L-R: Bogue Clark, Juliana Weese, Blair Mott, Tony Liokossis, Stephanie Lindsay

January 2025 Commentary

WOW! 2024 will go down as a spectacular vintage for the Mott Liokossis Wealth Management Group's *Hypothetical Equity Model*[1]. Drum roll – the year clocked in at +36.77%, utterly trouncing our *Global Equity Benchmark's*[2] return of 21.67%. In the twelve-plus years since we went live with this model, this is our second-best, behind only our maiden season in 2013. While we remain hard at work, it's no bad thing to take just a small moment to savour this game-changing result. When we say we are in business to materially change client's lives for the better, this is what we mean. Every few years we get a run like

[1] If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio. NBFWM's liability shall be limited to the accuracy of the information contained in your Investment Portfolio Statement. Therefore, information in your Investment Portfolio Statement will always take precedence over the information contained in this report

Our *Hypothetical Equity Model* closely approximates the actual performance of your equities before fees. It gives us context, allowing for various types of analyses & comparisons.

[2] Global stock market is represented by *EW1785 World Stock Equal Weight Index*[t], Courtesy of SIA Charts

this, and it creates options in life that were simply not there before. It is the reason we remain dedicated to equity investing and to our methodology.

Risk and Return

Of course it is excellent to deliver absolute performance. However, what is not obvious to most of our clients, especially our newer relationships, is that our performance is a function of solid risk management. Every day we data-crunch thousands of markets and individual investments to understand where cash is moving on the global chess board. The first decision we make every day is – should we be in stocks? Do conditions favour positive returns? It is a risk-management question. When you are comparing different options to find out what to buy, it also produces data on what to avoid. The avoidance of big losses is a major contributor to positive returns.

We have in the past been perceived as above average risk, high-growth advisors. In fact, we have clients that split their portfolio between us and another – let's say – more conventional advisor. We're expected to be the alpha (i.e. return) generator and the other advisor is the steady one that doesn't perform as well but is less risky. The evidence, however, paints a different picture. In the twelve-year history of our model, there have been two deep negative years for stocks globally, plus a third where Canadian stocks were solidly negative:

	2022	2018	2015
Mott Liokossis Hyppothetical Equity Model	**0.08%**	**1.60%**	**13.99%**
Global Equity Benchmark	**-16.05%**	**-9.42%**	**15.48%**
Canadian Stock Market*	**-5.82%**	**-8.80%**	**-8.60%**
*XIC - iShares Core S&P/TSX Capped Composite Index ETF, all figures are before fees except for XIC MER of 0.06%			

As you can see, in years when stocks in general have gotten kicked in the teeth, we have preserved our capital extremely well.

Without exception, whenever we have been privy to the performance of these 'conventional and conservative' advisors, every time the stock market has a negative year, so do they. How is that conservative? In our learned opinion that will not change going forward, because their approach has not changed materially over time – and it ensures they will suffer fully the next serious bear market.

GICs – Forgotten So Soon?

In late 2023, GICs suddenly became all the rage. It was by far our #1 query. However, like Yoda explaining the dark side of the Force to Luke Skywalker, we warned of the temptation to throw in the towel on investing in stocks in favour of GICs. In our October 2023 letter, we didn't sugar coat our advice, writing:

“GIC vs. Stocks

> Why bother with stocks when GICs are paying in the high 5% range now? That is by far the number one question on investors’ minds. It is a legitimate question. Two years ago, when rates were a fraction of 1% for cash and 2% for GICs, choosing stocks wasn’t that difficult.
>
> For two years our performance, and that of stocks in general, has been flat. If you could know for certain that this would continue, then moving at least some of your money to GICs would be a no brainer. The problem is that we don’t know the path of the stock market. What we do know for certain is that at some point stocks will start to move again. We also know that we are now two years closer to whenever that next upsurge in stocks will start. The superior long term returns of stocks are a necessary part of our portfolio planning, we need those returns to keep ahead of rising costs. <u>It’s a terrible idea to endure the volatility of investing in stocks only to sell them before reaping the reward that comes with that volatility.”</u> (emphasis added)

Furthermore, for clients who insisted on investing some of their portfolio in GICs, we advised caution in choosing how long to lock in. At the time, 1-year rates were much higher than 5-year rates – an *inverted yield curve*. That was because central banks control only short rates and they had raised them to quell inflation. Historically, when that happens, investors feel like the choice is easy. Go for the higher rate and you only have to lock in for one year. What’s not to like? The risk we advised was that when your GIC matures and it’s time to roll them over, rates are likely to be lower. If central banks pivot from worrying about inflation to worrying about a recession, they will reverse course and lower rates. This is exactly what has happened. GICs that may have earned 5-6% in 2024 are coming due with rates in the mid-3% range now.

Compounding this is the lost opportunity – our equity model delivered 6-7 times that amount in 2024, net of fees. The cherry on top is that GIC interest is fully taxable in non-tax-sheltered accounts, while the vast majority of our equity model returns come via capital gains, which are only partially taxable. That means that after tax, our model delivered more like 8-9x the returns of GICs in 2024 for our average client, despite GIC rates being at their highest level in many years.

Protecting our Gains

With the bloom coming off the GIC rose, our most frequent query today is ‘how do we protect our profits from a market decline?’ It is the exact right question. Our qualifier would be – what kind of market decline? Stocks experience normal corrections quite frequently and after a run like this, you should expect a sharp one at any moment. It’s not something you can totally avoid unless you are not in the game. It’s like being a champion athlete. How do you avoid losing? The only way is to not play but leaving the arena is not an option for us. As we said in our October 2023 letter, we need the superior returns of stocks to achieve our goals and stay above water. We have *many* clients who would have run out of funds long ago, whose lifestyle would have been seriously compromised, had they stuck to GICs and/or bonds.

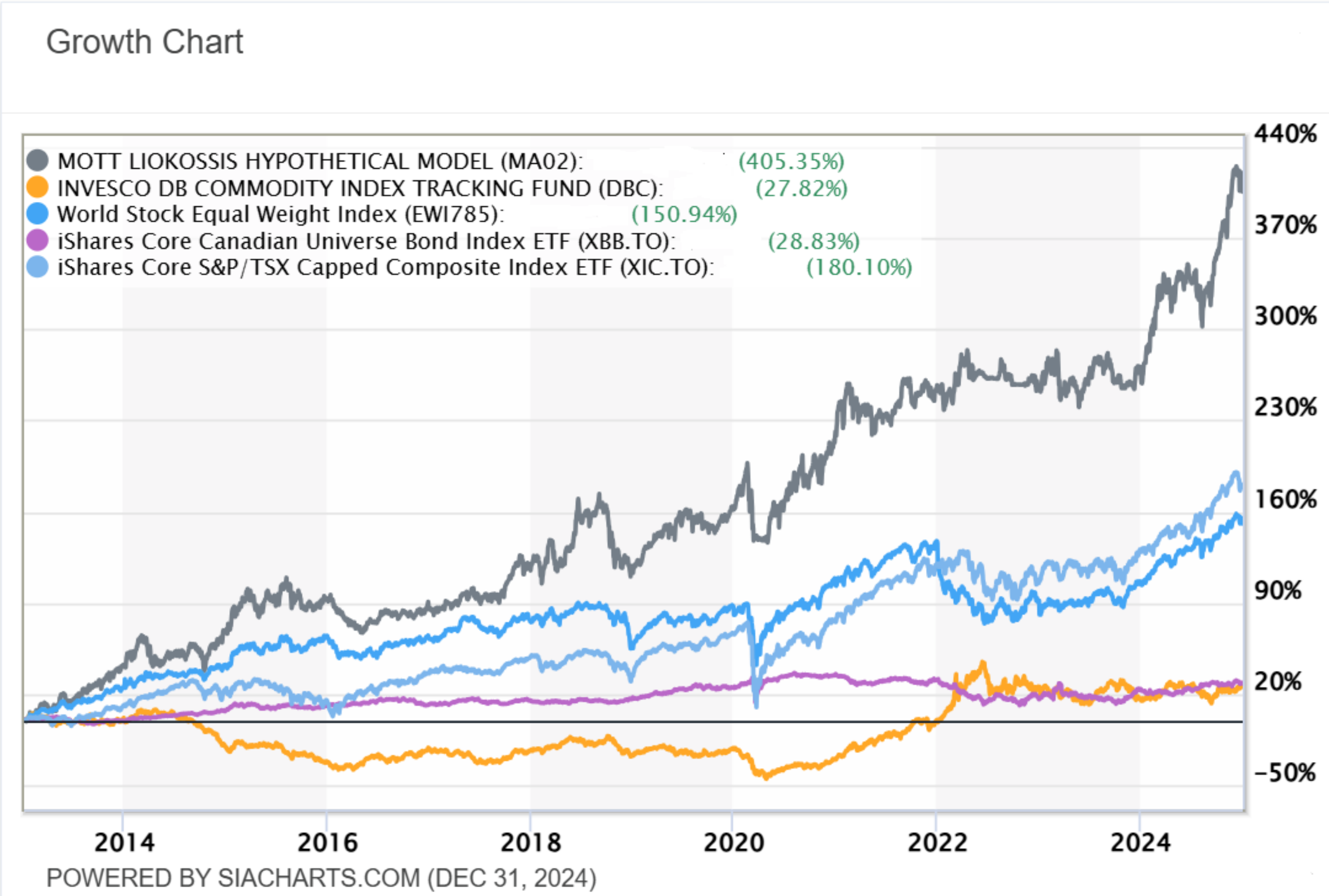
What about *ab*normal corrections, bigger economic, structural declines? These are a different story. At the risk of repeating ourselves yet again, our methodology for investing is designed to limit this risk, which we consider to be the true risk. It's the kind of market that crashes 50% or more and takes five or more years to recover. 1929. 1973/74. 2000-2002. 2008/9. Avoiding these kinds of crashes is our daily focus. It's not something we turn our attention to only now, after a big year. While we can't guarantee how things will unfold in the future, we can look to these past debacles to see how practitioners of our methodology faired. They did extremely well. So much so that our belief is the next such event will be, for our clients, an opportunity to amass great wealth.

All we need to do is stick to our program and accept short term volatility for what it is, namely the price of superior long-term returns.

MOTT LIOKOSSIS HYPOTHETICAL EQUITY MODEL – HOLDINGS on DECEMBER 31st, 2024

Weight	Equity Name	Symbol	Sector	Price	TTM Yield
5.88%	CARPENTER TECHNOLOGY CORP	CRS	Manufacturing	$244.09	0.33%
6.27%	EMBRAER S.A. ADR	ERJ	Aerospace and Defense	$52.76	0.00%
5.52%	TRANE TECHNOLOGIES PLC	TT	Manufacturing	$531.24	0.63%
6.50%	SAP SE ADS	SAP	Computer Software	$354.12	0.67%
38.80%	SIA ML GLOBAL TACTICAL POOL CLASS I	SWI220	Alternative Equity Focused Equal Weight Idx	$29.71	1.14%
6.24%	KKR & CO. INC	KKR	Financial Services	$212.74	0.32%
9.53%	BMO SIA FOCUSED CANADIAN EQUITY ETF	ZFC.TO	Canadian Equity	$45.98	0.04%
7.86%	QIFU TECHNOLOGY INC.	QFIN	Financial Services	$55.20	2.14%
5.61%	BMO USD CASH MANAGEMENT ETF USD	ZUCM.U.TO	U.S. Money Market Equal Weight Idx	$43.18	3.56%
5.70%	HOWMET AEROSPACE INC	HWM	Aerospace and Defense	$157.31	0.17%
2.08%	CASH				

MOTT LIOKOSSIS HYPOTHETICAL EQUITY MODEL
Percent Gain 04-JAN-2013 to 31-DEC-2024



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