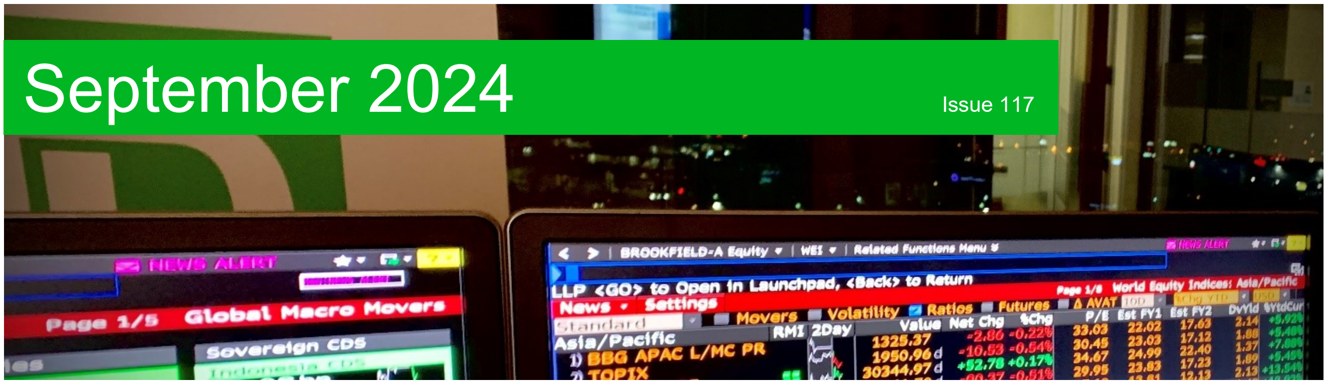
The Charter Group Monthly Letter

September 2024

Issue 117



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Economic & Market Update

Septembers Not to Remember

October is usually associated with stock market turbulence. The month has had some of the most traumatic selloffs in financial history including October 1929 where the Dow fell 34.8% from the 10th to the 29th, and Black Monday, October 19th, 1987 where it fell 22.6%.

Many think that October is the worst month for stocks.

Actually, it's September!

As a college undergraduate studying economics and finance, the syllabus included reading *The Great Crash 1929* by John Kenneth Galbraith, chronicling the lead up to Black Thursday.

And, if that wasn't enough to drive home the sense of panic, the real world threw in the Crash of 1987 while I was still a student. It may be hard to believe now, but there wasn't much TV coverage during the day while the market was plummeting.[1] There were no

[1] There was the Financial News Network (FNN) in the U.S., but Canadian cable providers did not offer the channel. CNN was available, but they didn't provide continuous updates. The whole notion of Breaking News didn't begin until a few years later when CNN covered the opening stages of Operation Desert Storm in Iraq in 1991. Prior to that, the network would just cycle through the same top news stories every hour. Nowadays, they usually have an on-screen ticker continually showing the levels of the main stock market indices. Later in the day, the evening newscasts at all the networks did carry the news of the crash. For the more in-depth coverage, we had to wait *four days* until Friday evening to watch *Wall $treet Week with Louis Rukeyser* on PBS. It was a different era!

smartphones and no internet as we know it now. During an economics lecture I was attending on that fateful day, the professor had a student who had an account with a brokerage firm to run back and forth between the lecture hall and the Business Administration Student Society lounge to call his broker (we had a landline phone in the lounge - portable handheld cell phones were still a rarity). Once he got the quote for the Dow, he would rush back to the hall and yell it out from the top of the stairs, inducing a gasp from the students. He repeated this for about an hour and a half with the full support of the professor who saw the value of observing history while it was unfolding.[2]

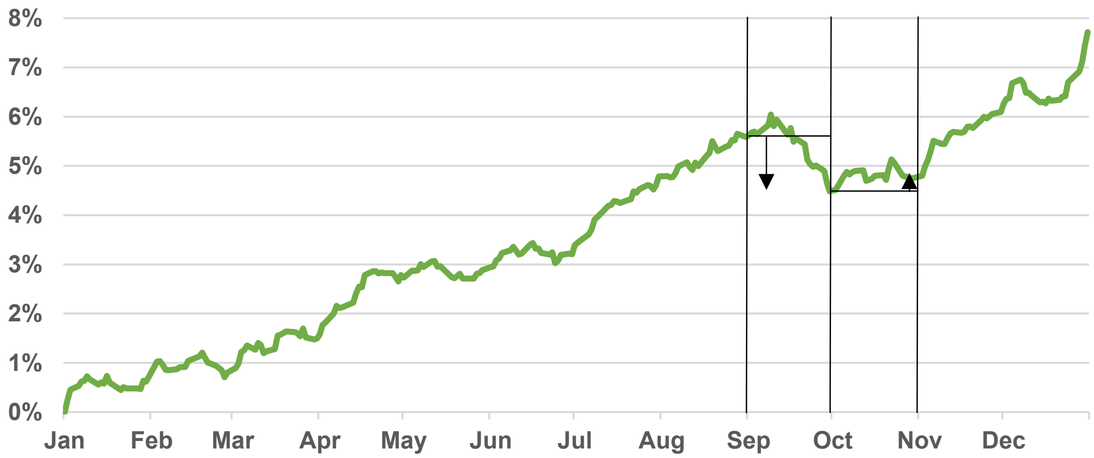
October has the drama. But there are enough good years to cancel off the bad years.

September is much more consistent in terms of downside action.

For the first few years after graduating, I was certain that October was the worst month to be an investor in stocks (thanks to Galbraith's book and the experience of living through 1987). One reason for this is that we didn't have easy access to comprehensive historical price databases to verify that this was in fact true. Once things like Bloomberg terminals became common, it was then possible to test if this was the case. Somewhat surprisingly, it turned out that September was the worst month, slightly eclipsing October for that dubious honour **(Charts 1 & 2)**.

Chart 1:

Dow Jones Industrial Average Seasonal Avg since 1897 (127 Years)



Source: Bloomberg Finance L.P. as of September 10, 2024.

What September lacks in drama, it more than makes up for with a consistency of modest market declines. Perhaps it's the realities that are faced upon the return from summer vacations. The good mood associated with relaxing is replaced with a hard look at where the markets are at and where they may be going.

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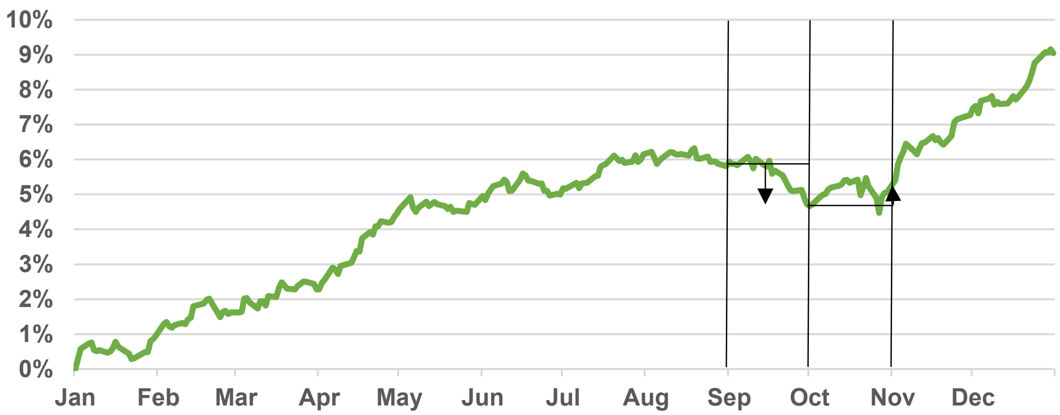
[2] The Professor was Herbert G. Grubel who is still a Senior Fellow at The Fraser Institute at 90 years old and was the Member of Parliament for Capilano-Howe Sound from 1993-1997, serving as Finance Critic for the last two years of his term.

Chart 2:

Dow Jones Industrial Average Seasonal Avg since 1974 (50 Years)



Source: Bloomberg Finance L.P. as of September 10, 2024.

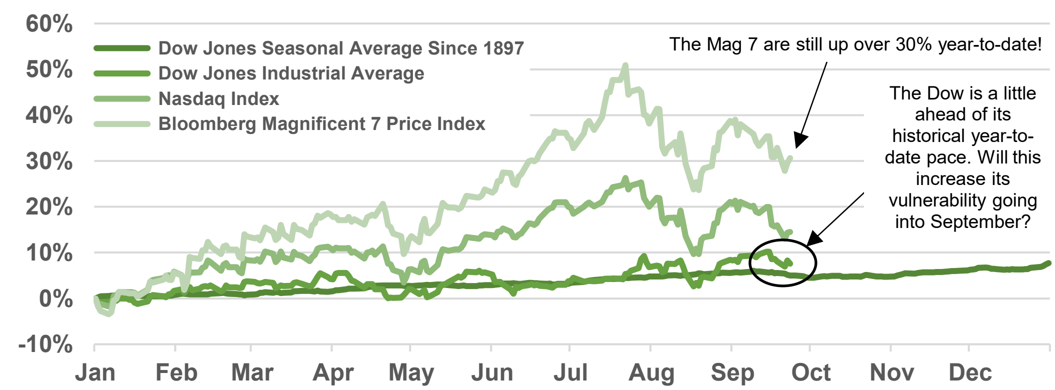
September is right after summer, so there is a bit of a "back to work" shock which might place investors in a more scrutinizing & miserable mood.

There is also a persistent seasonality that tends to lift markets through to May. Because markets tend to start the year so well, this may be a reason for some "regression to the mean", or back to the average, by selling off. Otherwise, this investing stuff would be too easy if the markets went up like an escalator through all months!

How does this year look so far relative to the past? And, how might this impact things this September?

Chart 3:

Year-to-Date Indices vs 50-year Dow Jones Industrial Avg Seasonality



Source: Bloomberg Finance L.P. as of September 10, 2024.

Compared to the long-term seasonal average, we are ahead of pace this year (**Chart 3**). This might suggest that there is some vulnerability in stocks generally. Some of this is evident in the Dow chart. However, the Nasdaq Index and the "Magnificent 7" stocks maybe more subject to the mercy of investor psychology. Our exposure here is limited which may help to provide some cushion if things get really stressful.

This year has been a pretty good one for stocks so far. So, perhaps things are a little more vulnerable during this September.

Model Portfolio Update[3]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

The asset allocations and the securities in the model portfolios remained unchanged in August.

No changes in the model portfolios during August.

The star performer continued to be gold bullion rising over two percent in Canadian-dollar terms which lifted the annual gain to over 30%. Bonds also had a good month with some fractional gains on the prospect that the U.S. Federal Reserve is expected to cut rates in September and the Bank of Canada is likely to continue its rate-cutting cycle. Although central bank policy rates are very short-term rates, they often have the effect of pulling longer-term rates in the same direction if bond market conditions warrant.

Gold continued its upward march despite the prospects for lower near-term interest rates.

Bonds had a decent month because of those lower rate prospects.

Stocks in Canada, the U.S., and internationally had a very poor start to August. However, in Canadian-dollar terms, most of the major stock market indices finished slightly higher for the month (a selloff at the start of September quickly erased those gains).

[3] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of September 10, 2024. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

Interest futures contracts are indicating that the market is expecting a 100% probability of a 0.25% cut in the U.S. Fed Funds Rate when the U.S. Federal Reserve meets on September 18th. There is a 34% implied probability that the cut will be 0.50%. And, there is currently a 100% implied probability that the cumulative total of rate cuts will reach 0.75% by the November 7th meeting.[4]

Stocks saw some severe turbulence at the beginning of August, but recovered by the end of the month … only to have those gains evaporate at the start of September.

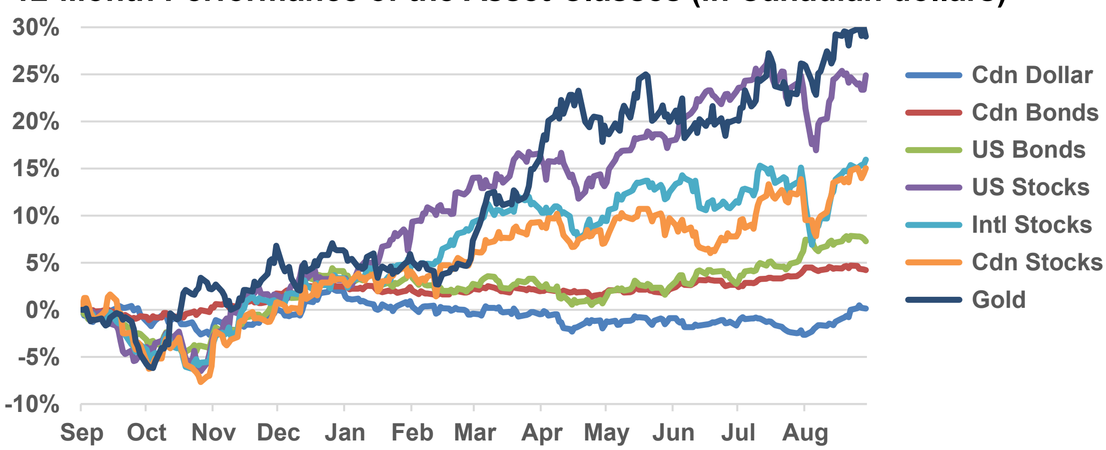
The U.S. presidential election looks like a close race at this point. However, regardless of the outcome, a cut in overall U.S. federal government spending is not a reasonable expectation. As a result, the march towards a fiscal cliff at some point in the future looks to continue. This will impact the most consequential economic measures such as the future level of interest rates and inflation. Differences in the respective candidates' tax or regulatory plans will not likely be the biggest issues affecting the markets a few years from now.

The U.S. presidential election will get a lot of attention in the media. However, from the aspects of macro-economics and government spending, not much divides the candidates.

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 4**).[5]

Chart 4:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from September 1, 2023 to August 31, 2024

[4] Source: Bloomberg Finance L.P. as of September 10, 2024 – using implied probabilities from the interest rate futures contracts that trade on the CBOE in Chicago.

[5] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[6]

Issue	Importance	Potential Impact
1. Global Geopolitics	Significant	Negative
2. Canadian Federal Industrial Policy	Moderate	Negative
5. Inflation (Portfolio Impact)	Moderate	Positive
3. China's Economic Growth	Moderate	Negative
4. Canadian Dollar Decline	Moderate	Positive
7. Short-term U.S. Interest Rates	Medium	Negative
6. U.S. Fiscal Spending Stimulus	Medium	Positive
8. Long-term U.S. Interest Rates	Medium	Negative
9. Global Trade Wars	Medium	Negative
10. Canada's Economic Growth	Light	Positive

[6] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of September 10, 2024.

The information contained herein has been provided by Mark Jasayko, Senior Portfolio Manager and Senior Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. 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.

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Index returns are shown for comparative purposes only. Indices 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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Thank you from The Charter Group at TD Wealth

Thank you to our clients and community for voting The Charter Group, your favorite for Investment Management and Financial Planning in Langley for the fifth year in a row.

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