Common Client Questions - Thoughts from Mike: Fall 2022

I thought I would use this as an opportunity to share some of the most common questions that I've been receiving lately from clients. It is a busy time both economically and financially with those landscapes changing rapidly. I believe, now more than ever, it's important to stay focused and to look beyond all the noise, as difficult as that may be.

1. Why are the markets going down and will this affect me?

Keep in mind that markets are just a place where you can buy and sell high-quality companies. It does not matter how successful these companies are, sometimes they do go down before they go higher. We've been operating in a world where interest rates have been low for a long time. As rates rise the market is adjusting to this new environment. You could make the argument that rates have been low for too long, which makes the adjustment a bit more dramatic. With inflation at highs not seen for years, rates are rising in an attempt to bring this back to more reasonable and affordable levels. Some may argue that the recent pull back in the markets is pricing in a lot of bad news. Could the market go lower? Certainly, markets could go lower, but there is so much negativity out there now that things could also surprise to the upside. Keep in mind that markets tend to go up 75% of the time. I know that when the markets go down, they often feel like they are never going to go up and I know that when they do go up it feels easy, and we think they will never go down. Neither one is true. **See page 3 of our Wealth Insights Newsletter: "How long do bear markets last"*

Staying true to your Wealth Plan, living off the dividends and income you earn, without eating too much into your capital will potentially allow you to weather challenging markets and will dramatically increase your opportunity for success.

2. Do I still get my dividends & interest income when the market and my portfolio is lower? **See page 4 of the Newsletter "Value of Dividends"*

We believe that the benefit of how we manage portfolios for our clients is that the income generated is typically very consistent. In fact, the dividend income has been rising. I will repeat, dividend income has been increasing. Over 15 of the companies in our portfolios have increased their dividends this year, many by over 10%. In addition, with rates rising we are finally earning a higher interest income as well. The over-all value of your portfolio, higher or lower, has little effect on the income it generates. This concept is similar, to the rent you would collect if you owned an apartment building. Our focus will always be on cash flow and income. It tends to reduce portfolio volatility and limits dipping into your capital at the wrong time. I will always define risk as "you buy an investment but then you need your monies back before your investments have done what you've intended them to do". Historically consistent cash flow helps reduce this risk.

Dividend Increases this quarter

Company	Recent % Dividend Increase	5 year % cumulative increase
Emera	4.15%	23.25%
Open Text	10%	59.85%
First Capital REIT	100%	NA
Microsoft	10%	48.5%

*from Morningstar.ca September 27, 2022

3. The world seems to be in a mess. When will things get better?

I'm not sure that we will ever feel like the world is not a mess. I suspect, that if you didn't watch the news or read any headlines for a few weeks your feelings on things would change, potentially for the better.

While the world is dealing with COVID-19, rising interest rates, debt, inflation, war and natural disasters, there is just so much "news" to report with a very dramatic slant. Next time you watch the news count how many negative vs positive stories there are. Things just aren't that bad all the time. People have lost way more money investing trying to time the markets when things feel terrible vs building a high-quality portfolio of income producing companies and sticking with it through good and bad times.

I have been in this business for over 25 years. Over this time, I personally have found that clients' emotions have been a good barometer for where the markets are. When clients are super excited about things, I get nervous and when clients seem concerned and have a little more anxiety, I get more constructive. One scenario indicates that things are expensive or high and the other indicates opportunity and reward. You decide which is which.

4. I've been hearing that we're going into recession. What does this mean?

Economists and pundits have been debating this so much lately that it's almost getting tiring. Recessions are part of normal economic cycles. You can't have the growth portion without the recession. It is the severity of the recession that makes the difference each time. We've had 10 recessions since 1950 and 10 recoveries. This one when it happens will be no different. From an investment standpoint, when they finally do announce that we're in a recession your portfolio and the markets will likely have already moved higher. This can be predicted almost 10 out of 10 times. You might recall in past letters I've mentioned that the markets are "forward thinking". They aren't down 20-30% this year because things are great. Much of the bad news is already reflected in your portfolio balance and the market. On Jan 17, 2022, Royal Bank hit a high at $149.60. Today those shares are worth $123.89. The risk of owning the shares now is much lower and the potential rate of return is higher.

A few points to highlight:

- dividends are coming in and growing regardless of portfolio balance
- markets go up a lot more then they go down
- people have lost way more money trying to time the markets than sticking with their plan

Our team always encourages questions. During more challenging times it is important that you have a good understanding of how you are positioned to withstand today's environment. Any time you have any questions please don't hesitate to reach out. We are here for you.

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