HILBERRY GROUP
WEALTH MANAGEMENT

May 31, 2024

'And what is so rare as a day in June? Then, if ever, come perfect days;

Then Heaven tries the earth if it be in tune, And over it softly her warm ear lays:'

Markets delivered many perfect days in May. Stocks appear to have finally shaken off the 2022 blues with the Dow Industrials breaking 40,000 recently. We celebrated this event at our semi-annual seminar last week, with champagne as door prize.

I repeated a story of a debates with one of my first clients. June of 1989 as a newly minted 'Stock Broker', I met one of my first clients. The Monday Oct 19, 1987 22% price crash had frightened him into selling all his stock holdings the next day. As per norm, prices rebounded sharply. He was torn between seller's remorse and media pundits predicting 'the second shoe was soon to drop'. Some things never change.

Some LA Times Doom from the period:

https://www.latimes.com/archives/la-xpm-1989-06-30-fi-2982-story.html

I noted the total return for the S&P500 in 1987 was a positive 5.8% (telling you how high stocks soared in the summer then crashed in the Fall) with 1988 delivering another +16%. In the summer of 1989, I thought prices looked appealing, but what did I know?

My client and I both thought the matter critical. We took it oh so seriously. Would stocks drop again or not? A careful read of the above LA Times story quotes the Dow closing around 2,450. Last week's 40,000 puts that debate into perspective. No, our decision wasn't important. Being invested was. Time is an amazing ally. Patience is as rare as a day in June.

For historical annual returns see NYU Stern's data set here (care of Dr A Damodaran):

https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

We've witnessed clients of modest means reaching assets they could never have dreamed of. Their success starts with being borne in the right place at the right time, (not Kharkiv in 2022), but that doesn't guarantee success. The inconvenient truths of that luck followed by discipline, hard work, commitment and focus + time resulted in their success. Their efforts weren't guaranteed to work either. 'Success' is relative. Happiness isn't.

Yes, we had something to celebrate. Like the markets, client returns are at new highs. Is this 'the beginning of the end'? While we've yet to meet the client who went broke taking a profit, the above story proves market time has a potential opportunity cost. Sure 38,000+ Dow points took my 35-year career to get here. Yet here we are in Jun/2024 with new highs.

A few highlights from our Seminar.

Politics:

We think Trump doesn't win the US election in November, the NDP might form a majority in BC this October and the next Canadian election will see a change of government some time next year.

Inflation:

We think inflation has peaked, will fall but not to previous lows and could be 'sticky' in the 2-3% range. Central banks have been fighting inflation (monetary policy) while Governments have been spending like drunken sailors (fiscal policy). This is an insult to sailors who spend their own pay, run out and then go back to work. We think government fiscal policies will be forced to grow up and act like adults. That's what elections are for.

Interest Rates:

We think medium to longer term rates have already peaked. We think short-term rates will follow. We do not anticipate a return to the 2% 10-year bond yields of the past decade again in my life-time. We also don't see a return to the 10%+ yields I experienced in the late 1980's either. We think a return to inflation +1% will be the norm, implying 3-5% yields. We think the longer trend could be higher but we don't see any hockey sticks charts coming.

Equities – overvalued?

Broadly markets have recovered and are at new highs. New highs are what happens. A decline in short-term rates will support the stock market, well, parts of it. There are certain corners (lookin' at you Nvidia) that are plain bonkers but we're not there.

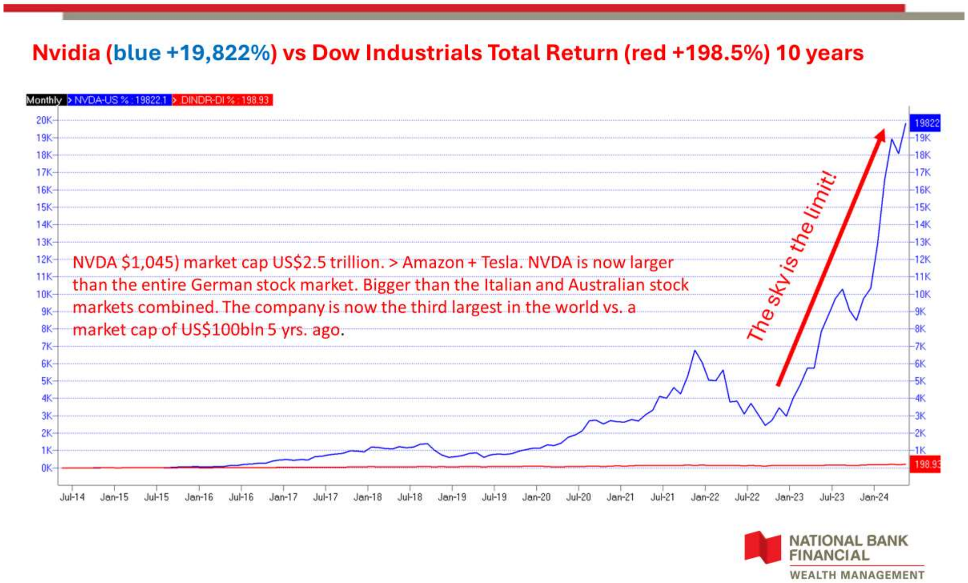
Thursday was a case in point. The Dow Industrials fell over 1% yet there was a lot of green on the screens. The culprit in the Dow was SalesForce dropping 20% on the day – disappointing earnings and worries AI would destroy their business model saw investors dump the stock. SalesForce's outsized influence in the Dow dragged down the average. We don't own the name so watched from the sidelines.

Be wary of parabolic charts

Nvidia?

We looked at Nvidia's spectacular price gains.

Nvidia (NVDA- $934.67) % chg – weekly – 10 years

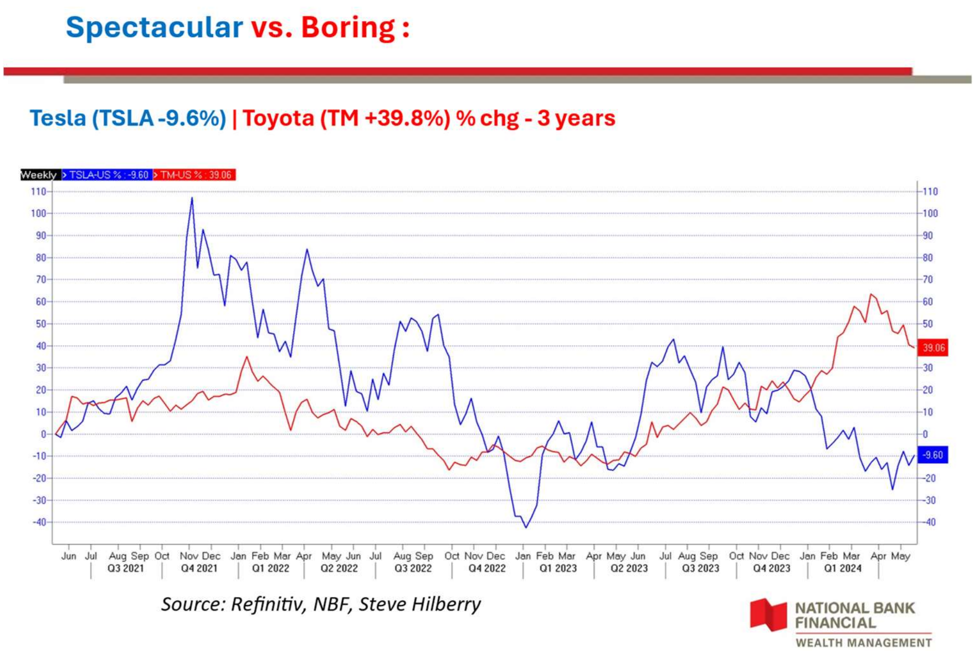


We've seen this pattern before…

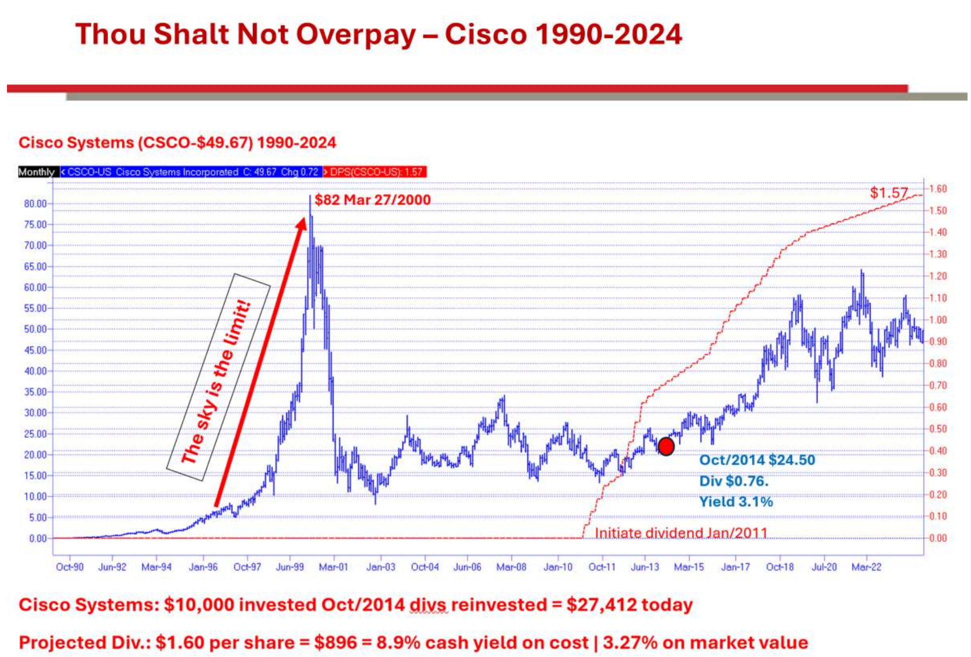
Tesla (TSLA-$173.99) % chg weekly 10 years

Spectacular vs Boring

We noted over the past 3 years, Toyota (+39%) has been a better investment than Tesla (-9.6%).



And yet again…



Many of the Canadian dividend payers we follow are sideways to lower over the past year. Experience tells us dividend stocks…eventually….are easier to live with and can generate solid returns. Dividends are not related to prices (although prices often follow dividends). Building a portfolio of dividend paying stocks can generate income independent of market prices. You <u>will</u> have to put up with price declines. We offered Telus (T-TSX-$22.07) as an out-of-favor 'Dog' with a solid dividend.

Comparing Telus' $1.556 cash dividend to the $22 price provides a dividend yield of 7%. Assuming the dividend is maintained (no growth) would see a double in 10 years from the dividend alone. Telus has a history of growth in the dividend. We think this is likely. The price is down 35% from the April/2022 highs. How much lower does it 'need' to go? We think not much.

DISCLOSURE: I hold Telus personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days. The above is for information purposes only and is not to be construed as a solicitation to purchase securities. Please consult your advisor (hopefully that's us!) prior to making an investment decision.

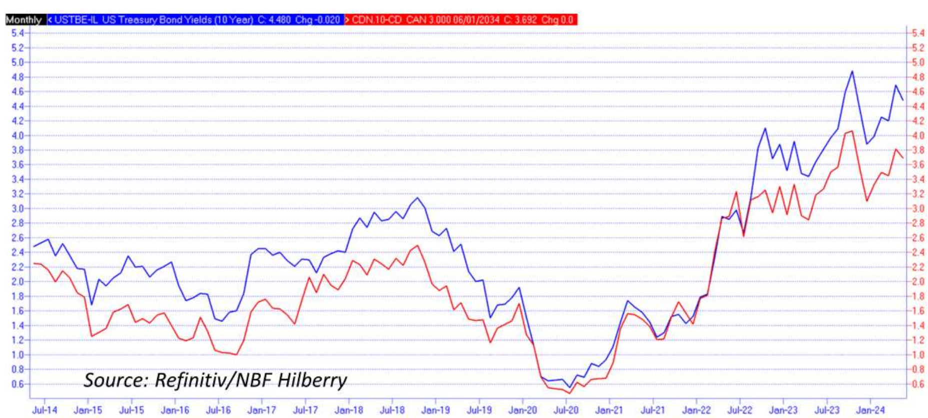
Telus isn't alone. Canada trades at a historical discount to the S&P500. Some of this can be blamed on the S&P leaning very heavily on the Magnificent 7 stocks. Canadian's have shot their own feet with regulations, taxes and anti-business polices have chased international money away, while Canadians have sold record amounts of their own stocks – largely in favor of US ones.

This has many of our favorite Canadian names in the sale bin.

While the S&P 500 trades at 20 X forward earnings, S&P/TSX is 13 X (chart). This is a near-record discount to the S&P 500, and it is widespread, with forward P/Es for 9 of the 11 major S&P/TSX industries currently trading below their 20-year average differential to the S&P 500 = the cost of capital is significantly higher in Canada 20 P/E = 5% | 13 P/E = 7.8%

Is Canada in Trouble? Bond market says no.

Yields – 10 years: US Fed Govt T-Bond (blue 4.48%) vs Govt Canada Bond (red 3.69%)



Perceived Risk of default is lower in Canada. US yields reflect increased demand for credit.. Liberal policies have tended to depress investment = lower productivity = lower demand = lower growth.

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Canadian yields remain LOWER than US Fed Government bond yields. Despite a profligate government, the international bond market doesn't appear worried about Canada's ability to pay it's debts.

Our conclusion: Canada isn't going to hell in a hand basket. Immigration will grow the economy. We continue to be boringly safe and we're too close for US investors to be ignored. The Loonie is at multi-decade lows. We worry about Canadian debt levels but think we can handle it (bond market agrees). We think Canadians will continue to run their affairs conservatively and will elect politicians accordingly. Canadian equities are cheap, the US not so much. We are more selective of US stocks, willing to hold some US cash. We see opportunity in Canadian dividend paying stocks, some with yields we haven't seen in decades. We've been buying them lately.

Nothing is so rare as a day in June, indeed.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD May 31, 2024

DOW INDUSTRIALS:	38,107
S&P 500:	5,228
S&P/TSX COMP:	22060
WTI:	$77.87
LOONIE IN $USD:	$0.7335 $US

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