Inspired Investor

BY RBC DIRECT INVESTING

GET INSIDE THEIR MINDS

MALCOLM GLADWELL

MICHELE ROMANOW

+

DAVID CHILTON ON MANAGING EMOTIONS

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PLUS

Recipes for Success from Award-Winning Chefs

7 INVESTING BIASES YOU SHOULD KICK TO THE CURB

Real Investors Share Their Stories

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PHOTOGRAPHY: RONALD TSANG; STYLING: DANIEL ONORI

Let's Get Started

When I was younger, my approach to investing was similar to how I made smoothies: throw in whatever fruits and vegetables were in my fridge and hope for the best. There was no real plan, no real goals, but I knew that even with tired ingredients, smoothies were good for me.

Fast-forward a few years. I became more strategic, creating the right mix of antioxidants, vegetables, even some supplement oils. In the spirit of geeking out, I researched and planned the perfect combination for optimal energy and well-being — and it worked. I felt better with a breakfast smoothie than without. And I felt a sense of pride at mastering just the right combo.

Today, I've gotten out of the smoothie habit, but my need to solve well-defined, and not-so-well-defined, problems persists. And that has brought me into the wonderful world of investing – and trying to create the perfect mix for my portfolio.

> "Investing isn't just about money or stocks or bonds; it's about the dreams of Canadians."

As the founding editor of the digital magazine *Inspired Investor*, I've had the opportunity to talk to self-directed investors across the country. I quickly learned that investing isn't just about money or stocks or bonds; it's about the dreams of Canadians. Out of that, *Inspired Investor* was born, a place to share financial knowledge, insights and how-to guides.

Since its launch, the *Inspired Investor* digital magazine (rbc.com/inspiredinvestor) has received almost one million visits. This year, we're celebrating RBC Direct Investing's recent 30th anniversary with this special edition. A lot has changed in the last three decades, but the gold standard of investing principles remains the same. In these pages, we explore those principles by covering the basics (such as compound interest, dollar-cost averaging and asset mix). David Chilton addresses managing the ups and downs of the market (see "How the Wealthy Barber Manages Emotions," p. 16). Plus, Melissa Leong talks about her relationship with money ("Dear Money, It's Not You, It's Me," p. 8).

We also cover concepts that can skew investors' perceptions, like anchoring, overconfidence and confirmation bias ("Can You Trick Yourself Into Better Investing Decisions?" p. 32). We speak to 11 entrepreneurs who, like all good investors, are seeking opportunities and a gap in the market (see "Recipes for Success," p. 22, and "Inside Six Innovative Minds," p. 36). And don't miss our favourite money hacks from bankers (p. 10).

I hope this magazine brings you everything you need to make investing a way of life. And when you're finished reading, perhaps you'll want to ask yourself, What ingredient am I missing? Kale, anyone?

— Leigh Felesky

▶ *Send feedback to inspiredinvestor@rbc.com*

PHOTOGRAPHY, BROOKE SCHAAL

Inspired Investor™

By RBC Direct Investing®

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The best part of my job is…

"Finding fun ways to talk finance." – Judy

"Telling stories through pictures." – Kanwal

"Sharing personal stories we can all relate to." – Mary

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PHOTOGRAPHY, RONALD TSANG; STYLING, DANIEL ONORI

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MONEY MATTERS

In the pages that follow, real people reveal a bit about their journeys toward financial independence, lessons they've learned along the way and some of their best money-management tricks.

Inspired by You

From getting started to gaining confidence, here's a glimpse into how real investors like you think.

WRITTEN BY **JUDY McKINNON** ILLUSTRATIONS BY **JENNIFER PLAYFORD**

Investing ideas and inspiration come from all around us, and hearing from others can be truly motivating. We asked self-directed investors to share their #InvestingTruths and here's what they had to say.

Starting: "I felt quite intimidated to start with. I didn't do a thing without emailing my friend. Now I do feel a little bit more educated, but there's always more learning you can do. I like being more hands-on with my future." – *Barb[1], 68*

Emotions: "I don't feel panic anymore because when you have been through ups and downs enough times, you realize that, in hindsight, you did not have to freak out. So I don't become emotionally involved in what might seem to be bad decisions in the short run. I'm a lot more relaxed now." – *Linda[1], 66*

Best Lessons: "I guess a key lesson is invest early. Pay yourself, save some money and invest early in the market. Don't panic when the market goes down; think long term. And enjoy life!" – *Carl[1], 59*

Confidence: "In general, I'm not a super-confident investor, but I do like the feeling of being in control of my own money. And I like to make my own decisions. Not every decision is the right one over the years, and not everything is a winner, but overall I'm happy with how I'm doing." – *Carrie[2], 34*

LESSONS FROM MOM

MyAn[1], 31 years old

"My mom is a self-directed investor and I was intrigued by how she invests, so I decided to try it out on my own. My mom and I still talk a lot about investing. She lives in Vietnam, though, so we can't talk about specifics because we invest in different markets. But my mom has lots of tips and guidelines that she follows, and now I follow them, too. Tips like when it's best to hold on to a stock or when it's time to sell. An example is cut your losses. When the stock goes down a certain amount from your initial investment, sell and move on. Or think about how much you want to earn on a stock, and once you hit that, sell. Don't keep waiting. That's one of her strategies. One important principle I learned from my mom is to do my research and not be too emotional. Research really helps me stay level-headed and clear."

INVESTING IN A BETTER FUTURE **Milene[2], 41 years old**

"I wanted to be able to put my money into companies and investments I believe in while reaping the rewards of having my money work for me in the long run. Investing in companies that are socially responsible is important to me because I want to ensure that wherever I put my assets, they are making a difference for the next generation and specifically, of course, my children. My approach has always been a slow and steady long-term strategy. I once read a wonderful metaphor that was written by Paul Samuelson, a Nobel Prize–winning economist. It said that investing should be like watching paint dry or watching grass grow. If you want excitement, take your $800 and go to Vegas. It really resonated with me."

▶ *Learn more about responsible investing on p. 44*

I'M NOT A FINANCE GUY, BUT…

Brandon[2], 33 years old

"I'm not really a finance guy. I was actually a humanities major in university. My wife and I are investing together. We like being able to make decisions on our own and take a little bit more control of our investments. I guess the two of us are kind of control freaks. How do we invest? We sit down at the end of each year and we have a discussion. We start with our goals and work a little bit backwards – you know, we'd like to have a house in X amount of years, this is what we can put aside for retirement… but maybe we just really want to travel right now. I figure out what we need to save and see where we're wasting some money, and then it's just really figuring out what we need to do to get from A to B. I'm a bit of a news junkie, so I follow a lot of news about the companies that I invest in. I like to get to know them before I invest. A lot of the time, I already have prior knowledge of a company or I use their products."

↗ Find more inspiring stories at rbc.com/investingtruths

[1] These RBC Direct Investing clients have been compensated for sharing their stories.

[2] These RBC employees have shared their personal stories.

Dear Money, It's Not You, It's Me

Money can be an emotional thing. Here's what you need to know.

WRITTEN BY **MELISSA LEONG**, AUTHOR OF THE FEEL-GOOD FINANCE GUIDE *HAPPY GO MONEY*

Several years ago, my husband and I had a, well, heated discussion about our finances, and it transformed the way I viewed money. He accused me of being cheap, whereas I saw myself as being responsible.

"Why are you so reluctant to spend, even on things such as investing in your business?" he asked. I realized that my mentality around money was that it's a finite resource you toil for and then safeguard. I was hesitant to part with cash — but I was also missing out on opportunities. So, for the first and only time in our lives, I conceded that my husband might be right. I needed to be more open to letting my money work for me.

How we feel about money can affect how we save, spend, borrow and invest. In order to be more successful with your finances, start by re-evaluating your relationship with money.

IDENTIFY THE RELATIONSHIP

Explore your feelings about money. Are they positive or negative? How do you talk about money? How do you feel when the topic comes up? Are you comfortable or stressed? These things you automatically think, say and feel about finances are your money scripts. And your scripts are not always helpful or even accurate.

Look into the origin of your money scripts. Money meaning generally grows on family trees. In other words, the way we approach finances is often something that we learned when we were young. For example, how did your family talk about money? ("We'll be happier when we have more in the bank." "Your uncle is successful because he's rich." "Wealthy people are jerks.") Did your parents manage their finances well, or were they constantly late paying their bills?

ILLUSTRATION, SALINI PERERA

PHOTOGRAPHY, GREG TJEPKEMA

That being said, some of our behaviour around money is innate. Research has shown that some people are predisposed to being spenders or tightwads; when it comes to spending, they experience activity in the pain-processing centre in the brain differently. Interestingly, according to a 2009 University of Michigan study, misers and spendthrifts tend to be attracted to each other (my marriage is a case in point).

LOOK AT BELIEFS AND BEHAVIOURS

It's up to us to figure out whether our relationship with money is healthy and to create one that satisfies our needs and helps to achieve our goals. Take a good, hard look at how you are using money. Examine your bank and credit card statements. What are you spending on? When it comes to your discretionary spending — expenses that are non-essential, like dinners out and vacations — are these items in line with your values? Look at your last three unplanned purchases and think about the reasons why you made them. For example, if you have a habit of shopping to relieve stress, are your purchases actually improving your well-being or leading to more stress?

You can apply the same scrutiny to your investments. Your emotions play a huge part in how successful you are at investing. Keeping a portfolio journal can help — it's as simple as writing down how you feel about each investment decision. When you bought or sold a product, were you reacting out of fear? Do you regret your choices? This self-awareness is the jumping-off point to meaningful change.

Melissa Leong

MAKE A NEW STRATEGY

Creating a plan for your money sets the ground rules for a fresh approach. Identify your short-term and long-term goals (ones that take more than five years to achieve). Break them down into mini, bite-sized goals that you can tackle immediately.

One smart strategy can be to set up an automatic withdrawal, so that money is transferred out of your account, maybe each payday, into a separate account. Take care of your money priorities first, whether that means creating financial freedom in retirement, supporting your children through post-secondary education or bulking up your emergency fund.

Then, make a budget to enjoy life — identify what you value most and spend your money that way. If you need support with figuring out what's right for you, find a trusted professional who can help you build a financial plan.

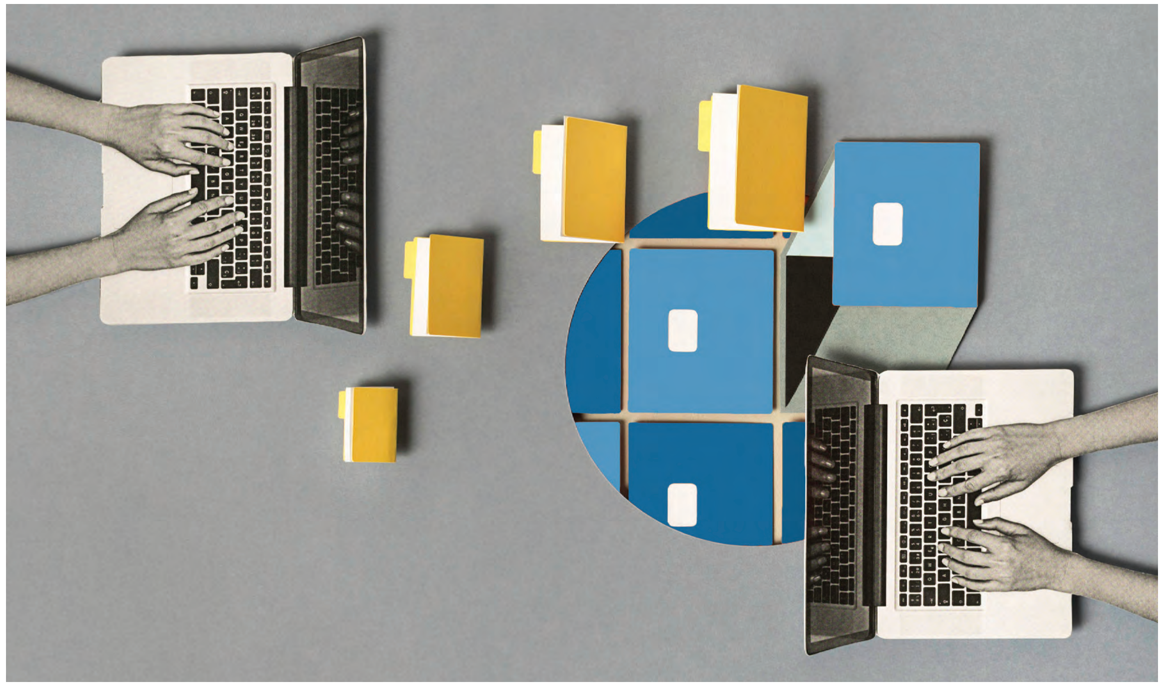
By examining your money habits and money scripts and then developing a strategy, you can create a new relationship with money — one that will help you live the life that you want. Since that conversation with my husband, I've tried to take a more balanced view of my finances. I know that I've set funds aside for my priorities, so I am freer to take risks, splurge on experiences, treat friends and generally enjoy my money.

Check out the *Money Moves* podcast, where Melissa Leong guides smart finance conversations. Brought to you by the *Globe and Mail* and RBC Direct Investing.

WHAT IS YOUR MONEY PERSONALITY?

Some financial experts say that people are born with certain money tendencies. Understanding yours is key to your financial health. Here are four common money personalities (you may identify with more than one):

- **Savers** take pleasure in saving, possibly even hoarding, their money. They look for discounts, follow budgets closely and feel a lot of discomfort when parting with cash.
- **Spenders** enjoy spending money. They're likely to splurge or impulse buy. They're often generous to others, giving gifts and buying meals, even if it means adding to their debt loads.
- **Risk takers** are gamblers. They often take significant risks with their investments — without doing sufficient research — and chase returns with fervour.
- **Avoiders** (also known as ostriches) stick their heads in the sand when it comes to money. They'd rather not talk about it, or they find it stressful or overwhelming.



PHOTOGRAPHY, CACTUS CREATIVE STUDIO/STOCKSY

10 Smart Money Hacks

Ever wonder how the bankers bank? We share tried-and-true money-management tips from our colleagues.

WRITTEN BY **MARY LEVITSKI**

They're analysts. They're number crunchers. They're data geniuses. They're the people who make RBC run like a well-oiled machine, and they bring the same smarts and discipline to their own personal banking. Here are some of the best tricks we've picked up from our money-minded colleagues.

1 RENAME YOUR ACCOUNTS

You'll be more inclined to put cash into an account called Forever House Fund, Destination: Hawaii or even Rainy Day Fund than one with a generic name like Savings. Our resident math whiz says the simple act of naming his accounts has made his goals more tangible, which makes him feel more accountable to them.

2 AUDIT YOUR BILLS

It may sound tedious and obvious, but our digital content lead swears by scrutinizing expenses line by line. With a demanding career, three kids and a dog, it can be hard to keep track of costs. Combing through phone bills, vet receipts, car lease agreements and the like has proven to her time and again that hidden fees do crop up, promotions can expire unannounced, clerical errors may occur, and so much more.

3 AUTOMATE AND ADJUST

Several of our co-workers have arranged automatic withdrawals from their chequing account to contribute to their savings or investing account on payday. But don't just set it and forget it, says one colleague. "Whenever I'm lucky enough to get a raise, I increase my auto-deposit by the same percentage."

4 ROUND IT DOWN

Our digital guru keeps tabs on his cash using his mobile banking app. He's made a habit of rounding his chequing account balance down to the nearest $5 and moving the rest to his savings account. He says it's a fun and easy way to save, and those dollars and cents have steadily accumulated.

5 PUT YOUR DIET ON A SPENDING DIET

Many of us spend more money on dining out than we'd like to admit. To cut back, one of our colleagues deleted all five of the food delivery apps from her phone. "I've easily saved $500 a month as a result," she says. Another co-worker only buys food when she's eating with another person. That means no store-bought coffee at work unless she's meeting a colleague, and no takeout on Friday evenings unless she's having a date night with her partner. As she says, "Paying $12 a day to eat a mediocre lunch salad alone at my desk is too sad to justify the cost."

6 SPEND CONSCIOUSLY

Before our client experience specialist makes a purchase, be it a cup of coffee or a family vacation, he thinks of the planet. Often, he decides not to buy. "Considering the impact of what I buy on the climate has amounted to a more sustainable way of bringing up my kids," he says. Sticking to your values may help you curb your spending – and minimize your environmental footprint, too.

7 REAP THE REWARDS

All those points, miles and cash rewards add up. Here's our resident math whiz again: "My gas rewards program, for example, saves three cents a litre, which is about a buck a week." His overall rewards total upwards of $400 a year, he says, which is enough to fund a weekend getaway or a significant portion of a small vacation.

8 GET LOW

As you might guess, this group does not carry a balance on their credit cards. If they do need to borrow funds – or, as one of our executives puts it, "to ensure I don't miss out on greater opportunities" – they use lower-interest lending vehicles, like a mortgage or line of credit.

9 SET SUB-GOALS

In addition to setting year-end goals, our operations group almost unanimously endorses setting monthly targets. Add up your known income (such as salary and dividends). Then subtract the known liabilities (like bills, kids' activities and groceries). From there, forecast what amount ought to remain at the end of each month for the year. Assess monthly whether or not you're on target.

10 TALK ABOUT IT

Last but definitely not least, we've learned the value of discussing finances with others. Even if you don't have a banker on speed dial, you likely have financially savvy people in your network. Pick their brains. Your bank accounts may thank you. ■

BONUS TIP

Terri-Lee Weeks, a Senior Vice President at RBC, leads the savings and investments businesses, including Direct Investing, InvestEase and Mutual Funds Distribution. We asked her for her best takeaway after 15 years at the bank: "Start with a plan so you know how you want your money to work for you — whether you're saving, investing or paying down debt. It may sound simple, but make your goals specific and visible. If you keep them in your line of sight, you can check in on your progress more regularly, and ultimately, be more accountable to what you want to achieve."

PHOTOGRAPHY, LUMINA/STOCKSY

Is Loss Aversion Hanging in Your Closet?

How fear of letting go can affect your portfolio and your wardrobe.

WRITTEN BY **LEIGH FELESKY**

Getting dressed this morning was easy. The hangers in the closet slid effortlessly, and each piece of clothing was exactly where it should be, organized by colour and style, and in ready-to-wear condition. Recognize this feeling? If you do, take a moment to be proud!

Entire industries exist to help people get to this place of daily organizational nirvana. After all, closet chaos is easy to find. We collect so much over the years that editing and sorting becomes a challenge. Sometimes it seems impossible.

I always start out with the best intentions, but just as I'm on the verge of throwing something out, I stop myself. I think, But wait...what if it comes back in style? Or, What if I lose 10 pounds and can actually fit into it again?

Second-guessing also happens with my investment portfolio at times. When considering whether to keep an underperforming stock, I might think, What if it makes a rebound and I can avoid taking a loss? Maybe I should hold on to it. Behavioural economists call this loss aversion.

WHAT IS LOSS AVERSION?

Loss aversion suggests that because losses are more powerful in our minds than gains, we tend to naturally avoid them. Here's how it works: If I told you I would be taking five random items out of your closet to give away, you'd likely panic at the thought of the loss. But if I told you I'd make it up to you by replacing those items with five new pieces from the designer of your choice, you'd likely be excited. Fast-forward a few months, however, and the traumatic memory of me taking your stuff away would outweigh the exhilaration of getting the new items. In general, your mind's overemphasis on loss compels you to sidestep it at all costs.

WHY DOES IT MATTER?

Both closets and investment portfolios can become cluttered and lack focus. Instead of cutting your losses on what's no longer working for you, you might hang on because of loss aversion.

I'll give you a somewhat irrational example. I often wear pants, but lately I've wanted to update my look by adding dresses. A well-made dress is easy to wear and always looks put together. This decision sounds great in theory, but it still presents a risk for a consummate pants-wearer like me. If a new dress doesn't fulfil the promise to look and feel amazing, I likely won't wear it. So in a sense, it could become a poor wardrobe performer, and I might regret my purchase. Plus, in order to make way for that new dress, I'd need to clear out space in my closet. Even though I've got numerous pairs of ill-fitting, uncomfortable pants that could be tossed to make room, I struggle to purge the trousers for fear of regretting the loss.

> "Loss and change are often necessary to make way for the new."

WHAT ROLE DOES RISK PLAY?

Fear, in part, can be responsible for a stagnating style. Have you ever bought a new shirt only to come home and find out that you have three others that look almost identical? Guilty. The same old look means avoiding the risk of uncertainty. At the same time, it keeps you from exploring new options.

I've realized that, like in my closet, loss aversion could be playing out in my portfolio. Most of us would agree that if we haven't worn something for a year or two — or it's not performing well — it might be time to objectively review the situation, cut your losses and move on. Loss and change are often necessary to make way for the new.

Preferring to avoid loss over enjoying gains can affect our decision-making when it comes to investments, too. It may lead to delaying a portfolio cleanup, could contribute to a rash decision to sell all of our market investments if a significant decline happens, or might cause us to avoid equity markets entirely — which could mean missing out on investment growth.

So how do you avoid loss aversion? Understanding your investment goals and what you need to get there can help.

Now when I'm doing a closet clear-out or reviewing my investments, I've vowed to always ask myself: "Will tossing a poor wardrobe or portfolio performer create space that will be more valuable than keeping the status quo?" If the answer is yes, even if it means loss in some way, I know it could be time to make a change. ■

▶ *Loss aversion is just one of a long list of biases that can affect investors. Turn to p. 32 to learn more.*

PHOTOGRAPHY, RONALD TSANG; STYLING, DANIEL ONORI

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NOW & NOTEWORTHY

Discover the Wealthy Barber's take on emotions. Plus, find out how you can make better decisions, and see what five acclaimed chefs have learned about grit, leadership and creativity.

How the Wealthy Barber Manages Emotions

Author and investor David Chilton offers tips on dealing with market turbulence.

WRITTEN BY **DAVID CHILTON**

"A lot of people with high IQs are terrible investors because they've got terrible temperaments. You need to keep raw, irrational emotion under control."
– CHARLIE MUNGER

I love Charlie Munger, Warren Buffett's business partner. He's my all-time favourite thinker in the investment world. I estimate his intelligence to be approximately 10.5 times mine (though people who know both of us say that is a very conservative figure).

After spending the last 35 years watching people handle their portfolios, I can assure you his quote (at left) is, as usual for him, bang on.

Emotions are many investors' biggest enemies.

It's so difficult not to give in to the powerful pulls of fear and greed.

For example, significant declines in the stock market are scary. Very. They are fear inducing. And when emotions kick in, humans naturally extrapolate the short-term trend and assume it will go on for a long time. Maybe indefinitely. That's how we're wired. And once we've decided things are going to stay bad, or get worse, it's remarkably easy to feed our confirmation bias. Doom-and-gloom forecasts are everywhere. Naysayers abound. Our summary statements are screaming at us: "How can you let this go on, you fool?!"

Our fears are, therefore, magnified. They can become intense, even overwhelming.

It's remarkably easy for a slight anxious feeling to grow to a full-out panic. A panic that can be eliminated only by ending the cause of the initial pain. How?

By stopping the portfolio's decline.

By selling.

By selling low.

By breaking with your long-term plan.

By letting emotions rule your investment decisions and processes instead of reason and discipline.

So, the obvious question is: How does an investor control her/his emotions and avoid making "raw, irrational" decisions?

Well, interestingly, I think I'm in a uniquely good position to answer that question. Not because I've read dozens of books on behavioural economics (though I have — what a super-exciting guy!), but because I've had front-row seats watching a number of successful investors through the years — investors who've handled their emotions exceptionally well. Yes, the theories and clever experiments of the various authors have been enlightening, but nothing beats real-life evidence, battle-tested proof of what truly works and what doesn't.

So what have I learned?

Well, we can't cover it all here (they didn't want to give me the whole magazine), but I'll share two important lessons.

Let's start by looking at an oft-pushed approach that frequently doesn't work. The late, great Stephen Covey taught us the importance of injecting time between the stimulus and response. He preached hitting the pause button when you're flustered, giving your emotions a chance to settle down. Then, in a calmer state, rationally examining your options. Many investment educators have endorsed this idea when dealing with nerve-wracking market downturns.

Sounds wise. Who could argue with it?

I can.

Covey's outstanding advice works quite effectively when dealing with a triggering event, a one-off stimulus. For example, it's very prudent not to react rashly when your son tells you that he missed his final exam. Best to take a few moments. Actually, best to take a few hours. Days even.

But markets are dynamic. Yesterday's gut-wrenching decline often continues today. And tomorrow. Now suddenly you're even more agitated, more fearful. And here's the important part: You're also mad. At whom? Yourself. "Why didn't I sell when my gut first told me to? What an idiot I am. I should have trusted my instincts."

Fear mixed with anger seldom leads to good decisions.

You sell.

Clearly, time, on its own, doesn't always do the trick. Other techniques are needed.

And the best of the bunch, hands down, is to be well educated about market volatility. To understand that it's not only a constant presence but also that it's a positive. A positive? Am I crazy? No, I'm not, thank you very much. The long-term returns offered by equities wouldn't be there if it weren't for the fact that investors have to put up with the roller-coaster ride.

Understanding that is key. Recognizing that volatility (including major pullbacks) is natural, inevitable and, again, even positive is crucial to dealing with its emotional impact. It brings perspective to your thinking. It makes you focus more on the long term, on your investment plan. The noise of the market's current struggles is muted by this knowledge.

So, best advice? Obviously, it's get this knowledge! Become a student of the market. Read. Balance your following of the day-to-day moves and news from your portfolio companies with reading from the classic investment books. Look to history to understand the present and plan for the future.

It's not a coincidence that the investors who are able to follow Munger's advice and keep "raw, irrational emotion under control" are often the same ones who read everything they can from Munger.

Books may be your wisest investment. (Okay, I am a tad biased.) ■

↗ In *The Wealthy Barber Returns*, Chilton shares more about emotions, money and investing. Download select chapters for free at rbc.com/randomthoughtswb

How to Sleep, Move and Eat Your Way to Savvier Decisions

A look at the latest research on exercise, sleep and diet to get your brain in peak shape and keep it there.

WRITTEN BY
KATE DALEY

ILLUSTRATIONS BY
SALINI PERERA

Venture capitalist Michele Romanow compares entrepreneurship to a high-impact sport, and she trains accordingly. Brian Scudamore, the founder of 1-800-GOT-JUNK?, gets his best ideas on his high-performance exercise bike. Braden Ream, a successful CEO in his 20s, avoids making key decisions after 8 p.m. and gets seven hours of sleep a night — when he can! (More on how they do it, p. 36.)

According to current research, these are not coincidences. Our brainpower is affected by many lifestyle choices — from what we eat and how much we exercise to whether we spend our spare time socializing or sleeping. So it's no surprise that highly successful people leverage lifestyle to help their minds perform at their best. Let's take a look at how you can, too.

SLEEP ON IT

Does your day always feel a few hours too short? You'll make better headway on your task list if you get the optimal amount of shut-eye, according to sleep experts.

"Most of us think we get more sleep than we actually do," says Adrian Owen, a neuroscientist and professor at The Brain and Mind Institute at Western University in London, Ont. Owen and his team conducted the world's largest sleep study and found that half of the 40,000-plus participants typically slept less than 6.3 hours per night.

Adults need at least an hour to two hours more. Those who slept seven to eight hours a night performed best on a series of tests, explains Owen. "If you sleep four hours a night, your cognitive performance is equivalent to a normal sleeper who is 10 years older than you." Surprisingly, the research showed that too *much* sleep can impair cognition, too. "Twelve hours of sleep is as bad for you as four hours of sleep," says Owen.

The wrong amount of sleep doesn't just give you a foggy feeling — it actually has an effect on your brain, specifically the frontal lobe. That's the area that controls your decision-making. "Where there was a massive effect was in people's ability to problem-solve and reason," says Owen. He adds, "Every day we make hundreds of decisions that involve some reasoning."

There was some good news from this study. "For people who generally don't get enough sleep, it turned out that a single good night's sleep actually helps them bounce almost right back," says Owen. The evidence is clear: Hit the sack and you'll be more productive and better able to maximize opportunities the next day.

YOU ARE WHAT YOU EAT

Most brain health advice sounds pretty similar to heart health advice, and there's a reason. Everything you do to maintain your heart and your blood vessels also helps supply blood to the brain, says Carol Greenwood, professor emeritus in the Department of Nutritional Sciences at the University of Toronto and co-author of Canada's first Brain Health Food Guide. Your diet plays a big role.

How do you eat your way to a better brain? Stick to a meal plan that's largely plant-based, recommends Greenwood. Think green veggies (including cruciferous ones like broccoli and kale) and fruits (antioxidant-rich produce like berries and pomegranates). Add some foods with healthy fats, such as fish, nuts and olive oil. "You're going to get a good mix of nutrients when you're eating lots of fruits and vegetables. They'll supply you with vitamins and minerals, but also all of the other good things," says Greenwood. And by that she means the superpowers of antioxidants.

The brain is a highly vascular and metabolic organ, meaning it needs lots of blood and nutrients, says Teresa Liu-Ambrose, the Canada Research Chair in Physical Activity, Mobility and Cognitive Neuroscience at the University of British Columbia. And it can benefit from those antioxidant-rich berries you noshed on for breakfast. Antioxidants fight cell damage and inflammation, which helps keep blood vessels healthy and promote blood flow. Greenwood describes the system as a highway for supplying nutrients and removing waste.

What not to eat? Limit red meat, processed foods, and sweets like pop and candy. These foods are often loaded with salt, saturated fats and sugar, and they're also low in fibre. All of that can be detrimental to brain health. (Sigh...*don't* pass the doughnuts.) And don't neglect your fitness — maintaining your brain requires a combo effort of diet and exercise.

Notably, as you age, your peak cognitive performance shifts from the afternoon to the morning, explains Greenwood. So if you notice that you're in a slump at 3 p.m., it's not the best time to make important choices. If you want to make a trade right before the market closes, have a healthy snack (like an apple) first — it can help boost your brain processes, such as reasoning and attention span.

WORK IT OUT

Ready to hit the gym? Exercise plays an important role in both maintaining neuroplasticity (your brain's ability to form neural connections) and expanding your cognitive reserve (your brain's ability to function despite damage or age-related deterioration), says Liu-Ambrose.

Both cardio and strength training affect the brain, but in different ways. Cardio, or aerobic exercise, impacts your hippocampus, one of your brain's memory centres. Strength training, also called resistance training, might help minimize age-related damage to your white matter, the nerve fibres that make up the central nervous system and support your cognitive, sensory and motor functions.

> "If you sleep four hours a night, your cognitive performance is equivalent to a normal sleeper who is 10 years older than you. Twelve hours of sleep is as bad for you as four hours of sleep."

Whether you enjoy a long run or prefer a quick and sweaty High Intensity Interval Training (HIIT) workout, it's important to maintain your fitness long-term. Cognitive impairment doesn't happen overnight, explains Liu-Ambrose. It starts progressing from your 40s, so adopting a healthy lifestyle in midlife (if you haven't already) is key. Think of cognitive reserve the way you think of retirement savings, she suggests: "The earlier you start, the more buffer you have."

If you need to get focused for a big day ahead or to make important financial decisions, break a sweat. "There are definitely acute benefits to exercise," says Liu-Ambrose. After a workout, you'll see an immediate boost in both cognitive skills and memory. Try to push yourself — a leisurely half-hour on the elliptical is better than nothing, but it's not ideal. "Intensity of training does matter," says Liu-Ambrose. "You're trying to improve your cardiovascular or your muscle strength."

IMPROVE YOUR RETURN ON INVESTMENT

The experts agree: It's not just one area, but a combination of exercise, diet and a good night's sleep that keeps your mind running at max capacity. Put these ideas into practice and you'll be on your way to savvier, sharper decision-making. ■

MORE WAYS TO BOOST YOUR BRAINPOWER

Try these healthy mind habits to further improve your critical thinking.

1 Play Mind Games

Pass the puzzles! Engaging in brain teasers can boost your cognition. One study, conducted by the University of Exeter and King's College London, looked at the puzzle-playing habits of more than 19,000 participants over the age of 50. The more regularly they did number puzzles, Sudoku or crosswords, the better their brain function was, including reasoning, memory and attention. The researchers concluded that people who often did word puzzles had brain function equivalent to 10 years younger than their age when it came to grammatical reasoning, and eight years younger for short-term memory.

▶ *Try the crossword on* ***p. 55***

2 Get Social (the Other Social)

Have an invite to a networking event? A family get-together coming up? A friend throwing a shindig? Whatever it is, RSVP "yes" — socializing has been shown to help preserve memory and positively influence brain aging. An Ohio State University study found that mice that lived in groups had healthier brains and better memories than those that lived in pairs. In addition, the mice in groups had younger-looking brains with less inflammation, leading the researchers to theorize that having a larger social network can benefit our brains as we age.

3 Find Ways to Decompress

Stress can take a toll on the body — and that includes the brain. One recent study of more than 2,000 participants showed that people in their 40s and 50s with high levels of the stress hormone cortisol may have issues with their memory and cognition. That same study found that higher cortisol levels may even shrink your brain.

Lowering stress through mindfulness meditation may help take that cortisol down a few notches and strengthen your executive function, which includes attention span and memory. For those of us who can't escape the everyday for a full-on meditation retreat, we can try a mindfulness app, yoga or tai chi, all proven strategies to dial down those stress levels.

Cluck N Cleaver's Lil' Clucker sandwiches

Recipes for Success

If the markets feel unforgiving sometimes, try the professional kitchen! Five top chefs dish out their secrets to succeeding in a tough environment.

WRITTEN BY **BONNY REICHERT**

Creativity and perseverance and everything innovative – that's what top chefs are made of. The professional kitchen is a pressure cooker of expectation, and to make it in the culinary world, you need so much more than a discerning palate and impressive knife skills. We spoke to five culinary rock stars to learn how they take that heat and make it work for them, covering topics like continuous learning, leadership and decision-making. Whether you're a foodie or not, we guarantee these well-seasoned accounts are brimming with bite-sized takeaways for investors (hint: the power of humility translates from soufflés to stock trading).

PHOTOGRAPHY, COURTESY OF NICOLE GOMES (SANDWICHES)

PHOTOGRAPHY, DANIELA CIUFFA PHOTOGRAPHY (NICOLE GOMES)

Nicole Gomes, founder/proprietor at Cluck N Cleaver, Calgary

FIND YOUR VOICE

The first female *Top Chef Canada* winner and a semi-finalist on season two of *Iron Chef Gauntlet*, Nicole Gomes co-runs Cluck N Cleaver, a Calgary-based takeout chicken emporium. Plus, she recently sold her successful boutique catering company, Nicole Gourmet Catering. This busy professional also stages, or interns, at select restaurants.

"In reflecting on my career so far," says Gomes, "I see I was a cook learning to be a chef, then a chef becoming an entrepreneur, eventually coming back to having the freedom to just be a cook again. Full circle!"

These three stages differ greatly, she says. "A cook is about passion for cooking. A chef passes on knowledge from cooking to other passionate cooks while learning how to effectively run a cohesive team and a profitable business. An entrepreneur is someone who takes her passion and a big leap of faith to go into business for herself."

And how has entrepreneurship treated her? "I have learned from many of my own mistakes," Gomes says. After 13 years of independently financing her first business, she has started a scalable company with a partner. "The second time around, I know more about building a business for growth, and nurturing others. Through both of these processes, I have learned so much about my faults, how to improve on them, and hopefully how to inspire others along the way," she says. Often in her career, Gomes was the only female in male-dominated kitchens. "You find your voice!" she says. Finding her voice has served this high-profile chef well. Decision-making is simple, she says. It boils down to this: "Does this make me happy? Am I enjoying what I'm doing?"

> "I have learned so much about my faults, how to improve on them, and hopefully how to inspire others along the way."

LEARN FROM FAILURE

After leading Team Canada to a top 10 finish at the 2013 Bocuse d'Or in Lyon, France, Alex Chen went on to win a gold medal at the 2018 Canadian Culinary Championships. In 2018/19, he also won a battle on *Iron Chef Canada* and an assortment of chef and resto awards from *Vancouver Magazine*. He is now executive chef of the prestigious Boulevard Kitchen & Oyster Bar in Vancouver.

"Every day is about decisions. As chefs, that's part of our DNA," says Chen, citing budget planning, achieving goals and generating profits among the areas of his day-to-day responsibility. "In order to survive in this tough business, we had to start at a very young age with food cost, labour cost, menu planning, menu engineering. We wear many hats."

Among Chen's many skills is leadership. "I have never been shy about leading," he says. "I love to accomplish and execute

Alex Chen, executive chef at Boulevard Kitchen & Oyster Bar, Vancouver through excellence. Having a team that is fully aligned with your vision, there are no boundaries." Chen also considers himself a student. "You gather experience through your work and travel, and you draw on life experiences. Having great mentors has helped shape who I am today."

Another source of learning for Chen? Failure. "Failures and mistakes became a guide and template of what to do and what not to do. I went from an immature, inexperienced sous chef with too much ego to a more humble and thoughtful chef," he says, adding, "I believe in relationships, growth, evolution, authentic experience and mentorship."

> "Failures and mistakes became a guide and template of what to do and what not to do."

> "With the decision to travel, I had to make big moves. It made me grow even more and move up quickly in the end."

EXIT YOUR COMFORT ZONE

Before landing his current gig as executive chef at the Hôtel-Musée Premières Nations in Wendake, Que., Olivier Bernadet took his skills on the road. During his tenure, The Exchange Grill in Dubai was shortlisted for best fine dining restaurant in the Middle East. Back in Quebec, Bernadet earned four diamonds for his work at both the Monte Cristo Original in Hôtel Le Bonne Entente and Le Charlevoix restaurant at the Fairmont Le Manoir Richelieu.

Leaving his comfort zone – a good job, family and friends – to scour the globe for new techniques, flavours and trends has proven to be one of the main drivers of his career, he says. "With the decision to travel, I had to make big moves, and I accepted *commis* [a lower role] when I was already *chef de partie* [a more senior role]. But both times I did this, it made me grow even more and move up quickly in the end."

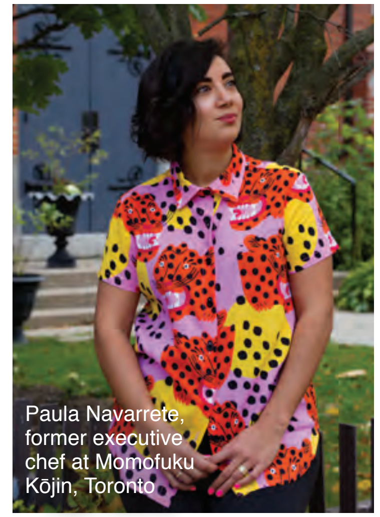
In Bernadet's world, growth is perpetual. "I will always be learning," he says, adding that he draws on his years in the kitchens of different types of chefs, taking from each what he believes is best for his own cooking space.

After all, Bernadet does not take a restaurateur's investment in him lightly. "People put their trust and money on your talent and skills to lead their kitchen," he says, "so it is just fair for me to treat it as my own money spent."

BUILD RELATIONSHIPS

Colombian-born Paula Navarrete moved to Vancouver as a youngster, then to Toronto later in her teens, carrying with her a passion for cooking inherited from both of her grandmothers. That passion, mixed with talent and drive, would lead celebrity chef and Momofuku boss David Chang to give Navarrete the keys to Momofuku Kōjin in Toronto, where she layered her Colombian flair over a Korean concept.


Olivier Bernadet, executive chef at Hôtel-Musée Premières Nations, Wendake, Que.


Paula Navarrete, former executive chef at Momofuku Kōjin, Toronto

PHOTOGRAPHY, @B.LASAGNE (PAULA NAVARRETE)

The childlike curiosity that initially ushered Navarrete into the culinary realm remains a driving force. "I am constantly fascinated by food, culture and travel," says the chef. "Throughout my career, I have tried to learn a variety of different cooking techniques and cuisines, from my beginning as a butcher, to Korean food at Daishō, and most recently blending my Colombian roots and passion for butchery and meat at Kōjin."

But no matter how far she evolves her skills, Navarrete keeps her attention on those who surround her. "As a chef, my focus really has been on building teams and growing with the people around me. At the end of the day, cooking is about a team. Our business is about people. The more we invest in human interactions, the better we can make our businesses."

To be sure, leading her people well is a top priority for Navarrete. "I think about how to be a great leader and teacher maybe more than cooking itself!" she says. "I have made mistakes as a leader, and the biggest thing for me is learning from those mistakes."

> "As a chef, my focus really has been on building teams and growing with the people around me."

BE NIMBLE

As a novice chef, François Privé won the prestigious Young Commis Rotisseurs competition in Quebec and was named executive chef at a four-star hotel before the age of 30. More recently, his talents have been talked up in *Condé Nast Traveler*. Currently, he holds the position of executive chef at Bistro L'Atelier in Quebec City.

Entering the pro food scene at a young age, Privé had to grow up fast. Fortunately, he had experience in another area from which to draw analogies and inspiration: hockey. "I was always a leader on the team," he says. "I was not the one with the most talent, but the one who gives 100 per cent every time I step on the ice either in practice or in a game." This level of dedication is something he's carried with him into the professional kitchen.

Privé has embraced technology in his pursuits, which he says has changed his technique over time. One gadget that's top of mind today is an immersion circulator, a high-tech temperature precision tool. "It lets me cook fish or meat to perfection every time," he says. The chef, of course, has evolved from where he was in his 20s, having built upon a mosaic of experiences.

"The biggest piece in the puzzle is my way of looking at things," he says. "I'm more like a snake now. I find my way around problems to get to the goal." ■

François Privé, executive chef at Bistro L'Atelier, Quebec City

> "The biggest piece in the puzzle is my way of looking at things. I find my way around problems to get to the goal."

PHOTOGRAPHY, RONALD TSANG; STYLING, DANIEL ONORI

3

IDEAS & MOTIVATION

Get an exclusive glimpse into how some of today's top innovators think, plus learn how to tweak your own thinking to counter biases you may not even know you have.

Lessons from Gladwell

One super-fan offers her favourite takeaways from the works of bestselling author Malcolm Gladwell.

WRITTEN BY **LEIGH FELESKY** PHOTOGRAPHY BY **CELESTE SLOMAN**

Malcolm Gladwell came into my life when I needed him most, and he's been with me ever since.

Deprived of sleep and numbed by repeated games of peek-a-boo, I pushed my stroller through the neighbourhood. I tried to focus on my friend, a fellow new mom, who was pushing a stroller of her own as she gushed about the latest book she was reading. "The author is brilliant," she said. "And he's Canadian."

I wasn't sleeping anyway, so I got a copy and decided to give it a go.

TALKING TO STRANGERS BOOK COVER COURTESY OF HACHETTE BOOK GROUP CANADA

The next time I saw her, a couple of days later, I was excited: "He's definitely changed the way I think about some things."

Over the years since then, I have devoured book after book, as well as podcasts and articles, from Gladwell. I generally come away with powerful golden nuggets to adapt to all parts of my life, from family to work to finance, and they take on new meanings over time and with life transitions.

Here are my top three "Gladwellian" lessons.

TALKING TO STRANGERS

1 "We think we can easily see into the hearts of others based on the flimsiest of clues."

In his newest bestseller, *Talking to Strangers*, Gladwell talks about how difficult it is for humans to understand strangers. Even those of us who think we can read people accurately can often be influenced by assumptions or lack of context. This can lead to misunderstandings that may have a profound impact on ourselves or someone else. Another way to think of it: Life doesn't have the simplicity of a sitcom, and what you see on people's faces doesn't tell the whole story.

That insight is also helpful when making investing decisions. Without taking the time to really understand a company, you might make assumptions or be overconfident. Try digging deeper, test what you think you know and ask yourself: If I were completely wrong, what might that reality look like?

REVISIONIST HISTORY PODCAST

2 "The Big Man Can't Shoot."

Breaking news: In basketball, shooting underhand or "granny style" statistically gives players higher odds of scoring – no kidding. As someone who remembers shooting granny-style free throws in my driveway for a little extra *oomph*, I was shocked to learn that maybe I was doing it right all along. Guess I didn't have to be a basketball genius to know that I had a better chance of getting a bucket, beating my brother and becoming the driveway b-ball champion of all time with an underhand style.

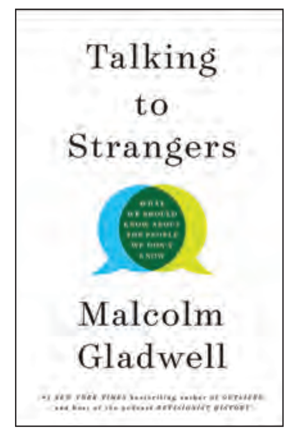
In his podcast *Revisionist History*, Gladwell explores why more players don't try it. In a nutshell? It's not preferred because people don't think the approach looks good; some even think it looks foolish. A few strong-minded players have done it anyway, not bothered by social norms, to achieve better performance.

And, yes, there is an investing lesson here. As self-directed investors, we can be prone to following the crowd, otherwise known as a herd mentality or bandwagon effect (see more on p. 32), but does that really lead to the best results? Are the most popular companies the best ones for you? Try to see past what just looks good. It's key to ask more questions and consider why we think something works. Find your granny shot.

DAVID AND GOLIATH

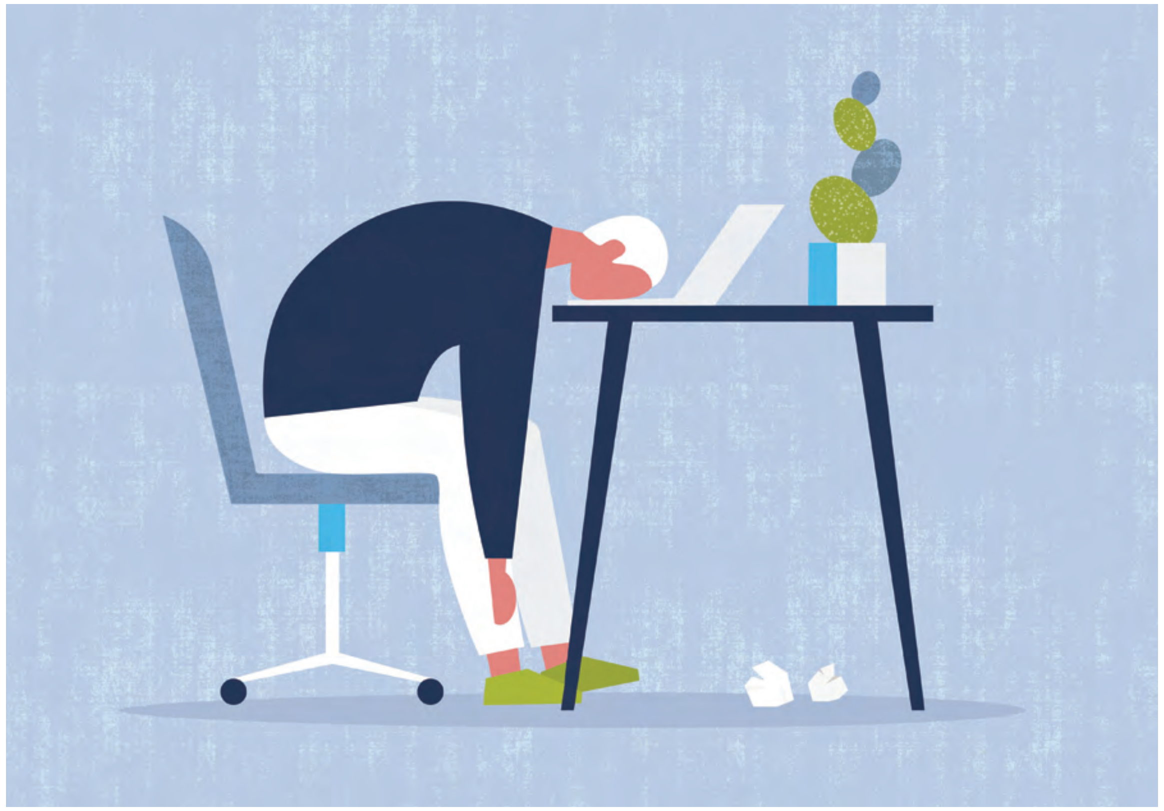
3 "We think of things as helpful that actually aren't and think of other things as unhelpful that in reality leave us stronger and wiser."

Years ago I would have assumed that, in general, the easier things come, the better. Gladwell challenged my way of thinking. In his book *David and Goliath*, he explores how facing adversity can help people develop new skills – essentially, turning challenges and perceived disadvantages into hidden strengths. As Gladwell explains, "What is learned out of necessity is inevitably more powerful than the learning that comes easily."



Talking to Strangers is the latest book from bestselling Canadian author Malcolm Gladwell

It's no surprise, then, that appreciating the value of a range of experiences and being authentically inclusive can deliver stronger outcomes. Diversity of thought and perspectives can enhance decisions and teams. It's with this lens that I do my research when exploring a topic, a company or an investment. Reviewing a company's environmental, social and governance (ESG) practices, for example, can give added insight into things like diversity in the boardroom, which can help with my investment decision-making. ■



ILLUSTRATION, ISTOCKPHOTO/NADIA_BORMOTOVA

Stop Procrastinating: An Expert Tells Us How

Four steps to help you get through your financial to-do list in a timely manner.

WRITTEN BY **TAMAR SATOV**

If you have a long list of tasks you want to complete but haven't gotten to it, join the club. Many of us procrastinate on activities we feel are important — we wait until the annual RRSP deadline is looming before making any contributions, or we file income tax returns at the last minute — even though it's not in our best personal or financial interests to do so.

That's no surprise to Tim Pychyl, associate professor of psychology and head of the Procrastination Research Group at Carleton University in Ottawa. "Everything about money is scary," he says. "It's completely understandable why someone might put off these tasks."

According to research by Pychyl and others, negative emotions such as fear, anxiety, resentment and boredom are the reasons why we procrastinate. It has nothing to do with poor time management, laziness or lack of willpower.

"You could be using a great time management app or to-do list, but when you get to the point in the day that you've scheduled that task, you say, I don't feel like it — I don't want to do this," says Pychyl. "We think avoiding the task is going to make us feel better. But just like we think eating a bag of cookies or buying a new pair of shoes will make us feel better, that feeling is short-lived and comes back to bite us in the butt."

Indeed, studies on emotional intelligence have found that the ability to regulate emotion and tolerate frustration makes a person less prone to procrastination. And digital images from MRI scans show that chronic procrastinators have a larger amygdala — the "fight or flight" centre of the brain, responsible for emotions and survival instincts. When faced with an unsavoury task, these people feel compelled to run away from it, in the same way they would flee from a predator.

So, does that mean some of us just have to resign ourselves to a lifetime of procrastination? Absolutely not, says Pychyl: "Biology is not destiny. People can learn to manage negative emotions."

Here are the steps Pychyl recommends to help you get through your financial to-do list in a timely manner.

FACE YOUR EMOTIONS

While you may not enjoy doing your taxes, it's important to confront that fact. "You have to recognize there's a good chance you'll never feel like doing it," says Pychyl. "We can't suppress our emotions, but we can develop a non-judgmental awareness of our emotions to gain more control over our behaviour."

SWITCH YOUR FOCUS TO A SMALL ACTION

Once you're aware of a negative emotion related to a particular task, redirect your attention from "feeling" toward "doing." The key, says Pychyl, is to think about the tiniest next action you could take if you were going to move forward with the task (even though you don't want to). For example, getting the box where you store your tax paperwork and receipts and putting it on the kitchen table.

"Make the threshold that small," Pychyl says. You're much more likely to follow through on "move box" than you are on "do taxes." Once the box is on the kitchen table, your next small action could be "sort paperwork into categories," and so on. "Even a little bit of action on a goal will lead to an upward spiral of progress," he says.

> "Biology is not destiny. People can learn to manage negative emotions."

USE A PRE-COMMITMENT TOOL

To prevent the mad scramble before the RRSP contribution deadline, you could set up fund transfers ahead of time to have a portion of your paycheque automatically invested every month. Of course, the star procrastinators among us will then be facing what Pychyl calls "second order procrastination" — putting off the pre-commitment action. "You think, yes, I should set up an automatic transfer. But then that becomes the task you procrastinate on," he says.

In that case, you need to go back to the previous step and find the next small action you can take. So, maybe you start with just logging in to your account.

Another pre-commitment device is to create an external consequence that may spur you into action. For instance, someone could get a friend or family member to be their accountability buddy and agree that if the task isn't completed, they will owe their loved one a week's worth of kitchen cleanup or handling the carpooling to the kids' extracurricular activities.

DON'T BEAT YOURSELF UP

Finally, cut yourself some slack if you do succumb to procrastination. In one of Pychyl's studies, those who forgave themselves for procrastinating were less likely to procrastinate on the same task in the future than those who lacked self-compassion. ■

Can You Trick Yourself Into Better Investing Decisions?

From overconfidence to loss aversion, cognitive biases can lead to poor decision-making.

WRITTEN BY **TAMAR SATOV** PHOTOGRAPHY BY **RYAN SZULC**

We all know people who continue to pay for a gym membership despite never making it in for a workout, or who keep their cable TV even though they don't watch any of the channels. (Heck, we might even *be* those people.) Why do otherwise intelligent folks throw their money away like this?

The answer is simple: It requires action to cancel a membership or subscription that is automatically billed every month, whereas it takes zero effort to stay the course and let the charges stack up.

But don't put on your judgy pants just yet. Such behaviour isn't about laziness or irresponsibility. Humans are predisposed to take the path of least resistance, due to what behavioural economists refer to as status quo bias.

This is just one of many cognitive biases that can lead us to make poor choices in life — and in our investments. But you don't have to fall prey to your biases if you know how to deal with them.

"You can force yourself to take a step back and relook at things through a new lens," says Kristen Duke, assistant professor of marketing at the University of Toronto's Rotman School of Management. "Ask yourself, If I were to make a decision over again at this point, what would I do?"

> "You can force yourself to take a step back and relook at things through a new lens."

To help with decision-making – both inside and outside your portfolio – we looked into common cognitive biases and steps that you can take to trick your mind into level-headed thinking.

ANCHORING

Perhaps because our brains have to sort through so much data, we often use reference points to make valuations. The problem is that we can be overly swayed by the first piece of relevant information we get.

Say, for example, you've put your house on the market and your realtor says you'll probably get $500,000. If you get a solid offer at $450,000, you might be inclined to hold out for a (non-existent) buyer at half a million, because that figure became an anchor amount to which you compare all offers.

Investors are susceptible to this kind of thinking as well. "People can make anchor judgments based on how much they initially paid for an investment," says Duke. That might lead them to hold on to a losing proposition for too long. "They might think, Ah, that's the value I want that stock to achieve again in the future. But that's just speculation. Once you own the stock, the initial price may no longer be relevant."

Tricks to try: Consider looking at your portfolio as a whole, rather than focusing on individual stock prices. Create parameters to manage your portfolio. How are your assets allocated? Are you comfortable with the level of risk?

You can also create alternate reference points by looking up new or additional information. In the case of anchoring to an initial stock price, for example, you might want to compare the stock's performance to other investments in the same industry or sector.

BANDWAGON EFFECT

Also known as herd mentality, this is the human tendency to follow the crowd — especially if we aren't sure what to do. While this "when in Rome" inclination can help us fit in and succeed in interpersonal situations, it doesn't work as well when applied to investing.

"Selling whatever everyone is selling or buying what everyone else is buying can lead to inefficient outcomes for you," says Duke, who is also a research fellow at Behavioural Economics in Action at Rotman (BEAR). Indeed, most investing bubbles, such as the tech bubble of the late 1990s, occur because everyone is jumping on the bandwagon of a particular asset class. Unfortunately, bubbles are prone to burst.

Tricks to try: Look for reasons why the herd is moving in a given direction and determine if it's in your best interest to follow. "Ask, Why is this behaviour happening?" says Duke. "Is there any evidence that doing something opposite could help me?" It can be valuable to seek out other opinions, especially ones with a contrarian view, to help yourself see the pros and cons.

Also, consider whether the "bandwagon asset" even fits your risk profile.

CONFIRMATION BIAS

We like to believe that our own thinking is correct, which makes us highly attuned to information that confirms our views and inadvertently dismissive of anything that challenges them.

If, for instance, you strongly believe that a particular stock is a winner, any positive information you get about the company will reinforce your view, and you'll likely ignore any criticisms.

The result? You may overlook warning signs, or you might disregard potential opportunities.

Tricks to try: As with the bandwagon effect, seeking out contrarian opinions can help combat confirmation bias. On social media, make a point of following experts with opposing views and do your best to understand their perspectives.

EXCESSIVE OPTIMISM

We've all met people who seem to have an unrealistically rosy outlook, overestimating how often things will work out in their favour. While that attitude may help individuals weather the ups and downs of life, it doesn't help mitigate the ups and downs of the market.

This bias can be particularly pervasive after a long bull market, when investors forget that periodic downturns are normal. "People can start to think things will go especially well for them no matter what," says Duke. But, it's important to remember that past performance doesn't guarantee future performance.

Tricks to try: To mitigate against excessive optimism, strategies such as dollar-cost averaging and diversification may help if markets don't perform as you predict.

LOSS AVERSION

Humans experience the negative emotions of a loss to a greater extent than the positive feelings of an equivalent gain. As a result, we may overreact when there's a threat of a loss looming, behaving in risk-averse ways that don't always serve us well.

In evolutionary terms, this trait has likely kept us alive as a species. But when it comes to investing, avoiding all risk to protect yourself from potential losses might cost you. For example, loss aversion can lead young investors to be overly conservative in their portfolios and miss out on potential gains from taking a more aggressive approach, given that their long-term investments can have time to recover from market downturns. Conversely, someone who's taken on more risk than they're comfortable with may sell at the first sign of a downturn, locking in their losses.

Tricks to try: Review your comfort with risk regularly, particularly if you've had a life change that impacts your finances. Also, instead of thinking about potential losses or gains in abstract terms, look at how a loss or gain of five, 10 or 20 per cent would impact your portfolio's value.

"People's judgment of risk changes when you frame it differently," says Duke, adding that 16.66 per cent can be perceived differently than a one-in-six chance, even though both express the same probability. A potential gain or loss of $30,000 on a $300,000 portfolio, for example, may strike you differently than a return of plus or minus 10 per cent.

> "Ask, Why is this behaviour happening?"

OVERCONFIDENCE

Statistically speaking, only 50 per cent of people can be "better than average" at anything. Yet, in numerous surveys asking respondents about their driving abilities, far more than half consistently rate themselves above average. In other words, drivers have more confidence in their road skills than they should. Investors can also be prone to exaggerating their ability to predict the market or pick the right stocks.

Because of this overconfidence, investors may end up trading excessively, thinking they can "beat the market."

Tricks to try: Get a reality check by comparing your returns with a benchmark, such as a broad stock-market index. If your returns are subpar, you may need to reassess your strategy.

PRESENT BIAS

Because the present moment feels vivid and visceral, we tend to give "the now" more weight than the future. "Most people would opt to have $10 right now, for instance, rather than $20 in a few weeks," says Duke. Similarly, it's easier to commit to a future deprivation than one that starts immediately, as anyone who has pledged to start a diet — next Monday, not now — understands very well.

This preference for an immediate reward over a potential greater reward in the future can lead investors to focus on short-term rather than long-term goals, or even procrastinate on saving and investing altogether.

Tricks to try: Turns out, seeing an image of your older self can actually lessen your present bias because it makes you feel more connected to the person you will become. There are apps that can help you with this!

"There's some interesting work that shows connecting the current self to who you will be in the future reduces this strong preference for the present, and makes you more willing to share resources with your future self," says Duke.

Consider how your mind might be playing tricks on you — and then kick those biases to the curb to help yourself make your best financial decisions.

Inside Six Innovative Minds

How top Canadian entrepreneurs get brilliant ideas, solve problems and more — and how you can do it, too.

WRITTEN BY **MARY LEVITSKI** ILLUSTRATIONS BY **SALINI PERERA**

Entrepreneurs have a knack for seeing what others don't — because, well, it isn't there yet. Savvy investors often see what isn't there yet, too. But for all masters of agility, identifying potential opportunities is only the first step. How do they approach difficult questions and come up with the right answers? How do they look at failure? How do they go from ideation to innovation to sustained growth (in some cases, over and over again)? And, most pertinent for the rest of us, how can we apply some of these thought processes in our own day-to-day lives and maybe even in our approach to investing? We picked some of Canada's brilliant brains to find out.

MICHELE ROMANOW
Deconstruct Failure

Though she's widely known as a venture capitalist "Dragon" on CBC's *Dragons' Den*, Romanow is best described as a serial entrepreneur. Starting with a zero-consumer-waste coffee shop that she launched at Queen's University during her third year of engineering school, this powerhouse has

gotten five businesses off the ground. In addition to Clearbanc, the AI-powered financing platform she co-founded in 2015, she's also a director on the boards of Whistler Blackcomb owner Vail Resorts and multinational restaurant chain Freshii. Oh, and that campus café still operates today.

On Inspiration "I try to broaden my perspective. I listen to audiobooks. I think about the bigger trends in technology and how they're going to have big effects. And I cannot overestimate how much time I actually spend brainstorming. My favourite activity is to think about what companies and products the world needs. I spend dinners talking about this. I spend time at the bar talking about this. I spend my weekends thinking about this. But what's probably way more important than where you find ideas is really quickly executing on testing those ideas."

On Taking a Leap
"No matter what, you always have to look at data. Because data will constantly surprise you. But the problem in a startup is that there's very little data. I always say, by the time McKinsey has written about an industry, the industry's been born. There are already multiple billion-dollar players. So when you enter a new space, you have to be willing to do that with extremely little data and pretty good gut intuition on what the future is going to be. And the most important thing when something doesn't feel right is not that you immediately U-turn; it's that you start pulling on those threads and asking a lot more questions to make sure that you're not being misled by your own data. Because if you're clever and you're smart, and if you're working with clever and smart people, you can make data tell almost any story you want."

On Time Management
"I prioritize ruthlessly. When I'm overwhelmed, I sit at my desk with a sticky note and think, If I can only do three things today, which are the most important? And if you tell yourself you can only do three things, you'll actually do a lot more, but you'll really get the three hardest things, the three things that can actually move the needle, done."

> "I prioritize ruthlessly. If I can only do three things today, which are the most important?"

On Failure "You need to deconstruct failure a little bit. Almost universally, it's not like everything doesn't work at once. And so what you're trying to figure out is what parts are working that you could double down or refocus on."

IAN MEIER
Determine What's High Risk

Having been born and raised on a farm, Meier saw something no one else was talking about: The agricultural tech he had built and seen in the market was 20 years behind the latest consumer technology. Today, Meier and colleague Michael Lockerbie — both electrical engineers and computer scientists — are working to close that gap with their agtech brand, Agrimatics.

On Problem Solving
"I like to figure out what the highest-risk issues are. Where can this go wrong? What's the thing that we have the least comfort in being able to solve? Solve that first. People often have a natural inclination to knock off a lot of the more straightforward things first because they feel like they're making progress. And they *are* making progress; however, it's all for naught if one of the critical issues is a no-go."

On Keeping a Level Head "I try to stay reasonably detached, on both the highs and the lows. When things are going really well, I try not to get carried away. I think about times that weren't as good to bring me back to earth. And when things aren't going well, I think about our wins, and that can help me feel less demoralized or despondent. Tomorrow is a new day, so I don't dwell on things too much. This way, I can be more objective."

On Staying Sharp "I read a lot. I'm a naturally curious person, so if something sounds interesting, I'll read up on how it works, whether it's related to our business or not. The side effect is that I might learn something that I can apply to the business, even though it seems completely unrelated. That's the interesting part of business: the multidisciplinary aspect, where ideas from all over the place can be combined in a new way."

CHARLES DEGUIRE
Learn How to Learn

Three of Deguire's uncles were living with muscular dystrophy, so mobility and quality of life were often on his mind when he was growing up. While studying electrical engineering, he developed the vision for Kinova, a groundbreaking robotics company that he co-founded with Louis-Joseph L'Écuyer in Boisbriand, Que. Their first product was an assistive arm called JACO, and Kinova won a Governor General's Innovation Award in 2016.

On Getting Started
"During my engineering degree, we were working on robotic projects, sending robots to space. Yet, my uncles didn't have a viable option to help them drink a glass of water. We just took the challenge. In a weekend, we were able to come up with a mock-up and simulation of something that looked viable. Once we realized that we could do it, there was no reason not to jump in."

On Learning to Learn
"I was lucky to have had some great teachers along the way. A professor once told us, 'The only thing you're really going to learn here is how to learn. If you succeed in doing that, everything else will follow.' So when we had to learn about electrical engineering or robotics, we learned it with a systematic approach and by working with experts. We then did the same thing with market development, international business development and contract negotiation."

On Diversifying "We robotize tasks. We did that for people using wheelchairs, expanding their reach. In surgery, we expand the capabilities of the surgeon. In hazardous material handling, we robotized the manipulation of toxic or nuclear waste. But it's always the same process, providing better tools to humans."

On Problem Solving
"We move problems through a funnel. We start very wide, sort of chaotic. We look internally and externally, within our own industry and other industries, and ask, What process can I use to solve this? Once we've selected a few approaches that we believe have potential, we drill down and get really focused on executing each of them."

SARAH LANDSTREET
Solve Problems Not Everyone Would Know About

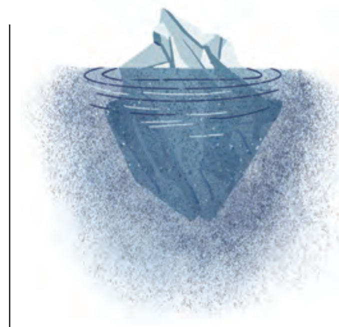
This queen of the pivot trained as a mechanical engineer, opened the first cupcake bakery in Northern Ireland, turned a profit and sold her business. Next, she got her MBA and founded Georgette Packaging, a carbon-neutral packaging firm in Kitchener, Ont., that's now among the fastest-growing businesses in Canada. And she did it all before her 30th birthday.

On Identifying a Niche
"I'm interested in problems that not everybody would necessarily know about. I like kind of unsexy industries, I guess. Most people wouldn't know how tricky it is to buy packaging as a food business, for example, unless you happen to own a food business. But at that point, you're busy running your food business; you're not in the packaging industry."

On Making Mistakes
"I think that business owners in general are not lacking intelligence, but they are often lacking in compassion for themselves. Because you'll never have enough information to know exactly what to do. You can't predict the future. I'm pretty good at rebounding from mistakes, not focusing on them too much, and doing what it takes to fix the situation. I feel like those skills are just as important. Mistakes let me flex my resourceful muscles."

On Productivity Hacks
"I like putting systems in place that force me to change my behaviour. I was reading about how the founder of IKEA removed the snooze button from his alarm. I love that. I recently got a landline – a rotary phone, so it doesn't even have voice mail – to encourage me to use my cell phone less. I always feel like cell phones are like Tamagotchi. It's like a pet that just gives you so much work."

> "I'm interested in problems that not everybody would necessarily know about. I like kind of unsexy industries."



BRADEN REAM
Persist in Your Efforts

This young self-professed computer nerd is a business school dropout — and also the CEO of Voiceflow, a collaborative design platform for making voice apps. Ream and his co-founders (Andrew Lawrence, Michael Hood and Tyler Han) essentially built the tool they wished they'd had as app developers. Now, Voiceflow powers over 10 million conversations per month for users such as the *New York Times*.

On Decision-Making
"If you boil everything down, in every decision there's asymmetry. When it came to dropping out of school, there was actually not much of a downside. The downside was protected in that we could always go back. Inversely, the potential upside was unlimited."

On Success "If you look at an iceberg, the top 10 per cent is the tip that people see. They see the funding headlines. They think the company's start date is when the entrepreneur started. Generally speaking, I think there's an order of magnitude of time before people ever hear of that person, when they were just grinding away, perfecting their craft.”

On Adaptability
“Entrepreneurship is about the persistence of effort, not persistence of ideas. At first, we were trying to build an entertainment app, but it was really expensive, and we were running out of money. We needed to scale the business, so we opened the tools that we had built internally to allow other people to build entertainment. But they weren't just building entertainment; these tools proved powerful enough for people to build anything they wanted. The light bulb went off: This business doesn't just have to be about entertainment. That shifted our whole mindset, allowing us to broaden our scope.”

BRIAN SCUDAMORE
Take Failure as a Gift

Vancouver-based Scudamore has been “failing upwards” for over 30 years on what he deems to be the roller

coaster of trial and error of entrepreneurship. With 1-800-GOT-JUNK?, Scudamore got the formula right, and he's applied it to three more home-service brands under his banner company, O2E Brands.

On Failure “I have story after story of failure: dropping out of high school, dropping out of college, telling my father — a liver transplant surgeon — that I was leaving school to become a full-time junk man. And I've made mistakes. I once hired the wrong COO, and we almost bankrupted the company. I once fired 11 employees, my entire staff, because I had hired the wrong people. Every single failure has become a gift. While it was a painful experience to go through, failure was the best education I could have. Even today, as a $345-million company, we have things that are not going to go as planned, but you tweak, you learn and continue to thrive.”

On Trusting Experts
“I love naysayers. I want to hear my staff say, ‘No, Brian, this is crazy. This is not going to work. This is a bad idea.’ Then I get to ask them questions. ‘What would make it a good idea? How would you do it differently? What's missing? You're the expert.’ Because I'm not the smartest person in the room. I never will be.”

On Having a Vision
“[In 1997], I was having a bit of a doom loop in my life. I had gotten the business to $1 million after eight years. But I thought, Can it be bigger? I took out this one page, double-sided, and I started to write a letter to myself of what the future looked like for 1-800-GOT-JUNK?. I said we'd be on *The Oprah Winfrey Show*, we'd be the FedEx of junk removal, we'd be in the top 30 cities in North America. Within five years, all of those things happened. I started to understand the power of taking a picture from my mind, putting it into a document that isn't allowed to change, and then sharing it with people around me.” ■

> “I started to understand the power of taking a picture from my mind and then sharing it with people around me.”

Get more stories on entrepreneurship, leadership and digital technology in the *RBC Disruptors podcast*

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4

INVESTING ACADEMY

Knowledge is power, especially when it comes to your money. Here are some top expert insights and tips to help you up your investing IQ. Pay attention – you will be quizzed!

A Better World

We turn to an expert to find out more about responsible investing.

WRITTEN BY **JUDY McKINNON**

When Melanie Adams was just 11 years old, she was already thinking about big-picture impact when deciding what to do with her money.

"I had a club with a friend where we raised money through lemonade stands and craft sales to sponsor an acre of rainforest," she remembers.

Fast-forward and Adams has made a career out of what we now call responsible investment. As the head of RBC Global Asset Management's responsible investment operations, she continues to draw on those early days for inspiration.

"Responsible investment is something that I do truly believe in. I don't think you can be in this space and only do it partway," she says. With climate change top of mind globally, responsible investment has been gaining traction in recent years. We sat down with Adams to find out what this means for investors.

Q. *What does investing responsibly really mean?*

A. We consider responsible investment as an umbrella term. Under that fall three broad categories: ESG (environmental, social and governance) integration, socially responsible investing and impact investing.

Q. *Can you tell me more about the three responsible investment categories?*

A. Sure. With ESG integration, you look at how a particular company is managing the risks and opportunities related to each of these three factors and whether or not this is reflected in the share price. This is done to help inform the investment decision. Some ESG considerations include:

- Environmental factors, which include climate change, water and wastewater management, and biodiversity.
- Social factors, which include how a company treats employees, customers and the communities that it operates in.
- Governance factors, which include areas such as executive pay, board diversity and board independence.

Socially responsible investing, on the other hand, is when you're aligning your values with how you invest, screening out companies or sectors that don't match your beliefs. Alternatively, some investors screen in certain sectors such as renewable energy. Some common negative screens include military weapons, alcohol, gambling and tobacco.

Finally, impact investing means investing for a measurable social or environmental impact as well as a financial return. An example might be investing in an organization that provides low-income housing to families in need.

Q. *Why do you think there is an increased focus on responsible investing?*

A. Investors are increasingly understanding that non-financial factors can have an impact on a company's financial performance. Studies show that companies with good governance, and that manage their environmental and social risks, will perform better financially. There have also been studies that show women and millennials are a large part of the driving force behind investors caring more about responsible investing.

Q. *What kinds of questions should investors be asking?*

A. With ESG specifically, it really depends on what's relevant to the company and the industry it operates in. If you're looking at a food and beverage company, for example, you would want to look at water usage and wastewater management. Or in the case of oil and gas companies, are they investing in clean technology or research and development? One way to get a real sense of what companies are doing is to compare them against their peers. You also want to determine if a company has good governance over its ESG factors. That means checking to see if they have robust policies and procedures in place to address material issues that may arise, which could be anything from environmental contamination to employee health and safety matters.

Q. *How can individual investors do their own research?*

A. Investors can visit a company's website to look at annual reports and other corporate reports. For example, investors can review the board of directors to see if there's the appropriate level of gender diversity. Or, do they have a plan to deal with the impacts of climate change on the business? Many companies are starting to come out with specific ESG reports. You can also find other great resources online, such as Canada's Responsible Investment Association, the United Nations–supported Principles for Responsible Investment (PRI), and the Sustainability Accounting Standards Board (SASB).

Q. *Who is responsible investing for?*

A. I think all investors should be thinking about ESG factors. It used to be that earnings were the most important factor in assessing a company's value, but now we know that non-financial factors make up a greater proportion of a company's value. That may be due in part to the internet and social media, which allow quick public reactions that can impact share prices. It's important to remember that it can be challenging to measure these non-financial factors, which include ESG risks and opportunities. As an investor, you need to give yourself the time to do the research and talk to knowledgeable people to get more comfortable in the space, but responsible investors agree that it's well worth the effort.

Melanie Adams (left) is Vice President and Head, Corporate Governance and Responsible Investment at RBC Global Asset Management Inc.

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PHOTOGRAPHY, BROOKE SCHAAL

What Drives Stock Prices Up or Down?

For beginners, we break down why investors buy equities and what factors influence prices.

WRITTEN BY **KAREN JOHNSON** PHOTOGRAPHY BY **MICHAEL ALBERSTAT**

If you're new to investing, chances are you have questions about the stock market. You're not alone. Most Canadians admit there are areas of finance they don't fully grasp. And when it comes to stocks, there's a lot to know.

Why do people invest in the market? What drives a stock price up or down? And what's all that business about bulls and bears? Stocks, shares, equities — these are really three words for the same thing. Whatever you call them, they generally fall into two categories: common and preferred.

Most shares are common ones, as the name suggests. They usually come with voting rights, typically one vote per share, giving the owner a say in deciding things like who sits on a company's board of directors. That board will hire and fire the CEO, and it will decide how much profit is returned to stockholders. Preferred shares, meanwhile, don't come with voting rights, but they do come with a fixed dividend payment.

Speaking of payment, among the reasons investors buy stocks is to make money, which can happen through:

- Dividend payments
- Gains on your capital investment

When you buy stock in a company, you are basically buying a small part, or share, of that company. Your sliver of ownership entitles you to a relative share of the company's profits — and its losses.

So what drives a share price higher or lower?

At its simplest level, the market is an auction, with prices determined by supply and demand. When there are more buyers than sellers, prices may move higher. When there are more sellers than buyers, prices could be driven lower.

When investors feel confident in the stock market, they're bullish, buying up shares and sending prices higher. When investors are fearful, they're bearish, selling off shares and sending prices lower. Why bulls and bears? It's said to relate to the way they attack: Bulls thrust their horns upward; bears extend their claws and slash down.

Predicting demand is the hard part. It can rise or fall based on lots of factors. Here are three main ones.

COMPANY NEWS

You've seen this play out before. A company unveils an exciting new product and the share price leaps. Or a company announces a cybersecurity breach and the share price falls. Layoffs, mergers or acquisitions, management changes, fraud scandals — they can all have an impact on the stock price.

INDUSTRY NEWS

Sometimes, good news from one company cascades across an industry. When an automaker forecasts significantly higher demand for cars, for example, other automakers might see their stock prices rise, too. Certain news might also boost stocks of other retailers and consumer goods, such as athletic shoes and electronics, particularly if said news signals an improving economy.

Bad news, meanwhile, can have the opposite effect, dragging everyone down.

ECONOMIC NEWS

When the economy is expanding, creating jobs and stoking demand for goods and services, the appetite for stocks also rises, with companies expected to realize stronger profits. When an economy is slowing, or contracting, stock prices tend to flatten or fall in anticipation of weak earnings.

A healthy labour market and strong gains in gross domestic product can mean more disposable income for consumers, which can be a positive for stocks. But that can also lead to higher consumer prices, or inflation, as demand for goods increases. Inflation itself can have a slowing effect on sales and profits, particularly when it leads to higher interest rates. That's why investors keep watch on the economic outlook, parsing data for hints of its future direction.

There are a lot of factors to consider, of course. But that's part of what investors love – trying to solve the puzzle. ■

↗ There's more to learn! Visit rbc.com/investingacademy to continue to grow your investing knowledge.

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How to Research Like a Boss

Researching companies doesn't have to be hard. Take control and make the most of it.

WRITTEN BY **REGAN RAY**

Finding a new investment for your portfolio is like making any big purchase — it's important to research your options. Learning the basics about a company shouldn't have to mean poring over decades of financial statements. With the right resources, you can do your own research and move forward feeling confident with your investment choices. Here are some easy places to start.

GO STRAIGHT TO THE SOURCE

As with any shopping experience, a company website can be a great source of information when researching your investments. Most publicly traded companies devote a section of their site to investors. That's where you'll find financial filings, corporate governance documents, management bios, information about the board of directors and more. If you want to confirm a company announcement you read about somewhere else, you can often find the original news release on the company's website.

FIND SECONDARY SOURCES YOU TRUST

If, like many, you need a little help translating corporate-speak into useful information, there are plenty of experts to turn to, starting with equity analysts. Analysts study publicly traded companies and write detailed reports about financial information and projections, stock-price fluctuations, management decisions, capital allocation and industry developments. Analysts also publish research notes, which can range from detailed overviews of specific companies and industries to their takes on recent company events, such as takeovers, management shakeups and more.

Companies often list the names of analysts who cover them in the investor sections of their websites. Independent research firms offer equity research on their respective sites, and many online trading platforms provide analyst reports to clients as a value-added service. Most sites that provide stock quotes also compile analysts' earnings forecasts and recommendations such as buy, sell or hold.

Analysts' reports can get very detailed, so if you're looking for more bite-sized information, seek out relevant articles. Business journalists, columnists and bloggers can offer insights to investors. A trusted market-watcher can be a valuable resource, and that second opinion can get you thinking, but take some time to understand an expert's point of view. The "elbow grease" approach (reading, questioning and fact-checking) is a great way to build confidence in your sources. It's also good to have a roster of voices you turn to; sometimes the stories being told can take different angles depending on who is doing the telling.

STUDY STOCK QUOTES

Of course, much of the information that will help you make informed decisions resides in real-time stock quotes. It can be an overwhelming amount of information to take in if you don't speak the lingo. Get yourself up to speed with our detailed-quote checklist below.

The types of information you can find from a company itself, an expert or a stock quote can be valuable at any stage, but particularly as you're getting to know a company. There's no magic method, but it's worth putting in the time to get informed. ■

DETAILED-QUOTE CHECKLIST

Here are the stock-quote terms you need to ace to bring out your inner equity analyst.

- **Last trade:** As you might expect, this is the price at which the last trade was made. Take note of the time — depending on where you're reading the quote, it could be real-time or delayed by 20 minutes or so.
- **Previous close:** The stock's final price at the end of the previous trading session (or trading day). This helps you determine if the stock is up or down in the current session.
- **52-week high/low:** The highest price and lowest price the stock has reached in the previous 52 weeks. This can give you an understanding of how volatile the stock has been over the past year.
- **Bid/ask:** The bid price is the maximum price buyers are currently willing to pay for one share, and the ask price is the lowest price a seller is willing to accept for one share. The difference between the bid and ask prices is called the bid-ask spread.
- **Volume:** You'll typically find the current day's volume of shares that have traded, plus an average volume you can use for comparison. Together with the bid-ask spread, volume is an indicator of the stock's liquidity, meaning how easily it can be bought or sold.
- **Market capitalization:** The total value of a company's shares, which allows you to gauge a company's size.
- **Dividend:** If a company is currently paying a dividend, here's where you can see how much. You can also see how often dividends are paid (typically monthly or quarterly), dividend yield and specific payment dates.

Your Investing Questions Answered

When in Rome, you'll find the best pizza and gelato if you speak Italian. In that vein, whether you're a seasoned investor or just starting out, here are some terms to add to your vocabulary.

COMPILED BY
JUDY McKINNON

ILLUSTRATIONS BY
SALINI PERERA

1 WHAT IS THE RULE OF 72?

The **Rule of 72** is, very simply, a math hack that lets us estimate how long it will take for an investment to double in value. Here's how it works: You divide the number 72 by the annual rate of return you expect to generate on your investment and *voilà* — the result is how many years it would take to double your money. Keep in mind, the Rule of 72 isn't an exact determination, but more of a rule of thumb or approximation.

2 WHAT IS COMPOUND INTEREST?

Compound interest can be defined as "interest on interest." It means earning interest on your initial savings and then reinvesting it so you can earn interest on the new total – the original amount plus the interest. Simple interest, on the other hand, is interest paid on your initial savings only.

3 WHAT INVESTMENTS CAN I HOLD IN MY RRSP?

Your Registered Retirement Savings Plan (**RRSP**) can hold different types of qualified investments, such as stocks, bonds, options, mutual funds, exchange-traded funds (ETFs), treasury bills (T-bills) and guaranteed investment certificates (GICs). Investment growth is tax-deferred until you withdraw the funds.

Your annual RRSP contributions are limited to 18 per cent of your previous year's income, to a maximum set by the Government of Canada, plus any carry-forward contribution room you may have from previous years.

4 WHAT IS DOLLAR-COST AVERAGING?

Dollar-cost averaging involves investing a set dollar amount on a regular basis (bi-weekly, monthly or quarterly, for example) regardless of current market prices. Rather than investing a lump sum all at once at one price, dollar-cost averaging is a strategy aimed at reducing risk by taking the guesswork out of timing the market. The idea is that while you will pay more for some shares and less for others, the overall amount per share will average out in the end (and ideally total less than you would have paid had you purchased at one set price). Remember: Trading commissions can add up with frequent purchases, which can affect overall performance.

5 WHAT IS A BUYBACK?

When a company repurchases its own shares, this is called a share (or stock) buyback. Buying back shares is one way a company can return cash to its shareholders. (Dividends are another.) A buyback can send mixed signals to the market, meaning there's no real rule of thumb as to how share prices will react. A buyback can be seen as a vote of confidence by management because, among other things, it can demonstrate the company is financially healthy and doesn't need additional equity financing. However, a buyback could also be interpreted as a poor deployment of cash by management. If a company takes on debt to repurchase its shares, that could lead to a lower credit rating, which may make it costlier to run the business. A buyback may also signal that few growth opportunities are available as an alternative for deploying excess cash.

6 WHAT IS ASSET MIX?

Asset mix refers to the mix of investments in your portfolio. Your asset mix is determined by the type of investor you are, the level of risk you're comfortable with, your investment goals and your time horizon. Your mix is generally created from the three main asset classes:

- Equities tend to offer the greatest long-term growth potential and can help you beat inflation; they also carry the most risk.
- Fixed-income investments (bonds, some GICs and more) can help you preserve your capital and can provide steady income.
- Cash and cash equivalents offer security but also liquidity, so that you can take advantage of opportunities as they arise.

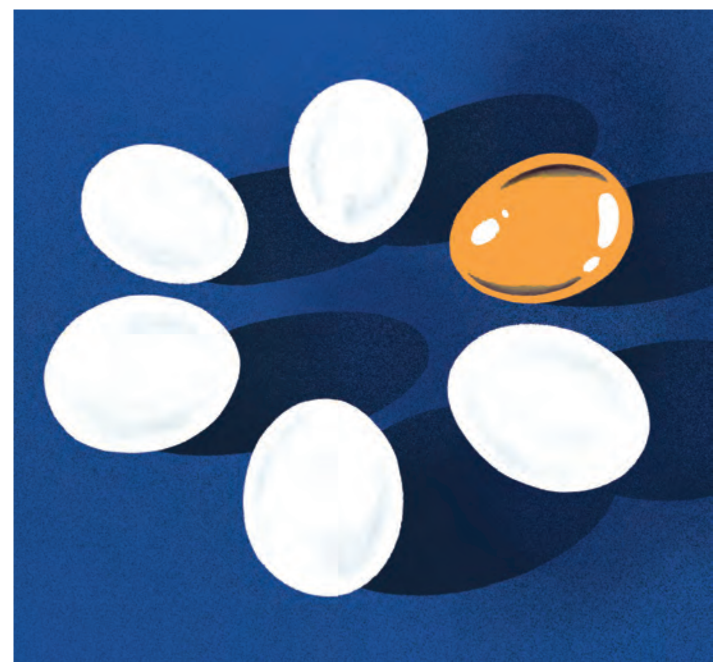
7 WHAT DOES P/E RATIO TELL ME ABOUT A STOCK?

Considered one of the most common measures for looking at stocks, the price-to-earnings ratio (P/E ratio) evaluates the relationship between a company's stock price and its earnings. In simple terms, it's often considered a measure of how overvalued or undervalued a company's stock is.

In theory, a higher P/E ratio means that investors may be anticipating higher growth in the future and could be willing to pay more per share. On the other hand, a low P/E ratio might mean that a stock is undervalued or that markets expect little earnings growth.

A P/E ratio is more helpful when there's something to compare it with. Some useful benchmarks can include:

- P/E ratios of other companies in the same industry (think of it as apples to apples).
- Overall market P/E ratio (such as the S&P 500).
- The company's P/E ratio at various points in its history (detailed quotes can offer this).



8 WHAT INVESTMENTS CAN I HOLD IN MY TFSA?

In short, you can largely hold the same types of investments in your Tax-Free Savings Account (**TFSA**) that you can in a Registered Retirement Savings Plan (RRSP). Despite their name, TFSAs are more of an investment account than a traditional savings account. TFSAs allow for a range of investments, such as cash, GICs, bonds, stocks, ETFs, mutual funds and options. There are two key points to keep in mind when choosing your TFSA investments:

- The Canada Revenue Agency only allows qualified investments in a TFSA. If a security trades on at least one exchange that's considered a Designated Stock Exchange by Canada's Finance Department, it will generally be recognized as a qualified investment.
- If you choose to include investments that pay foreign dividends, be aware that many countries, including the United States, apply a non-resident withholding tax to dividends and interest, which may affect your returns.

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Test Your Investing IQ

Challenge your know-how with our financial quiz and crossword.

1. Usually, if interest rates go up, then bond prices...
a) Go down
b) Go up
c) Are not affected

2. Which type of investor looks for a combination of income and capital growth?
a) A balanced investor
b) An opportunistic investor
c) A growth investor
d) All of them. Who isn't looking for a combination of income and capital growth?

3. What does SRI stand for?
a) Seriously Researched Investments
b) Socially Responsible Investing
c) Seriously Responsible Investing
d) Socially Researched Investments

4. Which account type doesn't allow you to make contributions?
a) RESP
b) RRSP
c) RRIF
d) TFSA

5. Earnings season is most importantly...
a) A time for companies to put out press releases
b) When public companies, usually quarterly, report their financial statements as required by the regulator
c) An opportunity to see how well your portfolio is performing
d) A chance to research a company

6. Choose the closest definition for "Fundamental Analysis."
a) A method used to determine which investments are important and which are not
b) A method used to analyze a company's trading history
c) A method used to understand a company to help determine the value of its stock
d) A method in which only fundamental companies on a given stock exchange are evaluated

7. In the world of finance, what is an investment?
a) An expensive item
b) An item you save up for knowing you'll make good use of it, like a new car
c) An asset you buy with the goal of seeing it increase in value
d) A very short-term asset only that guarantees an increase in value

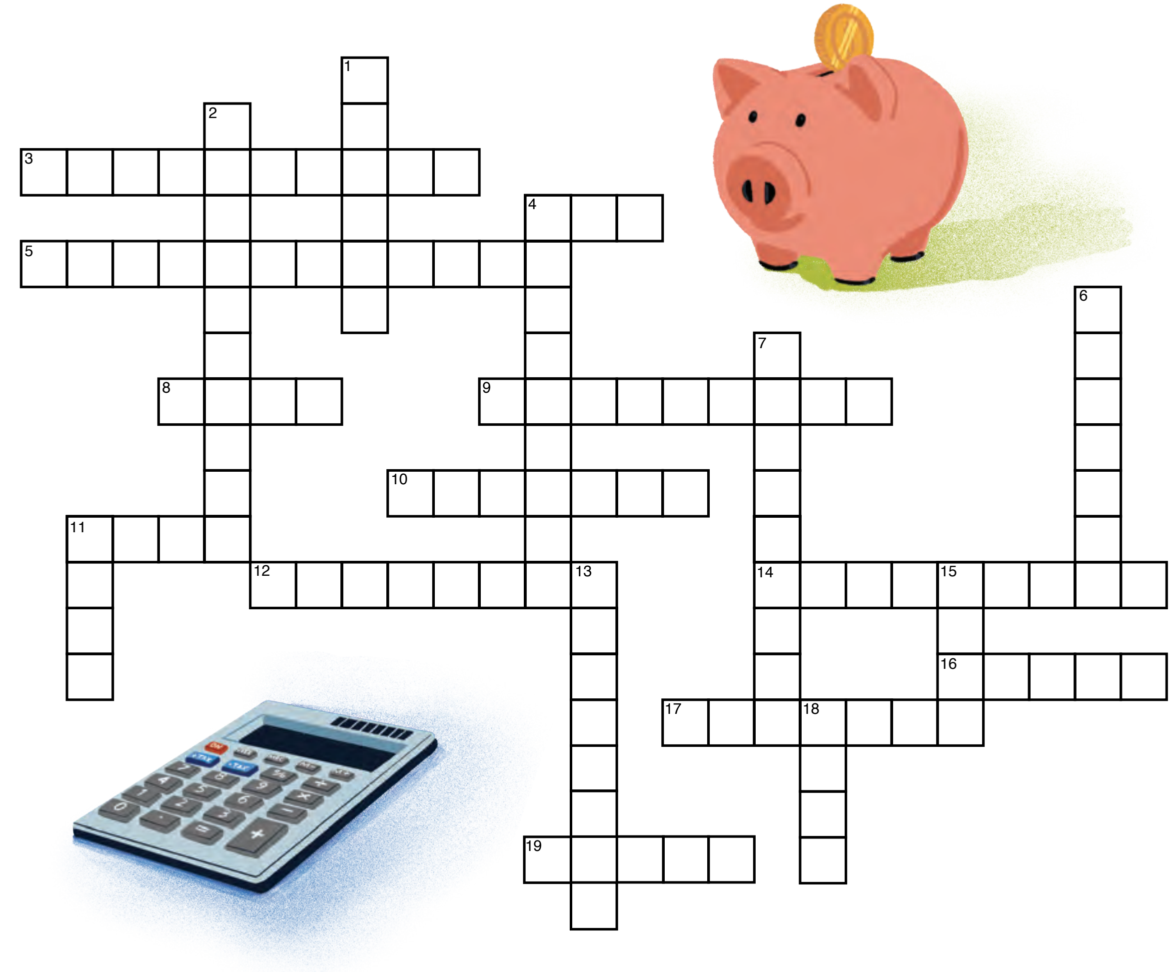
8. In order to receive a dividend, you need to:
a) Be holding the stock on the record date
b) Buy the stock the day of the ex-dividend date
c) Buy the stock the day of the record date
d) Hold a minimum of 100 shares of the stock

9. If you buy a call option...
a) Sorry, there's no such thing as a call option
b) You have the obligation to sell the stock at the option's strike price
c) You have the right but not the obligation to sell the stock at the option's strike price
d) You have the right but not the obligation to buy the stock at the option's strike price

10. What is a "Black Swan Event"?
a) An event for when the rare creature becomes extinct
b) The name of an incredibly well-performed ballet
c) An uncommon and nearly-impossible-to-predict event that has a great impact on the world
d) The name of a book by financial expert Nassim Nicholas Taleb

ANSWER KEY – 1. A; 2. A; 3. B; 4. C; 5. B; 6. C; 7. C; 8. A; 9. D; 10. C. ILLUSTRATIONS, SALINI PERERA

ACROSS – 3. APPRECIATE; 4. IPO; 5. CONFIRMATION; 8. BEAR; 9. WATCHLIST; 10. CAPITAL; 11. BOND; 12. COMPOUND; 14. DIVERSIFY; 16. STOCK; 17. BUYBACK; 19. INDEX. **DOWN** – 1. GRAHAM; 2. REGISTERED; 4. INFLATION; 6. SPINOFF; 7. LIQUIDITY; 11. BETA; 13. DIVIDEND; 15. RISK; 18. BULL.



Across
3. When your investments grow, they... (Hint: Gratitude)
4. Acronym for a new stock market listing.
5. A cognitive bias that agrees with you.
8. Name for down market cycle. (Hint: Ursa Major)
9. One way to keep an eye on your investments.
10. _ _ _ _ _ _ _ gains. Taxable gains when the selling price of an asset exceeds its purchase price.
11. A debt instrument. (Hint: "The name's _ _ _ _, James _ _ _ _")
12. Capital accumulation via interest.
14. How an investor can reduce risk. (Hint: Mix it up)
16. A part ownership in a company. (Hint: Grocery shelves)
17. How a company can reduce its share count.
19. A section of the stock market you can trade. (Hint: Your pointing finger)

Down
1. Father of value investing. (Hint: _ _ _ _ _ _ cracker)
2. RRSP and RESP accounts are examples of this type of account.
4. Also known as the cost of living.
6. When a company creates a new separate unit. (Hint: Twirl away)
7. Indicates how quickly assets can be bought or sold. (Hint: H_2O)
11. Represents a stock's volatility related to the market. (Hint: A letter of the Greek alphabet)
13. One way a company distributes cash to shareholders.
15. What an investor often wants to reduce.
18. A period of continuous rise in stock prices. (Hint: Second sign in astrology)

Making It Work

> “I believe that with determination, anyone can take charge of their financial future.”

My first lesson in determination was one that I'm sure others can relate to: It started with a shaky first step on the ice as a new skater. It took a while for hockey to register on the radar of my Korean immigrant parents, but once it did, they were determined to have their first-generation Canadian son give it a go. I was about 10 at the time and it wasn't easy. My mother and I sat in the dressing room before my first game wondering how to put on the equipment before the kind father of another player stepped in to help. Then, clinging to the boards, I remember watching my peers glide past me effortlessly. It took time, but with determination, upgraded equipment (including a prized Sher-Wood 5030 stick), numerous summer hockey camps and lots of ice time, I played competitively until I was 17 and recreationally for many more years – until my back gave out. I still love the game.

My impulse to stay with it, learn and, ultimately, control my own destiny has followed me through various areas of my life, including my investments. I have always been a passionate self-directed investor, and my career as an institutional portfolio manager and equity research analyst certainly provided on-the-job training. But I believe that with determination, anyone can take charge of their financial future.

The good news is that there's lots of support and you don't have to go it alone. A trusted partner like RBC Direct Investing can help you reach your investing goals. Every day, we strive to ensure we have the latest tools you need to be successful. Recent enhancements include streaming real-time quotes for all, digital account opening and the Investing Academy, a hub of educational content for investors. Plus, 2020 will bring an exciting new mobile experience. It's no surprise that our clients say the RBC Direct Investing site is one of their top places for information.

As we plunge into this new decade, RBC Direct Investing continues to build on three decades of innovation in our relentless commitment to offering Canadians a best-in-class investor experience.

I can't wait to see what the next 30 years bring, for all of us! – *John Bai, President and CEO, RBC Direct Investing*

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*No purchase necessary. Contest runs from 12:00am Eastern Time (“ET”) on January 30, 2020 until 11:59pm ET on February 25, 2020 (“Contest Period”). Contest open to Canadian residents who are the age of majority in their province or territory of residence. Entrants who complete the feedback survey available at investingfeedback.com will be automatically entered into the contest. Three (3) prizes available to be won, each consisting of a $500 VISA gift card, for a total retail prize value of $1,500. Odds of winning depend on number of eligible entries received during the Contest Period. Correct answer to mathematical skill-testing question required. For full contest rules, please visit investingfeedback.com/contestrules.

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