



Rickerby Wealth Management

# A Memo from the Trenches

July 2023



## Memo from the Trenches

### Markets:

As I write on July 6<sup>th</sup>, the US employment numbers came out at an extremely strong number. 497,000 people went to work in June compared to an expectation of 228,000. WOW. Awesome. More good news. The May inflation number came in at 4.0%... down from 4.9% the previous month for the US. And Canada inflation rate was 3.4% down from 4.4%.

That seems to all be lining up for a goldilocks scenario. Not too hot, not too cold... JUUUUST right.

And yet.... investment markets remain in the funk that I referred to in past letters. "Good" news is "bad" news. After the most recent increases in short term interest rates in Canada and the US, the central bankers both seemed to suggest that they anticipate the need to increase rates further. On the one hand the inflation numbers suggested ... "maybe not" ... but the employment numbers today are suggesting

"definitely". The push and pull of economic data will remain the theme for the balance of this year.

In summary, it is as I have mentioned in the past, 2023; I suspect, will prove to be a year of indigestion as we stumble through this spike in rates. For the first 6 months of the year, it's not that things have been particularly volatile, more a case of "blah". One step forward... one step back. Bottom line though is that the S&P/TSX in Canada was up 4.2% for the first 6 months. And though the S&P 500 in the US was up 16%..., 11% of that return was due to just 7 stocks... the remaining 493 were up 5%. And the Dow Jones Industrial Average was up 4% so far this year.

When it comes to fixed income, the I-shares Core Canadian Universe Bond index was up 2.5% for the year-to-date number but the cursed preferred share asset class was basically flat for returns so far this year and continues to be an anchor for portfolios. That said, preferred shares

as an asset class, at today's prices are paying an over 7% dividend yield and more dividend increases can be expected in the months ahead.

So that all adds up to very low single digit returns so far for 2023 on the heels of a very difficult 2022. Still, it's one month farther down the road to completing this cycle before the next cycle asserts itself.

Now, for most clients I am allowing cash balances to rise. When bond holdings mature, I might be reinvesting in very short-term corporate bonds, perhaps 2 years to maturity but as mentioned, cash is being reinvested in money market and similar investments where the income is in the range of 5% and candidly, I don't see any shame in sitting in "cash" when it earns 5%. Of course, there WILL be a time to commit to alternatives, be it bonds or equities, but I see no motivation to make that change now.

I'll take some Roloids for the current indigestion and will revisit later.

There were no trades in the US or the CDN model.

## So, let's have a quick talk about interest rates

You keep hearing me talk about rates. Let me give you an update on some tools we are using.

TD Canadian Money Market fund is paying 4.61% (A series). Considered by many to be very safe. Government treasury bills.

<https://www.td.com/ca/en/asset-management/funds/solutions/mutual-funds/FundCard/TD%20Canadian%20Money%20Market%20Fund%20-%20I/?fundId=9>

The "Purpose High Interest Savings Fund" ETF (PSA) is paying 5.06%. PSA is an ETF that trades on the market. Secured with cashable deposits at the 5 banks and again, considered by most observers to be quite safe and highly liquid.

<https://www.purposeinvest.com/funds/purpose-high-interest-savings-fund>

A one-year term deposit from TD is currently 5.35%. TD right now has the highest rate amongst the dozen or so companies I can access.

There are some short-term bank bonds that are very appealing AND, they have a significant tax benefit due to the built-in capital gains. For example, there is a Bank of Nova Scotia bond that matures in 18 months, Jan 1, 2025, that can be bought for \$95.13 and will mature at \$100 and will pay 1.95% in interest along the way for a total return of 5.36%. As mentioned, 60% of the return is capital gains. That represents a significant tax benefit in addition to that 5.36% total return.

TD Short Term Bond Class fund is currently invested in Government of Canada treasury bills and is considered by many to be very safe with a return targeting a 4.5% (for the F series alternative) BUT, this is currently taxed as capital gains AND declaring that capital gain is deferred until you liquidate the investment. Again, another powerful tax efficient alternative for a very safe investment. I should add that this opportunity is not open forever. TD can raise a maximum amount for this strategy and then they will close the doors to further cash.

<https://www.td.com/ca/en/asset-management/funds/solutions/mutual-funds/FundCard/TD%20Short%20Term%20Bond%20Fund%20-%20F/?fundId=6192>

So as mentioned, no shame in hiding in cash alternatives at this time.

## Fund Focus – Lysander-Canso Corporate Value Bond fund

This is perhaps the second largest bond fund holding I have, and it can usually be found for those clients that have the TFSA High Income model or the TFSA Balanced model. It's a bond fund investing in corporate bonds and has about \$10 billion in assets which makes it a large fund. It holds about 250 bonds with an average term to maturity of just 2 years (meaning the bonds are reasonably short term to maturity) and the "yield to maturity" of this portfolio, as of June 30, 2023, is 6.6% (this would be before any management fees).

I was first introduced to the fund about 5 years ago when a client transferred in a portfolio from another firm, as I always research funds when they come in, I was immediately impressed with their performance results. Indeed, their performance results remain very compelling, and I remain very happy with the way this fund in contributing.

Note: the performance results below are for the F series variant of the fund.

### Compound Returns

1 Month	3 Months	YTD	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception (Annualized)
0.1%	1.4%	3.4%	2.6%	9.1%	6.9%	6.1%	6.5%

<https://www.lysanderfunds.com/funds/lysander-canso-corporate-value-bond-fund/series-f/>

## Notice of Assessment

By now everyone will have received their notice of assessment. If possible, can I ask that you check your TFSA contribution limits and perhaps send us an email with the details if you have unused room available? Certainly, we want to ensure we are maximizing those contributions.

So, with that said. Enjoy the sunshine.

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.

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