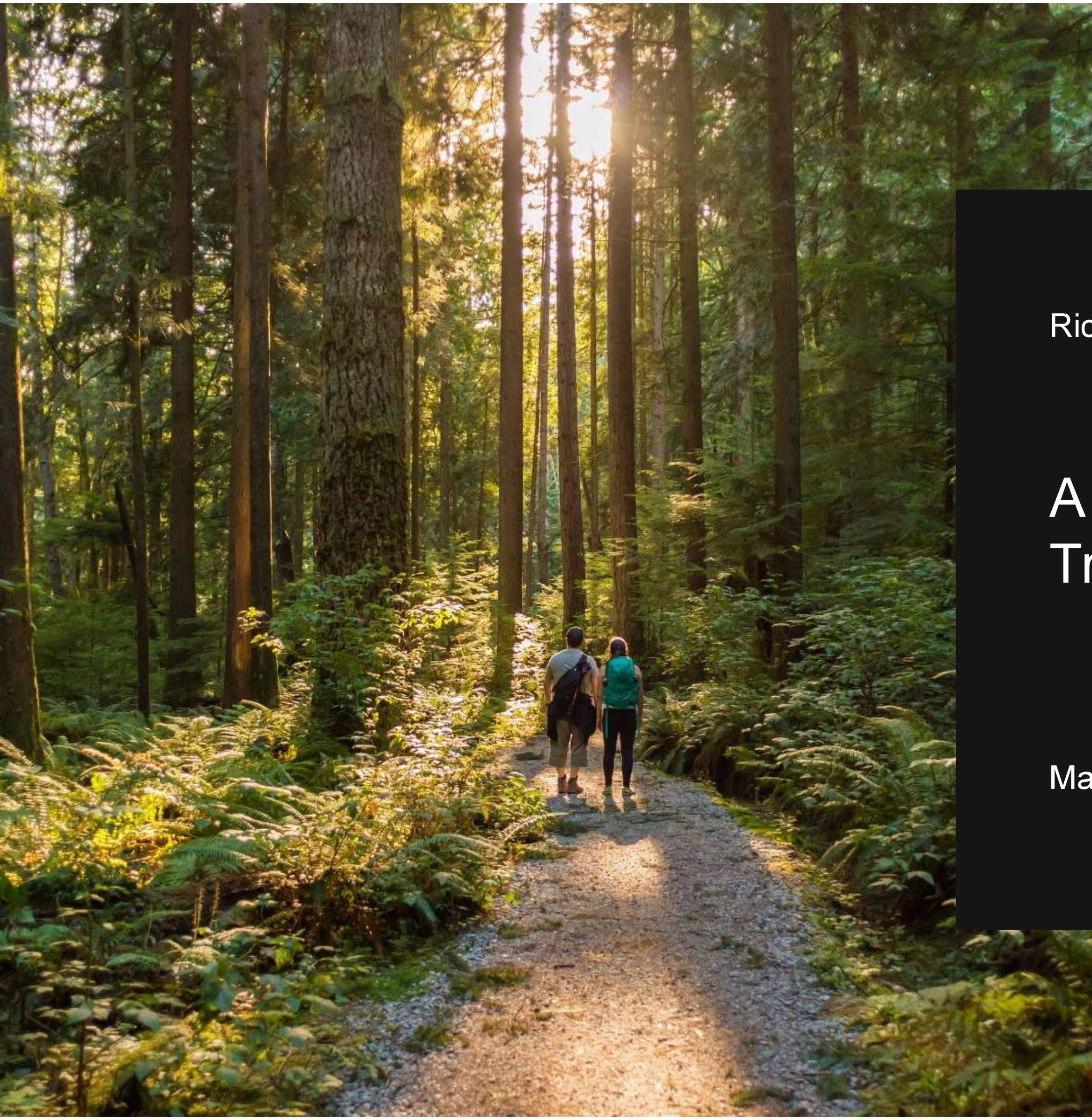

Rickerby Wealth Management

A Memo from the Trenches

March 2023

TD Wealth

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Memo from the Trenches

Markets:

As many of you know, I have been foreshadowing a period of "indigestion" for portfolios. Last month I wrote,

"January proved to be a very strong month for just about every asset class. The catalyst for that move is the reality that the government bond market is already convinced that they can see over the top of the rising interest wave that has come in the last 9 months or so. On December 30th, 10 Year Government of Canada bonds were paying 3.30% (having peaked in October at about 3.7%), and as of January 31st, 2023, those rates had dropped to 2.9%. This uplifting wind lifted valuations on bonds and equities as a result."

Indeed, the "digital ink" had barely dried on your "digital paper" when that email was sent to you that the mood changed once again. Strong employment numbers in both the US and Canada that were reported in early February, suddenly had everyone revisiting their assumptions. Those 10 Year government bond rates that were 2.9% ... well… we are now back at 3.6% once again. In some ways this might not sound like much of a change, but it represents unique volatility in the value of bonds. That said, although bond values have bounced around in February, the equity markets stumbled through basically unchanged for the month so that's the good news.

However, when it comes to equities, the big story is going to be about earnings for the next number of months. Profit reports have already dropped from their recent peak for the entire corporate universe of companies and that can expect to continue in early 2023 in my view and the question remaining will be the magnitude from the peak to the trough.

In conclusion, I believe this is still not the time to increase risk by adding to equity exposure. But I feel more than comfortable taking advantage of the current returns from the safer side of the investment world where quality bonds are paying 4.5% - 6%, and I suspect this period of time will prove to have been a good opportunity to happily accept these return levels. Remember, we have not seen interest rates from this quality of secure investments since just after the financial crisis around 2010.

US Model:

With the New Year we elected to rebalance everyone's US holdings back to the 10% target weighting so you may have seen several "small" trades.

That said, after that rebalance, we had disappointing news from Intel that they had elected to reduce their dividend quite meaningfully. Intel is of course a household name as they dominate the manufacturing of computer chips. That industry has been roiled over the last few years from the COVID supply channel story. In addition, you may well be aware that the US has made some significant policy decisions to motivate chip manufactures to open foundries (as chip plants are called) in the US and Intel has announced a massive investment in Texas as a result.

With that, Intel made the decision to reduce their dividend to provide the needed capital for this expansion. Certainly, a good thing for Intel over the long-term BUT, given the dividend reduction, Intel must go. You must "pay to stay" in my US stock model.

Within the next couple of weeks, we will be switching INTC out and right now, an old favorite is at the top of the list, Johnson & Johnson. (We had sold J&J at $178.48 previously… currently $153.26 as of Feb 28th).

CDN Model:

No trades. I know that it seems this model is not trading very often but the performance results remain compelling. It does not seem broken, so no need to fix.

TFSA High Growth Model:

For those of you invested in the TFSA High Growth model – as a reminder this is the most "aggressive" model I have. This is where I put the investment options that potentially afford the best returns – Shamus and I recently made many changes. Last spring, we made the decision to liquidate the India, China, and Emerging Market exposure. In the summer we sold the technology exposure and added to the Healthcare and Energy exposure and held onto some cash.

With this year's contributions we increased exposure to the energy sector. We also switched from a VERY long-term holding, the Capital Group Global Equity fund as they had (and have) a larger commitment to big cap technology, that I am not keen on, and added an alternative Global fund option, the AGF Global Select. I have included a link below for those of you wanting to do some reading.

We are now 30% in energy in that model. 6% in tech. 20% in healthcare, 26% in small cap (16% Value focused and 10% Growth) 5% gold. 8% cash and 5% in the AGF Global fund. We are holdings that cash looking for an opportunity to deploy which I would expect to be at some point this year.

It should come as no surprise that the 12 month return for this model has posted negative returns over the last year. Although disappointing, certainly in keeping with the risk profile that the account is expected to deliver given the recent market events. But by the same token, the longer-term results have been quite respectable in my view.

AGF Global Select link.

https://www.agf.com/ca/en/products/fundamental/795.jsp

Upcoming seminar:

Save the date. April 3rd at The Inn at the Quay in New Westminster @ 7 PM

I will be hosting a mediated panel discussion with three industry specialists covering the topic of retirement and estate planning strategies. The feature panelist will be Eric Schroter, estate lawyer at Richmond firm, Campbell, Froh, May, and Rice. A formal invitation will be sent separately that you can reply to, but the discussion topics will be about preparing for the journey through your retirement years and about considerations around estate planning. We will be addressing Wills, trusts, probate, powers of attorney, the Wills variation Act etc.

I will be moderating questions from the floor providing lots of opportunity for your questions. This promises to be a lively event. Please consider this an opportunity to perhaps encourage your children to join us at this event to help provide a framework for discussion as well as dispel some myths. As always, bringing along friends and other family members is always welcome.

PS: I elected to host this event in New Westminster in an effort to make it easier for clients on the Southern and Eastern side of the city to participate.

Tax Season:

As tax season approaches a reminder that Joanne, as always, will be addressing your inquiries. As a reminder, if you have registered for "E-Services" you will be able to access your tax documents online. In addition, a "tax package" from TD in Toronto will be sent late March that will provide 3 key documents. A summary of your fees that are deductible, a "Realized Gain / Loss" report (I would encourage you to rely on this document rather than T-5008 T slips), and for some folks, where it is needed, a T-1135 (this is required if you hold more than $100,000 in US stocks directly i.e., ETF and Mutual funds are not included).

As a friendly reminder, most tax preparers will download all your T slips directly from the CRA website when they do your taxes. That feature is making tax filings significantly easier than in the past.

Let me be the first:

…To give you the headlines on a new and very powerful tax savings account to help first time home buyers. It's an account that is set to become available within a few months and is to be known as the "Tax-Free First Home Savings Account –(FHSA)".

https://www.td.com/ca/en/personal-banking/personal-investing/learn/tax-free-first-home-savings-account

This promises to be a very popular and powerful way for young people to save for a down payment on a home. The terms are that you can contribute up to $8,000 a year (to a maximum of $40,000) and that contribution is **tax deductible against your income.** So, the tax savings are at your marginal tax bracket just like an RSP. Brilliant. AND… when you take it out… it's tax free. Period. That's it. Contribute and get a tax refund… and take it out for a house down payment tax free. No need to pay back.

When one considers this plan, plus the ability to take out $35k from your RSP as a First Time Home Buyer and that if you still have money to save, you can build a TFSA … AND if you are married, you can do that twice… well… that can be a fairly significant sum with a lot of tax assistance. (Of course, I also recognize that few young people are going to have the ability to save 10's of thousands of dollars a year.)

That said, I think it is true to say that 99% of my clients have long since purchased their first home BUT, if you are a parent or a grandparent, then this is a spectacular way for you to help your kids and grandkids get their house down payments under way.

Now I should point out that for now, "TD Wealth Private Investment Advice" will not be offering these accounts, only TD Canada Trust will be. Nonetheless, this is a potentially a very significant multi-generational tax saving tool and we would like to assist your and or your family take advantage of this plan. Shamus has been appointed on our team as the specialist in the details of these accounts so if you or your children think it would be wise to invest some time understanding the terms of these new account and to potentially get started, he can be reached at 604-482-5153.

In conclusion, if you have children over 19 and if they have an earned income, and if you plan to "help them out"…. then don't delay. Get started right away but please give us a call so that we can help coordinate with our TD Canada Trust partners. We would like to make the introduction for you.

What can I get?

If you are curious. (As of Feb 28th, 2023)

1 Year Term Deposit	4.57%
3 Year	4.29%
5 Year	4.28%

Investment Grade bonds (BBB rated or better)

18 month (Royal Bank) 4.55%

3 year (Dream Industrial) 5.10%

5 Year (Fairfax Financial) 5.00%

Note: these rates are samples only and are subject to change.

When we move into higher yielding options such as preferred shares or high-yield ETF's we are seeing current yields between 5.5% – 8% for "medium" risk alternatives.

As an example. The CIBC pref share CM.PR.S just reset its dividend last month for the next 5 years. So, the dividend is now fixed and with a share price of $22.30, that provides a yield of 6.6%. And as always, remember the significant tax credits we get from dividend income. (For disclosure. CIBC has the option of redeeming this preferred share at $25 in January 2028 – which would be great. Failing that they will have to commit to a dividend that is set at 2.45% above the rate of return on a 5-year Government of Canada bond rate at that time for the following 5 years)

So, I think that is it for now. Until next time.

The information contained herein has been provided by Shaun Rickerby, Vice President, Portfolio Manager, Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

Commissions, management fees and expenses all may be associated with mutual fund and/or exchange-traded fund ("ETF") investments (collectively, "the Funds"). Trailing commissions may be associated with mutual fund investments. ETF units are bought and sold at market price on a stock exchange and brokerage commissions will reduce returns. Please read the fund facts or summary documents and the prospectus, which contain detailed investment information, before investing in the Funds. The indicated rates of return (other than for money market funds) are the historical total returns for the period, compounded for mutual funds, including changes in unit value and reinvestment of distributions. The indicated rate of return for each money market fund is an annualized historical yield based on the seven-day period ended as indicated and annualized in the case of effective yield by compounding the seven day return and does not represent an actual one year return. Index returns do not represent ETF returns. The indicated rates of return do not take into account sales, redemption, commission charges, distribution or optional charges, as applicable, or income taxes payable by any securityholder that would have reduced returns. The Funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer and are not guaranteed or insured. Their values change frequently. There can be no assurances that a money market fund will be able to maintain its net asset value per unit at a constant amount or that the full amount of your investment will be returned to you. Past performance may not be repeated.

Certain statements in this document may contain forward-looking statements (“FLS”) that are predictive in nature and may include words such as “expects”, “anticipates”, “intends”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index

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