The Fortnighter

Wealth Management Dominion Securities

Fall 2021 – Issue #74

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In the investment industry (and the world in general, I suppose), there's always something to worry about.

The worry de jour is inflation. Yes, Covid (now OMICRON – OMG) is still running rampant in parts of the world and yes, much of the planet is going to be uninhabitable in 30 years, but hey- we're talking about our ability to buy stuff! Rising prices (inflation) is an important consideration for most of us.

Two groups of people are especially concerned about the possibility of rising prices – central bankers and those living on a fixed income.

Few things strike fear into the hearts of central bankers like inflation. I'm sure we've all seen pictures of trillion-dollar bank notes (Zimbabwe, I think) and people with wheelbarrows of near-worthless paper currency trying to buy groceries. Nothing like that would ever happen in Canada or the U.S., of course, but the possibility of civil unrest (and a "change" of government) tends to increase a lot when you can't afford food.

From a less-alarmist perspective, even modest amounts of price escalation (like what we are seeing today) has an impact on our purchasing power. This is especially critical for those people on a "fixed income". Another word for this is RETIRED.

But are retirees, especially those who are investors, really on a "fixed income??" For the most part, I would argue no.

First of all, we all have our own individual "inflation rates". Own your own home? Then a key part of CPI, housing affordability, might not be affecting you. Gas prices? Well, if you're not driving to work, maybe not such a big deal. And since you haven't been on an airplane in 18 months, do you really care that strawberries are $6 a pint?

Back to the idea of a "fixed income". For one, if you're receiving government benefits, those amounts are adjusted for inflation. Yes, there's a lag to the current CPI rate - but the bump is there, every year, without fail.

More importantly, if you are reading this you own dividend-producing common stocks in your portfolio. Companies that pay dividends also tend to increase them on a regular basis. That doesn't happen all the time (and some companies cut their dividends in 2020) - but over a business cycle most "blue-chips" will increase their dividend.

Consider a business that grows earnings by 10% a year. If its target is to pay out, say 40% of earnings as a dividend (the Canadian banks are in this range), that means the dividend is also growing at 10% per year. If you derive 50% of your retirement income from investments like this, that's a 5% increase each year.

Most employees would kill for a 5% raise every year! Perhaps the question is not "What do I do about inflation?" but more "Why didn't I retire earlier?!"