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Letters from Leib

Winter 2024

Why are we connecting with you now? Has something changed?

Portfolios are in good condition and the companies within them are, for the most part, keeping pace with opportunities. We are not recommending major overhauls but rather stressing the need to monitor, tilt, and tweak in response to trends that are becoming more established. Interest rates may have reached a plateau and almost every business is facing ongoing and accelerating risks from new technologies, political and geopolitical turmoil, and demographic transitions. Transformations are often uncomfortable for investors who have benefitted from past conditions, but we need to stay current with the economy and changes in your personal investment circumstances.

Market Overview

Although the bear market in American equities bottomed out in October 2022, indexes remained volatile. Upward movements were associated with dramatic gains in a handful of mega-cap firms. The broader market lagged until late last fall, after which volatility declined and upward trends broadened. Equity and fixed income investments ended 2023 on reasonably strong upward trajectories. Growing strength in the American economy came as a surprise to many commentators who had predicted a recession. Most analysts believe that interest rates are likely to end 2024 modestly lower, although not as low as many once hoped.

Going forward, there will be winners and losers. Some established companies will decline, and new growth leaders will gain traction. We see opportunities but also challenges that will require an especially disciplined response to sectors and companies unable to adapt to changing conditions and new competition, as well as to those investments that demonstrated spectacular growth but are in danger of deceleration. Towards the end of 2024 and early 2025, we anticipate adopting modestly defensive strategies for reasons that are both fundamental and technical, including uncertainty surrounding policy changes following the American election (regardless of who wins), and potentially slowing economic growth.

Strategies Going Forward

Our client portfolios kept up with and often outperformed key benchmarks and held up well when faced with challenges, falling less than indexes during downturns, and proving resilient during recoveries.

Our investment strategies are designed to build wealth over time, leaning into opportunities, and managing risk by investing in different asset classes and actively managing cash holdings. Many economists believe that interest rates have now plateaued. With the prospect of a soft landing at hand, it is time to take advantage of compelling opportunities to rebuild the fixed income component of our portfolios and add positions in excellent companies, many of which were overlooked in the rush to a narrow group of high-profile, tech-forward firms.

The core of our clients' investment programs are "blue chip" stocks issued by large, well-established, financially sound, publicly traded, dividend-paying Canadian companies. Companies with a history of significant dividend growth include leading Canadian banks and insurance companies, transportation and communication conglomerates, utilities, and major holding companies. Owning shares in these companies has traditionally laid the foundations for wealth building. Safety of cash flow and capital are especially important for older investors. These companies have a history of dependable earnings, dividend growth, and capital appreciation. Those who allowed these investments to compound over time also have substantial capital gains from share prices driven upwards by market dominance and dividend growth.

Blue-chip investments are equally relevant for younger investors. Paying off home mortgages should be a priority, particularly in an environment of relatively high interest rates; but young investors have long time horizons and should be assembling portfolios of equities in high-quality companies, particularly in tax sheltered environments like RRSPs, RESPs, TFSAs, and FHSAs that are well-suited to steady growth. Canadian investors of all generations will find dividend focused strategies advantageous in taxable accounts where the Canadian dividend tax credit can be applied. Dividend growth, moreover, will help your investments offset the impact of inflation.

Fun Facts

- The Bank of Montreal (TSX: BMO) started paying a dividend in 1829 and has never missed a payment.
- Both Canadian Utilities (TSX: CU) and Fortis (TSX: FTS) are dividend kings, having increased their dividends for at least 50 consecutive years.
- The term "blue chip" comes from the game of poker, where blue chips were historically the highest-value pieces.

Why now: Canadian blue chips are currently well-priced with excellent dividend yields, selling at prices that will not be as available when markets broaden, and international investors rediscover the quality of Canadian investments. As a category, these remain powerful building blocks of wealth formation, but investors should never be complacent as these companies are susceptible to changes in government policy and disruptive new technologies.

Established growth-oriented, equities make up a second and equally important component of our approach. Investments in well-established, often American listed companies, align personal wealth building with high growth areas of the economy. These investments are moderate risk but not speculative. Returns are associated primarily with capital appreciation rather than dividends because these companies reinvest in themselves, continually innovating and growing market share to maintain their competitive advantage.

We are clearly in the midst of a period of significant technological change. It is extremely difficult to predict disruptive breakthroughs, to determine which stocks stand to benefit the most, and when to trade positions. Changes in the media and concentration in the financial industry mean that markets can swing towards and away from favourites with great speed. High valuations based on future expectations may or may not be realized as competition from other companies and ever newer technologies erode advantages.

Why Now: All companies today are, to a greater or less degree, tech companies, regardless of whether their primary business is medical, media, entertainment, logistics, consumer discretionary, or purely involved in selling technology. Over the next few months, most analysts expect a migration from very expensive to less expensive businesses that were overlooked in last year's rush to a handful of mega-cap companies. We are particularly interested in firms using new technologies to advance and future-proof their business models in the service and manufacturing sectors.

Positions in established growth can be added to accounts as individual holdings, as specialized managed funds, or as Exchange Traded Funds (ETFs) that provide access to different industry sectors or geographic regions.

Opportunistic Investments: Depending upon household risk level, our clients may have small positions in new and less proven companies and industries, and/or highly cyclical sectors that can make a real difference to investment returns and become wonderful stories.

Opportunistic investments are not "hot tips." Businesses must have a realistic path to profit, but shares are purchased for future potential. While we hope that every small and mid-sized business that we invest in will grow in time, positions in this category are commonly traded and pared back upon success as share price performance is often unsustainable over a longer term or may level off for extended periods. Losses in companies that are not keeping up or running low on capital should be terminated quickly.

Why Now: More opportunities present themselves during times of rapid change, especially in sectors that have been overlooked. A number of analysts are suggesting that commodities have so far been ignored in this cycle.

Fun Facts

- An Exchange Traded Fund is a basket of securities that tracks an underlying index and can be traded like a stock on an exchange. The first ETF was created in Canada in 1990 and sought to closely match the performance of the Toronto Stock Exchange.
- Over 700 ETFs (and counting) are now available in Canada, with different cost structures and investment strategies. Approximately 60% of Canadian-listed ETFs do not track broad-based indexes, and instead follow factor-oriented, active, and other strategies.
- In December 2023, American investors for the first time entrusted more money to ETFs than to actively managed funds.

The fourth investment component, money market mutual funds and fixed income products, provide a reasonable level of income with lower risk, stability, and set maturity dates. Cash and fixed income products pay interest rather than dividend income. GICs, Government bonds, high grade corporate debentures (when available), and income ETFs can play an important role in portfolios by enhancing diversification, predictability, and stability. Fixed income products are particularly tax efficient in registered accounts, where interest income grows on a tax deferred basis.

Why Now: Inflation and recession indicators continue to send mixed signals, but rising interest rates revived interest in money market funds and short-term fixed income products. Because movements in rates, both up and down, can happen very quickly, we recommend that investors begin locking in fixed income assets with a range of maturities. As interest rate cuts become more likely, investors should act to buy investments that are likely to be impacted. High yields will erode quickly when central banks begin to lower rates.

The possibility of interest rate declines has opened the way to using fixed income products for capital gains as some bonds and debenture can be traded for profit. Specialized funds assemble

Fun Facts

- As of January 2024, the total dollar market value of Apple's outstanding shares was CAD $4.04 Trillion.
- The Toronto Stock Exchange had 1,811 listed issuers (including ETFs and other structured financial products) with a combined market capitalization of CAD $4.16 trillion.

different baskets of fixed income products, some with longer maturity dates and others with higher yielding, lower quality corporate debentures. These products make it possible for individual investors to participate in more aggressive bond strategies, improving performance with some additional risk.

This is a good time to think about covered calls. Clients holding banks, utilities, and other Canadian blue-chip equities in their TFSAs can create extra income through a covered call program. A covered call program involves a seller (you) offering a buyer an option to purchase shares that you already own at a set price and expiration date. This is a conservative but effective strategy to generate additional income for investors who think stock prices are unlikely to rise much further in the near term.

Although there is no tax advantage to contributing to a TFSA, there are no restrictions on withdrawals. Investments in a TFSA grow tax free and can be taken out and replaced without penalty. Within a TFSA, covered calls managed for a fixed fee rather than a per transaction basis.

Leib will discuss initiating a covered call program within your TFSAs as an innovative way to increase your income, as appropriate.

Fun Fact

The world's oldest 'living bond' is a perpetual bond issued in 1624 by the Hoogheemraadschap Lekdijk Bovendams in the Netherlands to fund repairs to flood defences on the Lek River. According to its original terms, handwritten on goatskin, the bond would pay 5% interest annually, for ever. The interest rate was reduced to 3.5% and then 2.5% during the 17th century. The payments were first made in Carolus guilders; then Flemish pounds; then modern guilders; and now in Euros. Due to the effects of inflation and currency changes, the value of the interest payment has declined over time, but the interest, now the equivalent of 20 $CDN, is still payable annually at the offices of the company in Utrecht, Holland.

Conversations We Are Having

Am I going to outlive my money? Many aging boomers are scarred by the experiences of their parents' generation when longer life spans and new expenses pushed past the limits of savings. Even investors who are well prepared financially are expressing concerns about future purchasing power and the security of their pension and dividend income. We cannot guarantee the future, but I firmly believe that a well-managed portfolio with diversified income streams can preserve the advantages you have built up and position you to live your best life.

As you approach retirement, take advantage of catch-up contributions, and align investments to offset inflation. Our colleagues at NBF who specialize in financial planning and insurance can develop wealth projections to give you a sense of your financial future. Certain insurance products can be used to generate cash flow and protect against estate shrinkage.

In your "encore years," you should review and understand the probable outcomes of your wealth plan and consider adding managed products and/or consolidating accounts to simplify your financial life. Bring family members and others who are helping to make important life and investment decisions into the conversation. If you or your family members or your trusted persons are uncomfortable being actively involved in your portfolio investment decisions, we can recommend cost effective investment products with a history of competitive returns that reduce the need for active decision making. And of course we will continue to monitor managed money products for suitability, mandate drift, and changes in risk, performance, and cost.

At a time of considerable economic and social disparity, our clients are without a doubt a privileged minority. None of us are in position to squander wealth, but we are in position to make good decisions.

Many young investors are frustrated by high housing costs, inflation, and their experiences in a succession of financial crises. Some feel the future is stacked against them. As a group they have complex advantages and disadvantages. Their entry into wealth building has often been delayed by post-secondary education and time building careers and businesses. They are starting their careers later but have time on their side. Younger investors are confronting their own difficult investment choices, including how to allocate their resources, and how to square their moral values with the search for returns. Our young clients are sophisticated investors, building equity and wealth, and making maximum use of government incentives provided in RRSPs, FHSAs, and RESPs programs.

Office Updates

Congratulations to Amrita and Rebecca

We are proud to announce that Amrita Basu has completed the Wealth Management Essentials course and participated in the NBF rookie program, advancing from "Investment Representative" to "Registered Representative." Rebecca Gillies has completed the Wealth Management Essentials and is now completing the rookie program. As Senior Wealth Associates, they have attained significant professional advancements within the financial services industry and our team is better for their insights and product knowledge. Congratulations on your accomplishments!

I would like to welcome Rebekah Smith, who recently joined us in the role of Associate with responsibilities in operations and administrative support. Rebekah will often be the voice on the telephone connecting with you to facilitate account maintenance and fund transfers.

Client Relationship Management

Investment advisers have an obligation to determine the investments suitable to your circumstances, taking into consideration your investment goals, financial resources, and capacity and tolerance for risk. As you are no doubt aware, the Client Focused Reforms initiated by Canadian Securities Administrators have added administrative burdens and increased the amount of personal information advisors are required to obtain on an ongoing basis. These questions help us to better understand and respond to your investment needs and they are an industry requirement.

Client portfolios are monitored and reviewed frequently in response to prevailing market conditions, business and world events, and changes in your personal situation. Regular meetings, whether in-person, on-line, or by telephone, are important to confirm your goals and needs, review portfolio performance, and discuss our outlook for the markets. In between meetings, please remember to keep us advised of changes in your circumstances (for example, marriage, divorce, birth of a child, changes in employment, changes in beneficiary), and in your investment needs and objectives.

TFSA: Do You Have Unused Contribution Room?

The TFSA contribution limit for 2024 is $7,000. If you turned 18 before 2009 and have never contributed, your lifetime maximum TFSA contribution limit is $95,000.

Year	Annual Dollar Amount	Cumulative Amount
2009 to 2012	$5,000	$20,000
2013 & 2014	$5,500	$31,000
2015	$10,000	$41,000
2016 to 2018	$5,500	$57,500
2019 to 2022	$6,000	$81,500
2023	$6,500	$88,000
2024	$7,000	$95,000

Personally

We often focus on the downsides of investing in Canada, bemoaning our small investment universe, government overreach, and weaker-than-American currency. Last year I was fortunate to attend two investment conferences in America. Conversations with colleagues highlighted special opportunities available to us as Canadian investors. We can build wealth in registered plans, including the RRSP, RESP, and the RDSP, reducing taxes in the short term and compounding wealth within tax deferred environments. The TFSA is an especially wonderful multi-purpose vehicle for wealth creation. The number of blue-chip companies in the Canadian investment universe is relatively small. Many companies grew with the advantages of regulations that add policy risk, but which have dramatically increased the stability of our banks and utilities. And unlike nationals in many countries, we can invest internationally without restrictions should we choose to do so.

We thank you for your business and for the trust and confidence you place in us. It all starts and ends with you.

Sincerely,

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