Dr. Patrick O'Brien's

Fall 2024 Client Note

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One marshmallow now or more later? How about now AND later! 😊

Dear Friends and Clients,

I hope all is well with you as we slide, somewhat reluctantly, towards the cooler months.

The Marshmallow experiment:

In the 1970s, a study was performed where children about age 5 were individually seated in a room with a tantalizing treat placed in front of them. They were told that they could eat that marshmallow now or wait a few minutes and they would get two. I wonder if this protocol would receive the ethics committee's blessing today. 😊

Cute, but How does this Relate to my Investment Portfolio?

Let me contrast this experiment to my aging metaphor about "eating the eggs and not the chickens."

The single marshmallow on the plate is the dividend we receive. You can eat (spend) it now, or you can let them accumulate and use the money to buy more shares and so produce even more dividends. The investment program is a better deal than in the experiment with the children where it was "one and done" if you ate the marshmallow. In fact, even if you ate (spent) every marshmallow, another set (of dividends) will appear in about 2 weeks.

In the experiment, those children who waited received a second marshmallow a few minutes later. What about these marshmallows that will appear unpredictably in the future? These represent not just future dividends, but also capital gains i.e. the increase in share prices over time. These happen haphazardly and unlike the dividends, they are unpredictable, but nice when the occur.

So why not just go for capital gains since they are historically greater than the dividends? Unfortunately, capital gains are unreliable and fluctuate too much month to month, year to year to provide a steady income stream. There have been multiple instances where a big group of profitable companies have been at the same level for more than a decade (2000 to 2012 most recently). I am uncomfortable with any investment program which assumes and relies on a steadily rising stock market to provide income.

Timely Financial Planning Tips:

If you haven't made a contribution to your children's or grandchildren's education plan (RESP*)* in 2024, now is a good time i.e. before the end of the year.

The TFSA (Tax Free Savings Account) can be topped up any time, but it's best, in most cases, to top it up as soon as room becomes available (January first each year).

RSPs are best to be topped up as soon as you know your room, likely when you receive your notice of assessment (NOA). The deadline will be March first, 2025.

The FHSA (First Time Homebuyers Savings Account) program started in 2023. It is almost too good to be true – a tax deduction to contribute, no tax on withdrawal of contributions, and growth when drawn to buy a home. If you never buy a home, you can roll it into an RSP. There are a lot more details, so please reach out to us for more information.

In case you missed it in previous Client Notes, there are some very good planning options available to prevent probate fees and taxes for private corporations and individuals. A big part of our job is to help reduce taxes as well as earning investment income over long periods of time. We are looking forward to helping you maximize your financial security and income. Please reach out to us.

As an aside, we encourage our clients' children to piggyback on their parents, this can create a more cohesive intergenerational environment. It will help them benefit from resources they might not otherwise have access to considering their portfolio size may not qualify.

I hope you have a great fall season!

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