Forward Thinking – Quarterly Thoughts from Mike: Summer 2022

Many of us are planning for what lies ahead over the next year. Maybe it's a renovation project, a long-awaited trip, or perhaps visiting with family or friends you haven't seen in a while. What tends to disrupt these plans is the unexpected. Emergencies, varying from a weather event, medical issue or someone's passing, are generally unanticipated. The markets tend to follow the same logic that we do. They as well are forward thinking, planning and pricing in the news that is known and what is expected. Traditionally many will say that the markets are pricing in the news 6-12 months ahead and therefore much is currently reflected in share prices.

NASDAQ: -31%

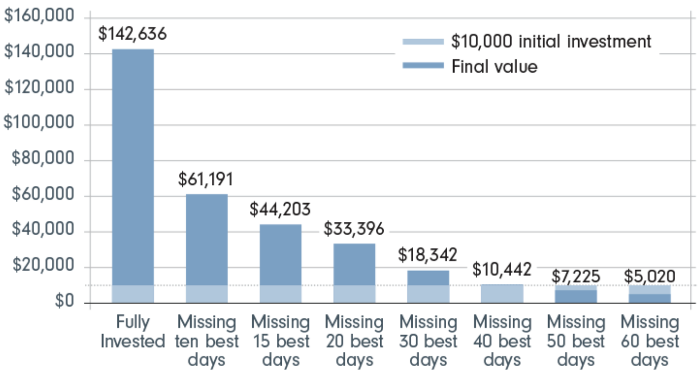
S&P500: -27%

Bond Market: -16%

Traditional Balanced Portfolios: -15%

TSX: -8%

As you can see from the above returns on various markets since the start of this year, many of the bad news reports are currently priced in. You might be asking, "Are the markets pricing in a recession?", potentially. Will it happen? At some point, yes. It has happened 10 times since 1950 and it is part of the economic cycle. In that same time frame, we've also had 10 recoveries. In most cases when recessions are declared the markets have already moved higher, which is why timing the markets is next to impossible even for professionals. Like you and the market, you both are resilient, and over time you will likely adjust and move on.



Source: Refinitiv. S&P/TSX Composite Index total returns from January 1, 1986, to December 31, 2021. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Recency Bias is a behavioural finance term defined as favouring recent events over historical ones. Some of t he most common words associated with Recency Bias are "this time is different". There is a lot happening around the world and many times it seems like a lot to overcome. The markets have been temporarily lower before for various reasons on their inevitable climb higher. I understand that money can be more emotional for some than most things. That said, the market is one of the only things that goes on sale, and as a result people are sad. For most investors it is an opportunity.

Regardless of what the markets do in the short term, up or down the portfolio should continue to generate consistent levels of dividend & interest income. Not only are rates rising, which over time will likely be better for the bond portion of the portfolio, but the portfolio has also received more dividend increases from companies held in the portfolio since our last update in March. *Below are a few examples:

Company	Recent % Dividend Increase	5 year % cumulative increase
Canadian Tire	25%	79%
Intact Financial	10%	40%
Royal Bank	7%	30%
Algonquin Power	6%	46%
Telus	3%	33%

*from Morningstar.ca June 15, 2022

I suspect that the CEOs of the businesses that you own know more about them than you and me. I'd wonder why they continue paying out more money with dividend increases if they were worried that their business might not have the cash to survive. Dividend increases tend to be a positive signal on the health and direction of the underlying business.

With our focus on profitable companies that historically pay dividends the portfolios have held up much better than the overall market numbers I referenced earlier. This has been helped by many factors, one of which being a healthy allocation to the energy sector, which has benefitted from supply imbalances and geopolitical turmoil.

With very healthy returns for clients in 2021 a bit of a breather in the market was somewhat expected. No matter what the value of the portfolio is day-to-day, week-to-week or year-to-year the one constant is that the portfolio aims to have dividends and dividend increases continue to come in and I believe these are a great way to assist with any cost-of- living increases.

I know it is not easy. If it was, everyone would do it and the returns would be lower. Your success depends on staying the course and we're here to help with that.

I leave you with a quote I like to use occasionally. "Investing is like a bar of soap. The more you touch it the smaller it gets".

Mike.

Mike

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