



BAYSWATER GROUP: PORTFOLIO UPDATE AND COMMENTARY – MAY 2023

It feels strange to write a portfolio update during a time when everything seems to be okay for investors. This is not a statement of complete confidence, but rather an observation that, up until now, 2023 has provided a relatively calm investment environment. It's worth noting that such periods of stability have been more of an exception than the norm in investment markets since we joined TD Wealth Private Investment Advice in 2017.

While our client's portfolios have generally performed as expected over this time frame, it's useful to reflect on the journey we have taken together. Global equity markets experienced significant declines in 2018, 2020, and 2022. Specifically, the S&P 500, which represents the largest publicly traded US companies, saw drops of 20%, 34%, and 25% respectively during those years. Fixed income investments have also faced challenges. Notably, XBB, a proxy for the Canadian Bond Universe, declined by 22% from the summer of 2020 until late 2022. Even more alarming was the negative 43% return on long-term US Treasuries over that same period.

Considering the rough patches investors have endured, we hope you are pleased with your relative performance. Our typical portfolio has rarely experienced double-digit declines since 2017, and those clients who have been with us throughout have achieved a strong rate of return after fees.

We are dedicated to managing your family's savings with caution, prioritizing your long-term financial well-being, and maintaining a well-diversified portfolio. We believe these two factors are key to achieving successful investment outcomes. Importantly, the three of us have our family's savings invested the same way. We believe this alignment enhances our advisory relationship with clients.

We prioritize diversification to help mitigate risk and protect portfolios. It helps reduce losses, volatility, and can enhance stability. Given the uncertainty we've faced and expect in the future, these benefits are crucial. Further, our focus on diversification aims to optimize investment outcomes. That is, diversification also presents the potential for upside. By tapping into various asset classes, we can target returns from different sectors, maximizing

opportunities for long-term growth. Notably, we include significant positions in gold and the Auspice Diversified Fund, a broad commodity solution. Gold can act as a hedge during uncertainty, often maintaining or increasing in value. Commodities like oil, natural gas, base metals, and agricultural products offer diversification due to their low correlation with stocks and bonds.

In 2023, we have also increased our allocation to fixed income securities. You will notice that we have bought several individual bonds in your accounts. At present these bonds make up about 8% of your portfolio, and importantly, our overall fixed income weighting is now close to 30%. You may recall from previous notes that we had been significantly underweight in bonds for a long time. In our view, bonds were not very compelling when yields were below 2%. However, with yields to maturity in excess of 4.5%, we were quite happy to load up.

Your portfolio is now fully allocated. That is, there isn't any more cash to spend in your accounts. We're quite confident about the collection of investments we have assembled and believe, in aggregate, they offer best in class diversification benefits to our clients.

Having said this, it is important to ensure any funds invested can remain invested for an extended period. We recommend reviewing your cash flow and planned capital expenditures over the next 3 to 5 years to ensure that the money required for these purposes is not exposed to market volatility. As outlined above, large pullbacks are the norm, not the exception, so the funds we invest on your behalf should be able to weather such turbulent times.

As always, thank you for the trust you put in our team. If you have any questions, please feel free to connect with one of us over the coming weeks. We always love to hear from you. We hope you and your family have a terrific summer.

Regards,

Bill, Louise, and Ryan



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¹ source: Thompson Eikon, May 4th, 2023.