has become enormously popular, but that popularity threatens the very stability of markets.... **He said the passive strategy promotes "momentum gain" where the act of investing creates gains that make further investment more attractive. It introduces a dangerous feedback loop. "As funds go into these products, they drive up the price of the largest companies, thereby increasing the demand for the large companies even more,"** he said. "So it's an unstable equilibrium." Springborg said **passive funds** have shown trendline growth of 2% to 3% per year for the last 20 years, growing globally to about 50% of all investment flows and **surpassing 65% in the United States.** "It's been very beneficial for the users of these products, of course, **because historically you got very cheap ... diversification.** What you do have to understand today is that that diversification is not there any longer," he said. **"Now you have a very concentrated market. Even though you are buying 500 underlying securities, it is highly concentrated."** Increasingly, passive investors are supporting large-cap U.S.-based growth firms, to the detriment of small-cap, international value names. Part of the problem, he explained, **is that passive investments tend to be made without any discussion about valuation. And because every company in the index is bought, their values are artificially inflated.**

"It is just 'buy at any price,'" he said. **"That was not a problem when passive shares were a small fraction of the overall liquidity and volumes in the market.** But now passive is so big that these flows totally dominate the volumes in equity markets."

Springborg said the value of companies in the index should be completely unaffected by liquidity in the market. **"But academic research has proven that for every 1% bid in the market from passive, the pricing impact is 5%,"** he said. **"The price goes up 5% if you buy 1% of the stock, on average. ... "As passive grows its market share, it impacts the price-earnings multiple much, much more forcefully for the large companies than for the small companies,"** he said. **"And that explains, to a certain extent, why we have this extremely concentrated market today with Mag Seven companies."** With index funds, investors buy companies they might not if they were actively selecting individual names. **"When you are a passive investor, you cannot avoid buying these companies. You have to buy the largest companies,"** he said. **"So you have this indiscriminate amount of liquidity flowing into the largest companies, and it will continue as long as you have positive flows into passive structures."** Adding to

the impact of passive investing, as ETFs grows in popularity, there are proportionately fewer active managers to counteract their influence. The combined impact, he said, is staggering.

“According to some calculations, the American equity market is overvalued by at least 20% because of the dominance of passive investing,” ... markets that are predicated on the constant inflows into passive.” Any number of economic conditions could reduce ETF flows, including rising unemployment and baby boomer retirements. “It’s going to be a significant problem as the boomer generation start to really retire and dis-save,” he said. “The outflows when we retire are going to be massively more important than the inflows have been. And they will dominate, and therefore press down the market.”

Source: Springborg, Morten (2025, May 13). Passive investing offers easy access to markets... but at what cost?, Investment Executive.

To Be or Not to Be an Investor in the US

We continue to hear 2 points of view about the near-term future for the US stock market. Some point out that sales volume and other indicators of financial prosperity are starting to show cracks and that political developments will slow economic prosperity sooner than later. Others point out that despite tariffs, most economic indicators are still looking robust and that US companies are strong enough to withstand current turbulence and continue to grow their profitability. We don’t have a prediction as to which view is correct for the short-term. Luckily, true investing is not about the short-term.

Here are some facts about recent markets. **“We’ve seen a HUGE reversion to the mean so far this year with Eurozone stocks UP 24% and International Stocks overall UP 14% while the S&P 500 is DOWN 1%. This comes after 16+ years of US outperformance, the longest run in history.”** (As of May 27, 2025)

These numbers are in terms of USD and we mustn’t forget, as reported in our last Royds Report, that the drop in the US dollar has made foreign investments do better as measured in US dollar terms than they have done in their own currency. Still, those are nice gains for non-US stocks and are part of the reason that we diversity internationally.

Poland, Spain, Greece, Austria and Chile were the best performing markets in the first 5 months of 2025. The top stocks were largely in the following industries: electric utilities, chemicals, aerospace/defense, and health care. Most of the worst performing stocks were in the following industries: semiconductors, biotech, pharmaceuticals, life sciences tools, electric utilities and health care. Notice that there were stocks in the same industries in the list of top and bottom performers, except that semiconductor stocks were only in the bottom performer list and defense companies were only in the list of top performers.

Bonds have not done well. **“The potential for bigger deficits, more supply and higher inflation have prompted bond market investors to revolt. The 30-year Treasury yield hit its highest level since 2007 last week, moving above 5.1%.”** The way bond yields rise is by the price of bonds going down. Not good news for bondholders. Source: Bilello, Charlie (2025, May 28). The Week in Charts (5/28/25), Bilello.Blog.

Canada’s Housing Frenzy is Over

Depending on who you are, your perspective on the current state of the housing market could be very different. Here’s a good description

For years, Canada’s housing market was a sprint – rapid price increases, bidding wars, and frenzied speculation. But in the last year or so, the mood shifted: Sales slumped, headlines warned of stagnation, and dinner party chatter turned away from house-flipping and toward tariffs. ... Despite fears, Canada’s housing market has not collapsed – it’s just caught its breath. ... After two decades of unprecedented

growth in the housing sector, we're now entering a new era where housing may actually lose its value as a speculative asset and regain its role as a place to live, grow and invest sustainably.

According to the Canadian Real Estate Association, national home sales [by volume] in April were down nearly 10 per cent from the previous year. The national average sale price declined 3.9 per cent year-over-year. ..., prices [had] surged over 50 per cent from 2020 to 2022. That pace was never sustainable, and today's price levelling is a natural reset. Affordability remains a significant challenge for new buyers seeking to enter the market, and further price escalation would only exacerbate the issue. ...

According to the Organization for Economic Co-operation and Development (OECD), housing-related activity – including construction, renovations and transaction costs – accounted for 8.9 per cent of Canada's GDP, \$253-billion in 2022. That's more than the GDP contribution of oil and gas, meaning a housing slowdown hits everything from construction to government revenue. ... Canada's housing sector is contracting from record highs, not shrinking into recessionary lows. And this type of deceleration is common – and healthy – after speculative peaks. Similar corrections occurred after past booms, including in the early 1990s and post-2008.

The critical difference this time is that the fundamentals remain strong: Despite reductions to some immigration streams,

Many long-term homeowners aren't happy with today's sluggish market – they feel poorer than they did a few years back. At the same time, potential buyers are still put off by high prices that continue to be out of sync with incomes.

Population growth continues to be robust, rental demand is high, and homeownership remains a core Canadian aspiration. While high transaction volumes may be good for short-term profits, they're detrimental to long-term stability. This flatlined market doesn't mean the end of housing's economic role, but rather a return to sanity. And for everyday buyers and sellers, that's not a crisis. It's a win. ... the panic buying of 2021 is gone, replaced by deliberation and strategy. ... For investors, the era of easy flipping is over. ... [For some, the joyful news is that] Rental rates have been dropping," Source: King, Romana (2025, June 21). Canada's Housing Frenzy is Over, The Globe and Mail.

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