



Royds Report

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Topics in this Newsletter

Is Life Harder Now than 40-45 Years Ago?

Asymmetrical Loss Aversion

Currency

Interesting Tidbits

Forecasting Short vs Long Term

Economic Outlook

Diversification is Tough, Especially for Passive Investors

Is Life Harder Now than 40-45 Years Ago?

After 27 years, financial columnist, Rob Carrick, retired and in his final column, wrote what he called his best advice and final thoughts. Here are some useful highlights.

“It has never been harder to be good with money. The modern-era reference period for economic hardship is the early 1980s, when interest rates soared into the double digits to fight inflation and the economy was weak.” Many of you will remember when 6 month mortgages were at 22% interest. **“It’s harder today. The internet, mobile apps and social media have amplified our consumption-based culture to new extremes.** You can buy stuff at any time of day and see how your friends are spending their money. Also, debt is far more [tempting and] burdensome thanks to the rise of the home equity line of credit and the mega-mortgages needed to buy a home. And then there’s inflation: Not as bad as in the eighties, but severe in its own right.” **The mortgage payments may or may not actually be harder to bear today than they were in the early 80’s, but it sure is easy, too easy, to run up debt, whether with a home equity line of credit (HELOC) or credit cards.** And for sure consumerism and social pressure to keep up are rampant. **How much richer most people would be with a minimalist philosophy. But who really bears the responsibility? Society, for bombarding us with ads and influencers, or ourselves who have the ability to decide for ourselves? Or both? Perhaps our best defence against consumerism is awareness of its impact on us now and in the future.**

Carrick goes on to explain the other factors that have made it hard for past generations and now the youngest generation. **“What millennials went through in the aftermath of the 2008-09 global finance crisis, Gen Z is now experiencing as a result of pandemic disruptions to the economy. Job scarcity for students and grads is severe, housing affordability has deteriorated to alarming levels and the cost of rent and groceries has surged. There’s a growing sense of disaffection among young people today. You can see it in their [politics] ... and in social-media memes about living one day at a time because saving for home ownership and retirement seems pointless.”**

On a different note, Carrick writes, **“Stock returns over the past five years are a few clicks beyond exceptional; they will not last, so get your head – and your heart – ready. ... Part of being a good**

investor is accepting that there will be times when stocks plunge. If you can't take the pain straight on, rethink whether stocks are for you."

He continues, "A personal finance irony is that we are living longer lives yet expect to achieve our financial goals on the same schedule as before or sooner. Pick something helpful to do with your finances today and aim to do more with time." He's issued us a call to action. **Do something or start on some course of action TODAY with your finances that will improve your situation and then take more steps later. That's the accumulated wisdom of 27 years of reading letters from his readers asking for help and advice, and what good advice it is.** Source: Carrick, Rob (2025, Jun 28). Eight lessons learned in 27 years of covering personal finance, investing, The Globe and Mail.

Asymmetrical Loss Aversion

Behavioural economics has put a fancy name, Asymmetrical Loss Aversion, on a human tendency. Put simply, it means that **we hate to lose more than we love to win**. Let's say for example that you step out your front door and the wind drops a \$50 bill at your feet. What a nice way to start the day. You're happy about it and maybe plan to treat yourself to a lunch out with it, but your mind soon focuses on other things, and you are not still delighting in that windfall an hour later. Your mind has moved on. On the other hand, let's say that you walk out the front door and the wind sucks a \$50 bill out of your pocket. You follow it until you lose sight of it. You walk down the street looking for it, checking under shrubs where it might have gotten caught. You stew about it, search repeatedly, finally give up looking and feel mad at yourself for losing it all day, maybe even keeping an eye open for it for days whenever you go down the street. We humans have a really tough time accepting losses.

How does this relate to investing? The **market goes up more than it goes down over time (or at least it always has), but markets go down almost as often as they go up if you look on a daily basis**. So, if you **check your portfolio frequently, the stronger negative feelings of seeing losses almost half the time will probably be more memorable and impactful than the slightly more frequent but less strong positive feelings from the days when you see gains**. In fact, we have witnessed this. **People often complain and worry about markets when they are volatile, even if the market is rising. It pays off emotionally to look at your portfolio once a month, or less frequently**, and it prevents one from being tempted to move investments a lot or try to chase performance, which is not conducive to getting good long-term returns.

Currency

When we go out of Canada on vacation, we all love for the Canadian dollar to be high relative to other currencies. It makes the trip cheaper. But when our investments are mostly outside of Canada, it isn't helpful for the Canadian dollar (CAD) to be high, because when we convert our foreign holdings back to what they are worth in CAD terms, they convert to fewer Canadian dollars. A rising CAD is a headwind pushing down our returns. Last year when the CAD fell to under \$0.69 USD, it helped boost our returns, but this year **the Canadian dollar is up about 5%** (around \$0.73 at time of writing) and that **hurts our returns by about 5%**. So, US and international markets have actually been stronger than the results might indicate on your statements. No one knows which direction the currencies will go next. (In 2011 our CAD was worth \$1.06 USD. – What a difference and no one predicted it!) Sometimes currency movement helps us and sometimes it hurts us. It tends to even out over time.

Interesting Tidbits

A Financial Times writer has coined the term “TACO trade,” which stands for “Trump Always Chickens Out”, referencing how **the president, after announcing aggressive tariff policies, later delays, reduces, or cancels these policies. A few months ago, each reversal made the market explode higher in relief. Now the market is calmer with such announcements, not falling so much in the first place, anticipating a TACO trade.**

Nvidia recently became the most valuable company in the world, valued by the market at over \$4 Trillion. It has been the “fastest growing company in history”, growing 25,000% in the last 10 years. The next fastest appears to be the Texas Pacific Land Corp, growing about 3,000%. Other companies with market capitalization (market value) of over \$1 Trillion are: Microsoft, Apple, Amazon, Alphabet (Google), Meta (Facebook), Tesla and Berkshire Hathaway (Buffett’s business).

Canada’s house prices may be a little out of sync with those in other parts of the world. **Since 2000, UK and US house prices rose 218% and 252%, while Japanese house prices are down 23% (after 25 years!). Canada’s house prices are up 334%.** Australia is worse at 393%, but still, **how did our prices climb so much more than American and British and does this mean our housing prices are still high?** Source: Bilello, Charlie (2025, Jun 5). The Week in Charts, Bilello Blog.

“The global “digital divide” remains vast. An **estimated 2.6 billion people, a third of the world’s population, still lack Internet connectivity altogether. And nearly 150 years after Thomas Edison introduced the incandescent light bulb, 700 million people still don’t have the electricity to power one.** Most are in the Global South.

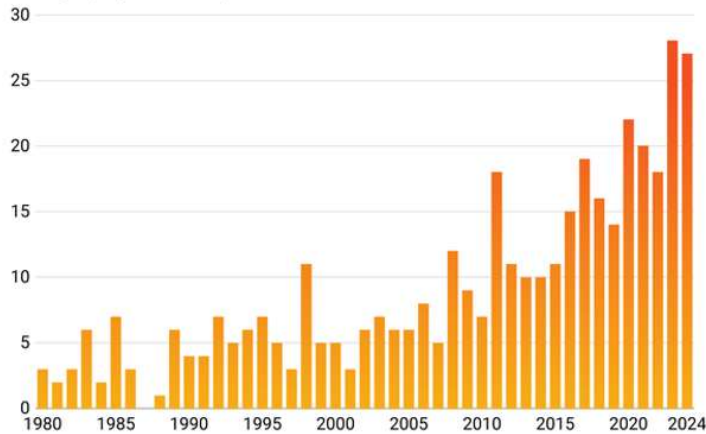
As more and more industries adopt and deploy AI, the technology **could contribute as much as \$20 trillion to the global economy through 2030, driving as much as 3.5% of the world’s GDP by then. But the largest and most developed economies, primarily the US and China, stand to gain the most right now, while poorer countries fall further behind.”**

“The **number of US weather and climate-related disasters that have inflicted at least \$1 billion worth of damage has in fact grown significantly over the past two decades as weather patterns become more severe, a phenomenon experts attribute to climate change.**” Here’s a look at the scary trend.

The Graphic Truth by **GZERO**

Billion-dollar disasters are becoming more common

Number of US weather and climate disasters inflicting at least \$1bn in economic damage, per year, CPI adjusted.



Source: NOAA National Centers for Environmental Information (NCEI)

Source: Callanan, Riley; Kliment, Alex; Maciulis, Tony; Weisz, Zac; & Yee, Lizzy (2025, Jul 8). What is Artificial Intelligence “good” for?, GZERO Daily.

“20% of companies in the S&P 500 have fewer employees today than a decade ago, including McDonald’s, General Motors, Procter & Gamble, Bank of America, and Walmart. ... Most of the job cuts have been in “white-collar” departments, with reductions in staff, executives, and managers since the start of 2022... Legal is the only major role showing growth over the past 3 years”

“US office-to-residential conversions are about to explode. From a trickle today to a flood in 2027+ (if the announcements come true) Empty office towers → apartments, condos, hotels. The future of commercial real estate is going to look very different.”

“The average total cost to own and operate an automobile in the US has moved up to a record \$12,296 per year, a 32% increase from the average cost just 5 years ago.” Given the lower value of the Canadian dollar and our higher cost of gasoline (due to higher taxes on it), the cost could well be higher in Canada.

The mean wealth in Canada, that is **the wealth of the person in the middle of the pack between the richest and poorest Canadian, was about \$366,000 in 2024. That makes our country’s citizens 11th richest in the world.** The highest mean wealth is in Switzerland, followed by the US, then Hong Kong, Luxembourg, Australia, Denmark, Singapore, New Zealand, Netherlands and Norway. Canadian wealth is just above that of Belgium, the UK, Sweden and Taiwan.

“The US collected a record \$22 billion in customs duties in May 2025, which was nearly 4x higher than the same month in 2024.” What will it be by May 2026. And let us not forget, that the **cost of those tariffs will likely be shared between exporting companies, importing companies and end US consumers.** The fear is the higher cost to the consumer will lower overall demand for foreign, including Canadian, exports. Source: Bilello, Charlie (2025, Jul 1). The Week in Charts, Bilello Blog.

In the **first half of 2025**, there was a huge difference in how some things performed. Platinum was up 42.58%. **Soybean oil would have been a better investment than gold**, being up 26.94% versus 22.65%. Live cattle prices were up just less than copper, silver and palladium. You wouldn't have wanted to invest in **orange juice that was down 52.54% (from last year's high price caused by weather related crop problems)**. Cocoa, corn, sugar, wheat cotton, coffee and rice were all down too. **You can make a lot of money owning commodities, but you can also lose a lot.** Source: (2025, Jul 8). Mackenzie Weekly: Halfway There – July 8, 2025, Mackenzie Investments.

Forecasting Short vs Long Term

It's probably not hard to forecast the price of butter tomorrow or how long it will take to travel by car from home to Sudbury on Saturday, but we wouldn't want to make a bet on the price or the car ride time 10 years from now. **With markets it's different. It's the short term that is hard to predict and the long-term that has historically been more consistent.** For example, "After the US bombed Iran [in July], stocks were expected to fall and Crude Oil was expected to spike after.: ... But instead, this happened in the following week: S&P 500: +3.5%, Crude Oil: -12%, Volatility Index \$VIX: -21% ... **As an investor, you need to learn to expect the unexpected. There's no script for where the markets are going next ... On April 8, the S&P 500 was off to one of its worst starts to a year in history, down 15% on the year. ... After one of the greatest comebacks ever, it's now up over 6% year-to-date, which is above the average year at this point in time. A few months ago, that would've seemed impossible. ... The S&P 500 has gained 22% over the last 12 weeks, one of the biggest short-term rallies in history. ... And the 64% decline in the \$VIX [the volatility index] over the last 12 weeks is the biggest volatility crash in history. ... The S&P 500 rallied 28% off of the April lows to hit its first all-time high since February 19 last week."** **By June 30, the market had hit its 5th all-time high of the year. ... What tends to follow an all-time high? More all-time highs, with an average gain of 10% for the S&P 500 over the next year."** The above examples of market performance from Apr to July of this year are just more proof of why it is futile to try to predict short-term market movements and the best course of action is stay invested. While we may hope that the historical average, of 10% gains 12 months after new all time highs, plays out this year too, short-term performance is neither that important nor our goal. Long-term performance is the key to successful financial planning. And that is why it is so important that we stay invested through all the short-term gyrations of the market. Source: Bilello, Charlie (2025, Jul 1). The Week in Charts, Bilello Blog.

Economic Outlook

After talking under the previous heading about how short-term predictions are pretty inaccurate, let us proceed anyway to share with you what 2 of the best forecaster teams we know of have to say.

For those of you who say they read our newsletters, but have a hard time understanding some of the financial language and implications of points we make, let's start with the high level overview from Fidelity (it's the next, bolded paragraph). For some of you, that may be enough, and you may want to move to the next topic. For those of you who enjoy more details or want to learn more about implications of economic developments, the thought process behind National Bank's and Fidelity's outlooks follows the summary. (We'd love your feedback about whether the high level, few line summary was more helpful than the more detailed outlook with the backup rationale).

Fidelity feels if the US cuts rates too fast or too easily and keeps spending freely, increasing its debt, the US situation would evolve to be similar to the 1960s, when excessive government spending and

low interest rates led to permanent inflation. This led to a major market upswing (followed by a major correction). In view of this risk, Fidelity recommends staying invested, but making sure valuations are reasonable, in other words, being defensive. They also recommend lots of international diversification.

National Bank's quarterly forecast, since NB's forecasts seem to us to be amongst the best, highlights the following.

- **“Unprecedented tariff shock, growing budget deficits, turmoil in the Middle East: financial markets have been put through a genuine stress test in recent months. ... Despite the magnitude of the challenge, the picture remains positive for investors halfway through 2025, with markets buoyed by the relative resilience of the economy, low inflation, and a U.S. president in negotiation mode ... as economic growth is set to slow under the weight of tariffs and high interest rates, while the next chapter in U.S. trade policy remains to be unveiled. Nevertheless, there are encouraging signs. ... Although the economic backdrop remains fragile, our conviction in our base-case scenario of weak but positive growth has strengthened since the previous quarter, as the risks of recession have diminished.**
- **markets estimating the probability of a U.S.recession in 2025 at 27%**
- The upward trend in equities persisted in June, as investors welcomed the easing of trade tensions between the U.S. and the rest of the world. In fact, **Emerging markets and the U.S. posted the best monthly returns, while the EAFE region finished last for the first time this year. [In other words, from Jan to May, Europe, Australia and the Far East outperformed the US.] Within the S&P 500, June was marked by the outperformance of tech giants and the Energy sector, the latter benefitting greatly from higher oil prices resulting from the conflict between Israel and Iran. ... The U.S. dollar continued to depreciate in June, with the DXY index now down by more than 10% since the start of the year. Overseas stock returns were tempered by a significant appreciation of the Loonie over the period [so overseas stocks did well in their own currencies, but their gains were watered down by currency devaluation relative to the Canadian dollar] ...**
- **expect growth to cool down in the second half of the year.**
- tariffs have already been in place for several months ...and inflation remains fairly low ... which suggests that **businesses (both exporters and importers) are absorbing much of the cost... for now**
- **around 55% of the revenues of the companies included in the S&P/TSX index come from abroad**
- **the Canadian stock market is drawing interest as rarely seen in recent history, with the S&P/TSX reaching record highs without too much trouble since May**
- **And yet, the cyclical backdrop in Canada is not particularly bright, with a sharp rise in unemployment contrasting with relative stable labour markets of the other G7 countries**
- **gold prices are a significant tailwind [boost] for the [Canadian] equity index,**
- **Canadian stocks have managed, despite every obstacle, to generate reasonable earnings growth over the past decade (only 2% less than the S&P 500 on an annualized basis)**

Source: Lajoie, Louis & Deutsch-heng, Mikhael (2025, Jul 3). Asset Allocation Strategy, National Bank Investments.

Fidelity has some interesting analysis on the current economic situation to add:

- **“Stimulus boost: The Big Beautiful Bill (BBB) is rolling out, delivering a strong fiscal impulse.**
- **Investor confidence: This improving clarity is fueling earnings and margins by reviving market optimism ...**

- Valuation alert: The S&P 500 is trading at 24.1x expected earnings, which is historically elevated.” However, when **valuations are up in line with earnings, “this dual momentum, typically powers strong bull markets.”**
- When Federal Reserve Chairman Jerome Powell is replaced, there may be a lowering of interest rates, which could result in higher inflation and a weaker US dollar
- 72% of all global stocks have been rising in value, reflecting higher investor confidence
- 167 companies have reported second quarter earnings and **83% of them had much stronger earnings than expected** which has fuelled stock market increases
- Since Covid, the US debt has increased by \$13 Trillion. The government does this by selling bonds or treasury bills to raise cash to spend, but then they still have to pay back the purchasers of the bonds or T-Bills on maturity. And, by issuing so many bonds and T bills for sale, the government could flood the market with supply, thus lowering the purchase price of bonds, effectively raising interest rates. In order to avoid this, another part of the government, the Federal Reserve, usually buys Treasury Bills and bonds, to keep supply at normal levels so interest rates don’t rise. If the Federal Reserve fails to or refuses to buy up extra T Bills or bonds on the market, then rates go up and leads to inflation. When Japan had this problem, they dictated longer term interest rates, rather than having the market set them according to supply and demand. The US may need to do this, so their debt-servicing costs don’t spiral out of control. The side effect however was weaker currency, which wouldn’t help the US when it’s importance as the world’s favourite reserve currency is already declining. It could also exacerbate inflation.
- **What the US needs to get out of its debt problem is higher productivity and a larger labour force.** Luckily, the US debt is only 23% of GDP (Gross Domestic Product) compared to 117% for Japan at its worst. Source: Timmer, Jurrien (2025, Jul 27). Weekly Asset Allocation Review “Pillar of the Community”, Fidelity Investments.

Diversification is Tough, Especially for Passive Investors

Passive investing means investing in the whole market, rather than in select stocks. The objective is to match the returns of the market, minus small fees. The problem these days is that “market’s gains are now being carried by only a handful of companies. This creates a problem for passive investors, as **buying the index no longer diversifies risk.** The share of the S&P 500 held by its 10 largest constituents has surged to nearly 40% in 2025, up from just 17% a decade ago. This is an unprecedented level of concentration, surpassing even the dot-com era. **This is both a warning and an opportunity. Investors who look beyond the index’s headline names may find resilience and growth where the market least expects it.**

Narrow leadership. When only a few companies drive market performance, the index becomes more fragile. If even one of these mega-cap names falters, the broader S&P can stumble despite the majority of companies performing adequately.

Buying the biggest stocks and holding them isn’t always a perfect strategy. Nortel Networks, eighth-biggest 25 years ago, went bankrupt in 2009 and no longer exists. Intel isn’t in the shape it used to be. **AIG’s** market cap has shed 80% since its 2000 peak, while **General Electric**, now on the way back, at one point dropped 92% from its peak. It’s really not so unlikely that similar fates will befall one or more of the currently dominant group.

Valuation fragility. The dominance of mega-cap tech companies raises uncomfortable questions. Can

their extraordinary growth continue? Will massive investments in AI and digital infrastructure deliver the returns that current valuations demand? ...

Nvidia: the poster child of concentration. Nvidia alone now represents 8% of the S&P 500's market capitalization, an all-time high for a single stock. Together, the top 10 tech-heavy companies account for 40% of market cap and 30% of earnings, underscoring how dependent the market has become on a narrow slice of industry.

Historical echoes. The tech sector hasn't been this top-heavy since the late 1990s. While history never repeats exactly, episodes of extreme concentration have often been followed by reversions, where neglected parts of the market catch up or outperform. ... In the dot-com era, it reflected hype without earnings. Today is different: the Magnificent Seven have delivered real earnings growth, outpacing the rest of the market. But how long can this growth continue? The drivers may be different, but the risks are the same.

The concern is sustainability. Big Tech is spending at unprecedented levels on AI infrastructure and energy to keep the growth train moving. This is an unusual shift for what was once a capital-light sector. These investments still have to pay off. It might for some, but not for all. History suggests that not all of the Seven will be magnificent a few years from now. At the same time, free cash flow yields are falling, leaving less room for buybacks or dividends to buoy prices.

The challenge (and opportunity) going forward is to balance the allure of mega-cap momentum with the discipline of diversification. In concentrated markets, history suggests that resilience often comes from the breadth beneath the surface.. Valuation gaps between the top 10 stocks and the rest of the market are widening, creating attractive entry points. Active management [specific stockpicking] and exposure beyond mega-cap tech may prove critical in the next phase of the cycle." Source: Canoe's chart of the week: the market's tightrope, (2025, Aug 21). Canoe Financial.

Here are some wise words from Warren Buffett:

"The stock market is a device for transferring money from the impatient to the patient." Obviously, Warren Buffett (Mr. Buy and Hold himself) was very patient, as we should be.

Elaine

**L. Elaine Royds, MBA, CFP®
Senior Wealth Advisor, iA Private Wealth**

Jordan

**Jordan Royds, CFP®
Senior Wealth Advisor, iA Private Wealth
Insurance Advisor, iA Private Wealth Insurance**

Suite 303 – 1685 Main St. W., Hamilton, ON L8S 1G5

T: 905-393-0787 | F: 905-393-0788

Elaine.Royds@iaprivatewealth.ca

Jordan.Royds@iaprivatewealth.ca

TF: 1-855-640-1857

Sarah Breimer | Associate Wealth Advisor | sarah.breimer@iaprivatewealth.ca

Marissa Jardim | Licensed Assistant | marissa.jardim@iaprivatewealth.ca

Paulene Marchong | Administrative Assistant | paulene.marchong@iaprivatewealth.ca

Krupa Patel | Administrative Assistant | krupa.patel@iaprivatewealth.ca

Dharini Jani | Administrative Assistant | dharini.jani@iaprivatewealth.ca (on leave of absence)