THE TYLER GROUP
Financial Services

Sound Advice

The **Incredible Power** of **Systematically Increasing Your Savings Rate**, Especially in Challenging Times ...

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Before I begin to describe the incredible power of this investment strategy, I would like to set the stage for this discussion. I am addressing this article to two distinct audiences.

1. **Younger investors who are beginning to save and to invest**
2. **Older investors who are still saving in their Tax-Free Savings Accounts (TFSAs)**

Here is the background ...

In the 1990's I had the opportunity to meet with hundreds of employees who belonged to various defined contribution pension plans. I offered a series of financial planning workshops on behalf of several large corporations and numerous federal and provincial government agencies. At that time, many employers were offering early retirement packages to employees. Further to that, companies needed to retire employees whose skills were no longer needed in a quickly evolving workplace. Governments were struggling to meet deficit reduction targets and were offering early retirement incentives. As part of the workshop agenda, I met with each prospective retiree and helped them decide whether or not they could afford to accept the very generous retirement packages they were being offered. As part of the process, we discussed their defined contribution pensions, and how these pensions had achieved superior investment results.

Many of the employees had started work in the 1970's and their participation in the pension plan was simply part of the employment contract. The pension plans were usually not unlike every mutual fund today. The 1970's were a very tumultuous time, with rapidly rising inflation followed by rising interest rates and numerous political upheavals, such as the civil rights movement, the anti-war lobbies and the Iranian Hostage Crisis in the United States. Throughout this period of history, these employees just kept working and contributing to their pension plans, gradually increasing their contribution amounts as their wages increased. Whenever a "crisis" struck, their contributions purchased more units at much lower prices, and did so while all this unrest and uncertainty unfolded.

The result was that these employees were unknowingly systematically increasing their savings rate, while accumulating more units in a professionally managed plan.

The 1980's brought about a respite from civil and political strife, and then interest rates began falling. By the time I met these folks at the workshops in the 1990's, they had accumulated a tremendous number of units in their defined contribution pension plans. The unit values were now responding very positively to the lower interest rates and rising share prices. **The employees had been participating unknowingly in the best of all possible wealth accumulation strategies – purchase value at inexpensive prices – that is, "buy low".** By the 1990's, that value was reflected in their rising pension plan totals and early retirement was a realistic option.

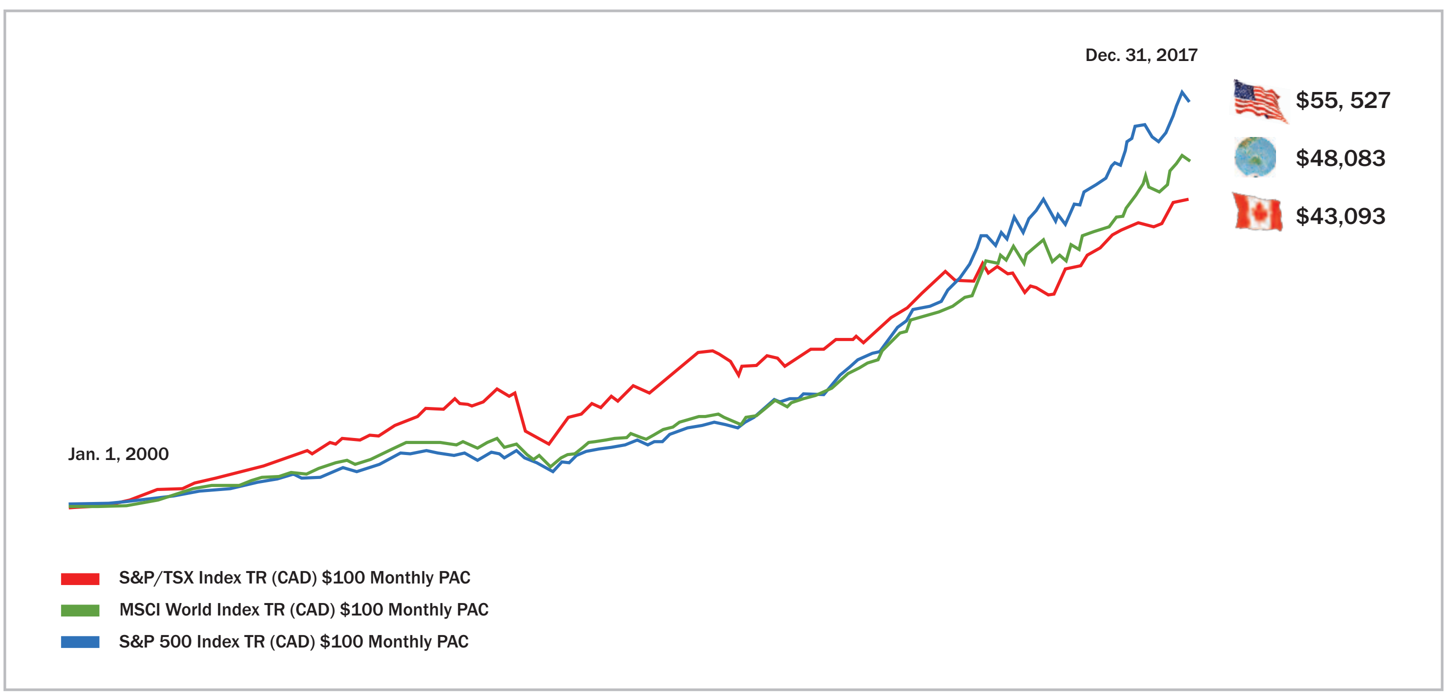
Now let's flash forward to the present – 2018.
Let's see what, if anything, has changed …

The financial advisory profession is now dominated by one specific risk and this is called volatility. Volatility in its truest sense, means any pronounced movement, up or down. Of course, nobody gets upset at his/her investment portfolio when they experience rapid upward increases, although this is certainly volatility. However, the same downward movement produces a very different reaction. Why? We are often emotional people and not always logical. Also, we have been trained to think that an investment that temporarily decreases in price has somehow lost value, even though that may not be true at all. We may not be aware that all investments that are regularly traded in the marketplace will temporarily drop in price, often for no specific or valid reason. It is often quite common for an individual company's share price to vary up or down by 25 percent in any given year. Great companies, such as Microsoft, during that same period in the 1970's and 1980's, regularly experienced share price drops of 50 percent, even when Microsoft continued to expand its dominant software business.

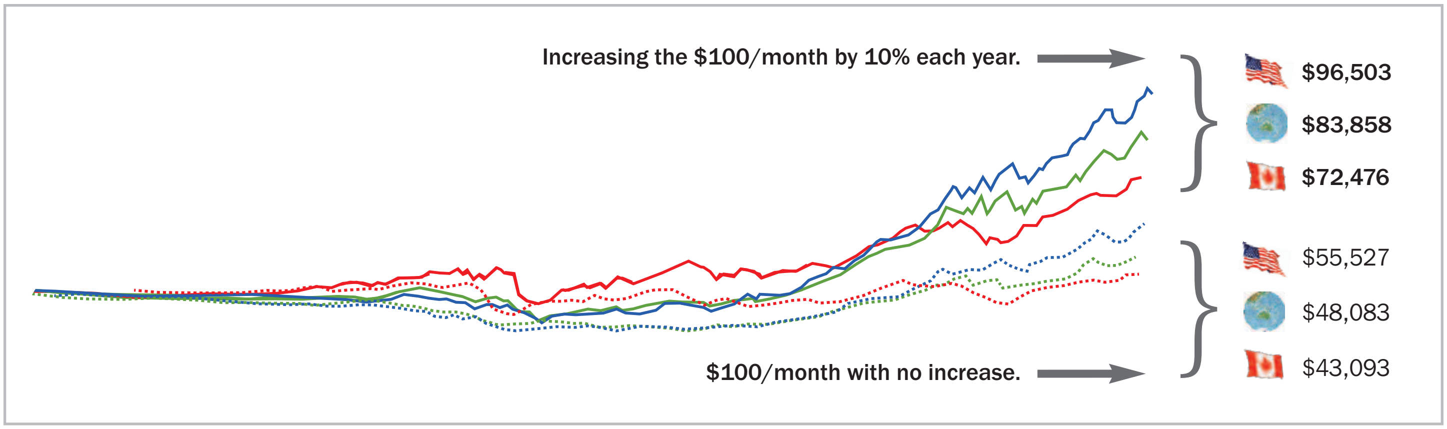
S&P 500 INDEX

MSCI WORLD INDEX

S&P/TSX COMPOSITE INDEX



Source: Morningstar



Source: Morningstar

Volatility, up or down, is the friend of those who know what they own. It is the enemy of those who do not. The investment funds that we recommend to our clients are all managed by investment managers who have a detailed understanding of the companies and securities in the funds. The managers know what they own, and they are ready to take advantage of "temporary sales", whenever they occur.

For an example of how you could put this knowledge to work for yourself, imagine if you had regularly invested money into an investment, and that you systematically increased your savings rate each year by 10 percent. You did this until it eventually reached three times your first monthly contribution and then you kept it at this rate for the duration of a 20 year period. That would typically provide enough time for 3 - 4 full economic cycles, complete with a great deal of individual price movements, up and down. (Translation: volatility, as it is called in the investment world.) This would be a sufficient time to allow most companies to work through their own business challenges, and to address whatever economic headwinds that would be blowing during this 20 year period. To illustrate by example, I have chosen two particularly difficult periods, **1970's through the 80's** and **2000 until the end of 2017**, when equity prices were negatively influenced by a myriad of challenging circumstances, and therefore prices dropped, then rose, then dropped and rose again.

In each example, from January 1, 1970 to December 31, 1989, and Jan 1, 2000 to Dec. 31, 2017, I have used large Canadian companies, as represented by the TSX Index.

I have also illustrated the same idea using the 500 largest U.S. companies, as represented by the S&P500. Then I have illustrated what happens when, in addition to regular savings, an increase in investment of 10 percent per year is added each year for the first 12.5 years.

3 Lessons Learned:

1. **The best way to increase your overall return: systematically increase your investment commitment by a pre-set increase – let's say 10 percent, until you double or triple your overall monthly investment. You are probably going to receive wage increases anyway, so why not invest a small portion of the increase?**
2. **Not only do you stop worrying about the "markets" and avoid the idea of market timing, but now the inevitable and temporary market downturns become a positive thing as you accumulate more of the best companies in the world at bargain prices.**
3. **Compare this approach to saving at a 2 percent guaranteed rate of return! You would have to work and save for a very long time in order to accumulate the same amount of money that can be accrued by using this systematic approach.**

Over the following 3 years, I intend to update the data from Jan. 1, 2000 data until we have a second 20 - year period. I will provide the results each January for the next 3 years.

As always, we welcome your input.

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