HILBERRY GROUP
WEALTH MANAGEMENT

April 26, 2024

Home for a Rest?

'You'll have to excuse me, I'm not at my best.
I've been gone for a month, I've been drunk since I left.
These so-called vacations will soon be my death,
I'm so sick from the drink, I need home for a rest.'

- Spirit of the West

Markets have been on a bender until recently. The Weekend Reading has fretted maybe the gains have been too much of a good thing. No trend continues forever. Exuberance leads to contrition. A Hilberry reminder on our wall.

When they're yellin', you best be sellin'.
When they're cryin', you oughta' be buyin'

With prices finally sliding a bit – see below - pundits now talk of doom (fear sells). 'There's so much to worry about'. Yup. There always is.

Caterpillar (CAT-NYSE-$340.43) CAT hit an all-time high of $382.01 April 8, 2024. They brought quarterly results on Thursday. The flat to down guidance saw investors panic. From Wednesday's close around $363.50 the price opened Thursday at $330.44, down -9%, printing the daily low. The share price rallied to -6.3% on the session. The stock is down -10.8% from the all-time high. The share price remains 55.5% higher over the past 12 months. CAT is a great company, a dominant player with excellent risk management. Dividend discipline is impressive. Until recently it's been a core holding for us. But even a great company can see too great a price. We think CAT investors needed a rest. We're looking for a time of hangovers and whining to buy again.

Anxiety has roiled the recent US mega-cap Magnificent Seven darlings – which we don't own.

Alphabet (GOOG-$157.95) is near all-time highs. Alphabet trades at 23.2X forward earnings.

Amazon (AMZN-$173.67) touched $185 in March/2022, crashed to $85 in Feb/2023, rallied hard back to $189 the 2nd week of April/2024 and dropped 12% to $166 this week. Amazon trades at 42 X forward earnings.

Apple Inc (AAPL-$169.89) is -14.9% below the Dec/2023 all-time high. Today's price is below the April/2023 highs. The stock trades at 26 X forward earnings.

META Platforms (Facebook) (META-$442.39) touched $531 the 2nd week of April, dropping $414 this week, -21.7% from the high. Meta trades at 22 X forward earnings.

Microsoft (MSFT-$397.57) is down -8% from the early April/24 highs. Microsoft trades at 34.3 X forward earnings.

NVidia Corp (NVDA-$831.60) hit $967 in late March, then flopped -21.8% to $756 last week from the highs. NVidia trades at 33.3 X forward earnings.

Note the price correlation of META and NVidia. Narrative investing at work.

Tesla (TSLA-$169.54) hit $138 this week then bounced. Today's price around $169 remains -60% below the Nov/2021 fever-pitch high of $414.50. Tesla trades at 63 X forward earnings.

An even-dollar investment into these seven fan-favs means paying $34.8 for each $1 in projected 12-month forward earnings (34.8 P/E). The S&P500 includes the above seven trades at 22.2 X earnings. The S&P500 excluding the Magnificent Seven trades around 15.5X earnings. The Seven are 100% more expensive than the remaining 493 companies in the index. We can't see this ending well…for the Seven.

Apple (0.56% yield), Microsoft (0.75% yield), Nvidia (0.02% yield) are the only cash income payers. Those seeking to replace their employment income with investment income from these seven, had better be right on the price. We regretfully and politely decline.

DISCLOSURE: We do not hold the above names personally or in our managed accounts. We have clients with smaller positions acquired on their own initiative. We are not recommending clients acquire these names at these prices.

Despite not playing in the *Magnificent 7* sandbox, should we worry about their price effects on our US dividend payers? What about Canada?

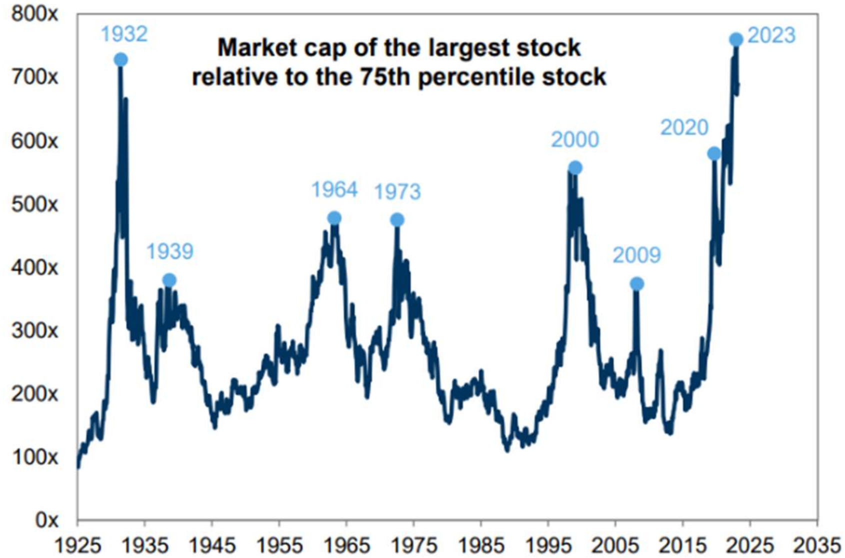
Ben Carlson puts the recent concerns into perspective. We're not quite as sanguine on the government debt side, particularly here in Canada, but we'll take his points.

‘Two Things I’m Not Worried About’

Mr. Carlson looks at two worries-de jour, stock market concentration and government debt.

> **Stock market concentration.** Here’s a chart from Goldman Sachs that shows by one measure, the U.S. stock market is as concentrated as it has ever been:

Exhibit 7: The US equity market is near the most concentrated in a century
as of February 29, 2024



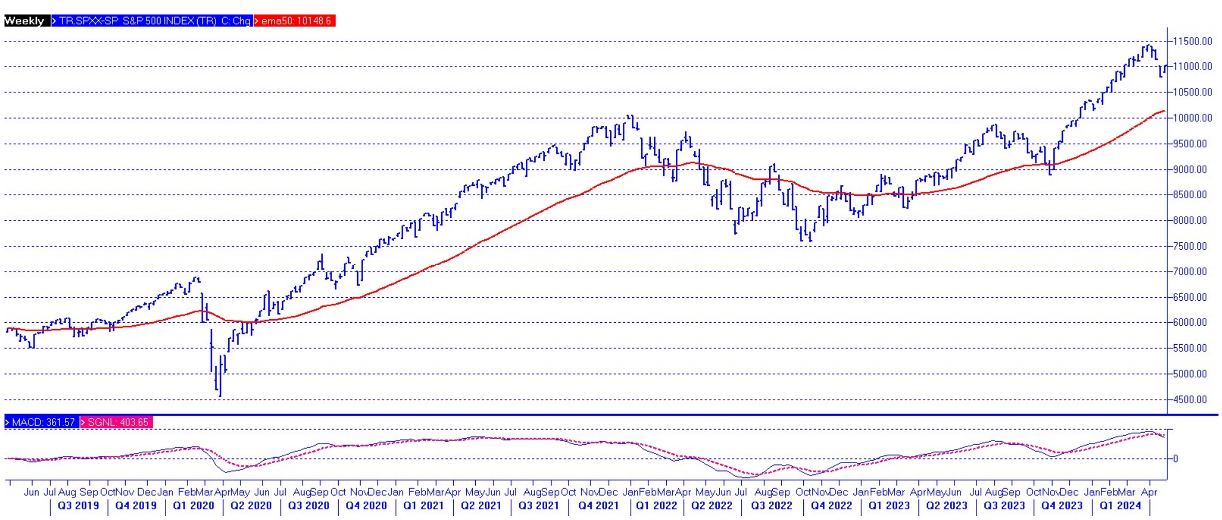
Source: Compustat, CRSP, Kenneth R. French, Goldman Sachs Global Investment Research

https://awealthofcommonsense.com/2024/04/two-things-im-not-worried-about/

We continue to see reasonable prices elsewhere. Many of our dividend-payers look okay to cheap.

What about the 497 others? Are prices too high this business cycle?

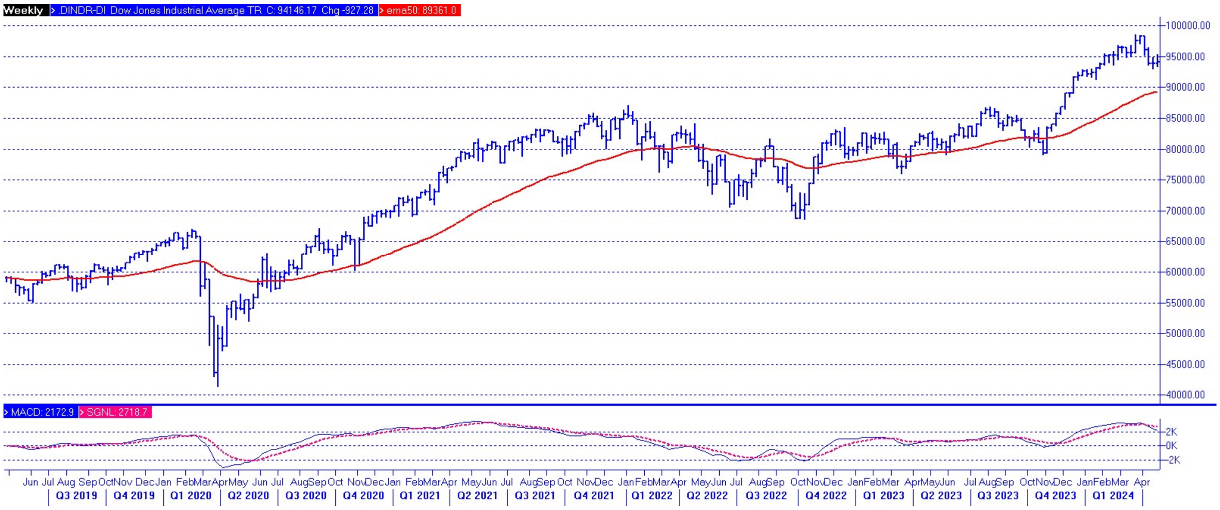
S&P500 Total Return Index – 5 years



Source: Refinitiv, NBF, Hilberry

The S&P500 Total Return index, <u>including the Parabolic Seven</u> (dividends reinvested) shows a 9.7% gain from the previous cycle Jan/2022 highs. Roughly 1.3% of the 4.3% total annual return came from compounded dividends. 3% per year came from price. Yawn.

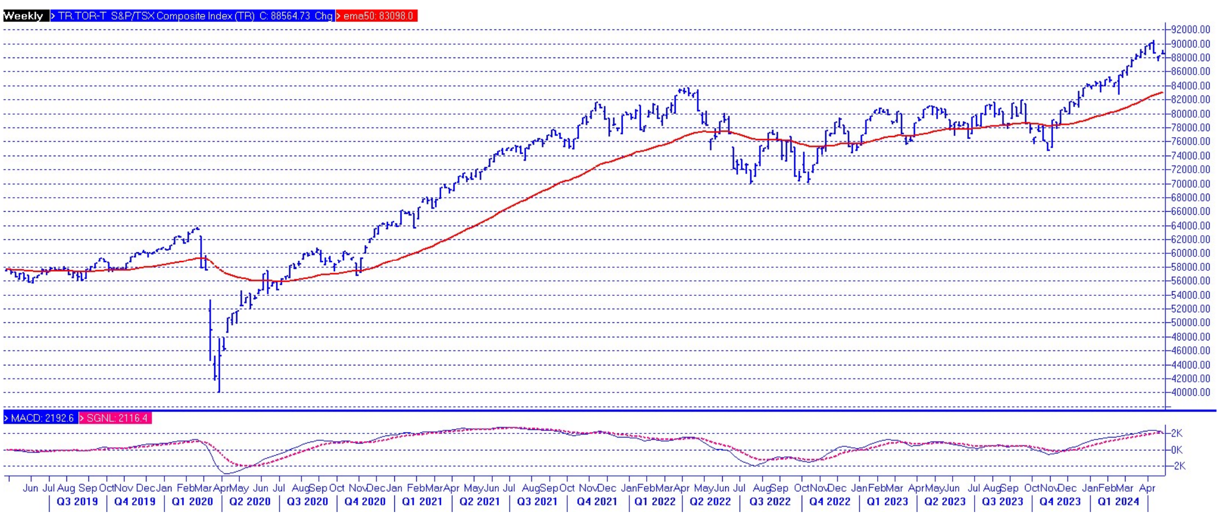
Dow Industrials Total Return Index – 5 years.



Source: Refinitiv, NBF, Hilberry

The more mature (and boring) Dow Total Return index shows 8.1% total increase from Jan/2022. Average return: 3.6%. Roughly 1.6% came from compounding dividends. 2% per year price gains are hardly excessive.

S&P/TSX Comp Total Return Index – 5 years

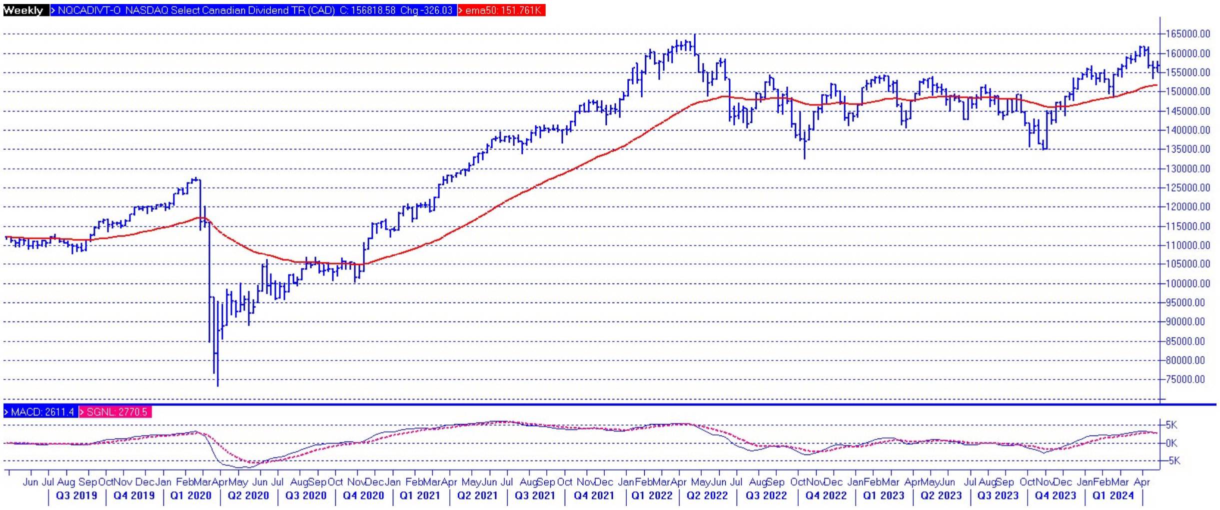


Source: Refinitiv, NBF, Hilberry

Canada's TSX TR Index shows +5.8% total return from the previous cycle, April/2022 highs. The 2.6% annual average return is certainly not crazy-town.

Major markets aren't at extremes gains. What of our dividend payers?

NASDAQ Select Canadian Dividend Index TR – 5 years



Source: Refinitiv, NBF, Hilberry

Canada's Dividend Index total return index is 4.8% below the previous cycle April/2022 highs. Cash dividends added roughly +9.2% to the total return. The -4.8% result means the stock prices of this group have declined close to 14% over the past two years. Bummer not Boffo. The CDN Div Index P/E ratio is 13.8 X forward earnings. A selection of names from within the index generates a higher income at a lower P/E. Scotia Bank pays 6.7% and trades at 9.6 X earnings. BCE Inc pays 8.8% and trades at 14.7 X earnings. Canadian Tire pays 5.2% and trades at 12.1 X earnings.

DISCLOSURE: We own BCE, Canadian Tire and Scotia Bank, personally, for family members and for client accounts over which we have trading authority. We have traded in all three within the past 60 days.

Canadian prices have been more bum than fun. Not so the income. Since April/2022 the CDN Div Index per-unit dividends have increased 17.5%. An investor who bought at the previous high and spent all the income, has 17.5% more of it this year. The investor compounding their dividends acquired 9.9% more units via dividend re-investment plan (DRIP). DRIP buying into the declining prices boosted income. The DRIP income has increased 29%.

The current cash income yield on the entire index is 5.0%. Both investors are receiving income comparable to current GIC rates. Again, cherry picking can bump the yield. There has not been an income penalty for owning these stocks. Eligible dividends received to a taxable account qualify for the Canadian Dividend Tax Credit. An individual investor with annual income below $60,000, could see income tax on these dividends close to zero (consult your tax professional).

DISCLAIMER: Achieving positive returns, dividends or otherwise, from stocks is not guaranteed. A Corporation Board of Directors may reduce or eliminate cash dividends at any time. Stock prices will fluctuate. Corporate failure can lead to complete loss of investment. Investors owning dividend paying stocks, if they are paid, are getting paid for the risk. They might not receive the reward for the risk taken. Investment decisions must be made with professional advice. We urge our clients to seek professional advice regarding taxation.

With that caveat, we continue to see favorable cash income available from dividend-paying stocks. We don't think we're paying vast premiums above the norms to own them.

Clarification from last week's commentary.

A client pointed out a failing in our discussion of a medical professional (a Veterinarian) contemplating selling an asset held for many years in the context of income generation vs. an employee of a government funded institution (a nurse). We were in no way picking on nurses! They work hard, earning every penny. So does a Vet pulling a calf from a difficult birth in a field at 3 AM in the mud and the pouring rain of a Prairie spring.

With the parameters provided, we estimated our Vet might be able to generate $164,000 per year income from selling an asset 25-years from today…IF they got over $5 million pre-tax on an investment of $674,000 today. We noted the current average pension for nurses in Canada is around $60,000 per year. CPP would add $16,300. OAS another $8,500 to total around $84,000 today with now income from a spouse or savings. One could conflate these figures to conclude the Vet is 2 X more highly paid in retirement than the government employee.

Not so fast.

Our government employee receiving $84,000 in 2024 enjoys government guaranteed, inflation protected income. Assuming the past 25-year inflation average of 2.2% is maintained (we think higher is likely), 25 years from today this government-guaranteed annual income could potentially exceed $145,000 per year. There is very little financial risk to that outcome for the employee and, other than 'time served' little financial commitment required. Our employee would certainly have provided valuable service. Their contribution would be as a single employee and single taxpayer. We're not complaining of their service or income.

For our Veterinarian to hit $664,000, they take on all the business, property, credit liability and personal health risk to arrive at a time and place where, hopefully they will be able to retire. Provided their practice succeeds, additional employment is likely. With savings discipline they could add to that income significantly and pay more tax.

The Canadian tax system has historically rewarded this risk-taking. We believe politicians claiming a lack of fairness are at best ill-informed. More likely disingenuous.

April 26, 2024

Have a Great Weekend

Steve & Anna Hilberry

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FOR THE RECORD April 26, 2024

DOW INDUSTRIALS:	38,269
S&P 500:	5099
S&P/TSX COMP:	21938
WTI:	$83.72
LOONIE IN $USD:	$0.7315 $US

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CIRO Canadian Investment Regulatory Organization

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