



DECEMBER 2022 NEWSLETTER

MARKET REVIEW

2022 was a tough year for almost all global investors, as rising interest rates provided competition for equity assets. Borrowers with floating rate debt have seen close to a doubling of their interest costs which has caused discomfort for both consumers and businesses. The only terrific returns that we are aware of have been in the oil and gas sector, which has been benefiting from limited supplies and increasing demand. The good news is that most equity markets seem to have found a base, producing positive returns for the last quarter of the year.

Index	31 Dec 2021 Close	30 Sept, 2022 Close	30 Dec, 2022 Close	90-Day Change	1-Year Change
S&P 500*	4,766	3,586	3,840	7.1%	- 19.4%
S&P/TSX Composite	21,223	18,444	19,385	5.1%	- 8.7%

*USD currency

Source: FactSet

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FIXED INCOME

CANADIAN T-BILLS AND BONDS YIELDS

T-BILLS / BONDS	31 DEC, 2021	30 SEPT, 2022	30 DEC, 2022
3-Month	0.17%	3.61%	4.26%
6-Month	0.40%	3.84%	4.48%
1-Year	0.78%	4.01%	4.61%
2-Year	0.96%	3.79%	4.05%
5-Year	1.26%	3.32%	3.41%
10-Year	1.43%	3.17%	3.30%
30-Year	1.68%	3.09%	3.27%

Source: FactSet

Initially in the fourth quarter of 2022 we had seen a continuation of the trend that started in the third quarter of 2022, which was short term rates (up to two years) going up, and longer term rates going down. Late in the fourth quarter the trend at the long end reversed, with the rates on bonds longer than 2 years also increasing. Bond market participants are closely watching inflation data to see when the rising short term rates cause inflation to fall significantly but this has not been confirmed yet. Real estate and most other asset classes have corrected from the buying frenzy of early 2022 and most of us have seen a few items on sale in stores we frequent but there is persistent inflation in many goods and services.

With bond and GIC yields still below inflation rates it is hard to be enthusiastic about bonds as a total return investment, but for the fixed income portion of your portfolio bonds up to five years in term may provide some diversification should rates fall more than we expect.

OUR TOP EQUITIES BY TOTAL RETURN

POSITION	SYMBOL	HOLDING	2021 CLOSE DEC 31st	2022 CLOSE DEC 30st	ANNUAL INCOME	PERFORMANCE
24	FRU	FREEHOLD ROYALTIES LTD	\$11.65	\$15.83	\$0.94	43.9%
23	SU	SUNCOR ENERGY INC NEW	\$31.65	\$42.95	\$1.88	41.6%
30	IFC	INTACT FINL CORP	\$164.42	\$194.91	\$4.00	21.0%
8	RJF	RAYMOND JAMES FINANCIAL INC*	\$126.94	\$145.89	\$1.86	16.4%
5	JNJ	JOHNSON & JOHNSON*	\$216.29	\$241.19	\$6.08	14.3%
12	MFC	MANULIFE FINL CORP.	\$24.11	\$24.15	\$1.32	5.6%
4	CNR	CDN NTL RAILWAY CO.	\$155.38	\$160.84	\$2.93	5.4%
20	HR.UN	H&R REAL ESTATE INVT TR UT	\$12.52	\$12.11	\$0.65	1.9%
16	VHT	VANGUARD HLTH CARE ETF*	\$336.85	\$338.68	\$4.50	1.9%
1	RY	ROYAL BANK OF CDA	\$134.25	\$127.30	\$4.96	-1.5%
13	TRP	TC ENERGY CORP	\$58.83	\$53.98	\$3.57	-2.2%
26	BAM	BROOKFIELD ASSET MGMT LTD**	\$40.00	\$38.77		-3.1%
25	BCE	BCE INC	\$65.81	\$59.49	\$3.68	-4.0%
10	JPM	JPMORGAN CHASE & CO**	\$200.21	\$183.09	\$5.46	-5.8%
	TSX	TSX COMPOSITE INDEX	\$21,222.84	\$19,384.92	\$579.61	-5.9%
3	TD	TORONTO DOMINION BK	\$96.98	\$87.67	\$3.56	-5.9%
21	BMO	BK OF MONTREAL	\$136.19	\$122.66	\$5.44	-5.9%
7	FTS	FORTIS INC	\$61.03	\$54.18	\$2.17	-7.7%
9	T	TELUS CORP.	\$29.79	\$26.13	\$1.36	-7.7%
	VAB	VANGUARD AGGREGATE BND ETF	\$25.94	\$22.69	\$0.64	-10.1%
	S&P500	S&P 500 INDEX*	\$6,026.07	\$5,242.26	\$92.15	-11.5%
29	VFV	VANGUARD S&P 500 INDEX ETF	\$106.84	\$92.17	\$2.27	-11.6%
28	SPY	SPDR S&P 500 TRUST ETF*	\$600.51	\$522.15	\$8.63	-11.6%
22	COST	COSTCO WHOLESALE CORP.*	\$717.77	\$623.28	\$4.77	-12.5%
2	WSP	WSP GLOBAL INC	\$183.63	\$157.09	\$1.50	-13.6%
19	BIP.UN	BROOKFIELD INFRASTRUCTURE LP	\$51.33	\$41.94	\$1.87	-14.6%
15	BEPC	BROOKFIELD RENEWABLE CORP.	\$46.55	\$37.27	\$1.67	-16.4%
27	BAC	BK OF AMER CORP.*	\$56.25	\$45.22	\$1.17	-17.5%
14	BEP.UN	BROOKFIELD RENEW PARTNERS LP	\$45.31	\$34.28	\$1.66	-20.7%
11	BNS	BK OF NOVA SCOTIA	\$89.55	\$66.34	\$4.06	-21.4%
	VLB	VANGUARD LONG-TERM BND ETF	\$27.67	\$20.90	\$0.79	-21.6%
17	MSFT	MICROSOFT CORP*	\$425.22	\$327.44	\$3.47	-22.2%
	COMP	NASDAQ COMPOSITE INDEX*	\$19,780.56	\$14,290.41	\$138.62	-27.1%
6	BN	BROOKFIELD CORP.	\$61.74	\$42.58	\$0.73	-29.9%
18	GOOGL	ALPHABET INC CL A*	\$183.14	\$120.46	\$0.00	-34.2%

Performance includes market yield

Source: FactSet

*USD converted to CAD, Dec 31st 2021 @1.26434, and Dec 30th 2022 @1.35635

**Performance as of conversion Dec 14th, 2022, dividend not yet declared

The indices and ETF's highlighted in blue are not holdings of ours but are included in the chart to illustrate how equity and bond markets performed this year. Canada's TSX composite index was (only) down 5.9% for the year

primarily due to its large oil and gas component. We have been underweight oil and gas shares for years, which hurt our performance this year, but were fortunate to have avoided bonds and own companies that tend to be more conservative than the indices as a whole.



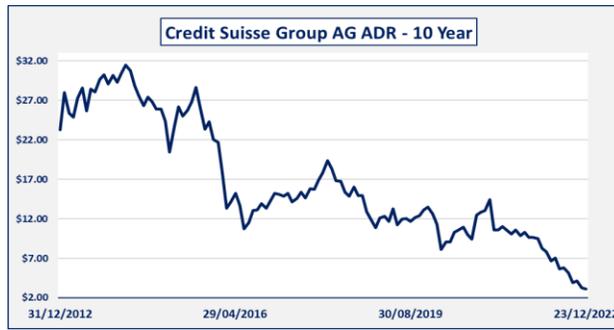
Source: FactSet

SWIMMING NAKED

Warren Buffett has an expression "Only when the tide goes out do you know who has been swimming naked." His point is that during buoyant markets all kinds of uneconomic endeavours seem to make sense, but when markets are tough, it becomes apparent which companies have poor business models.

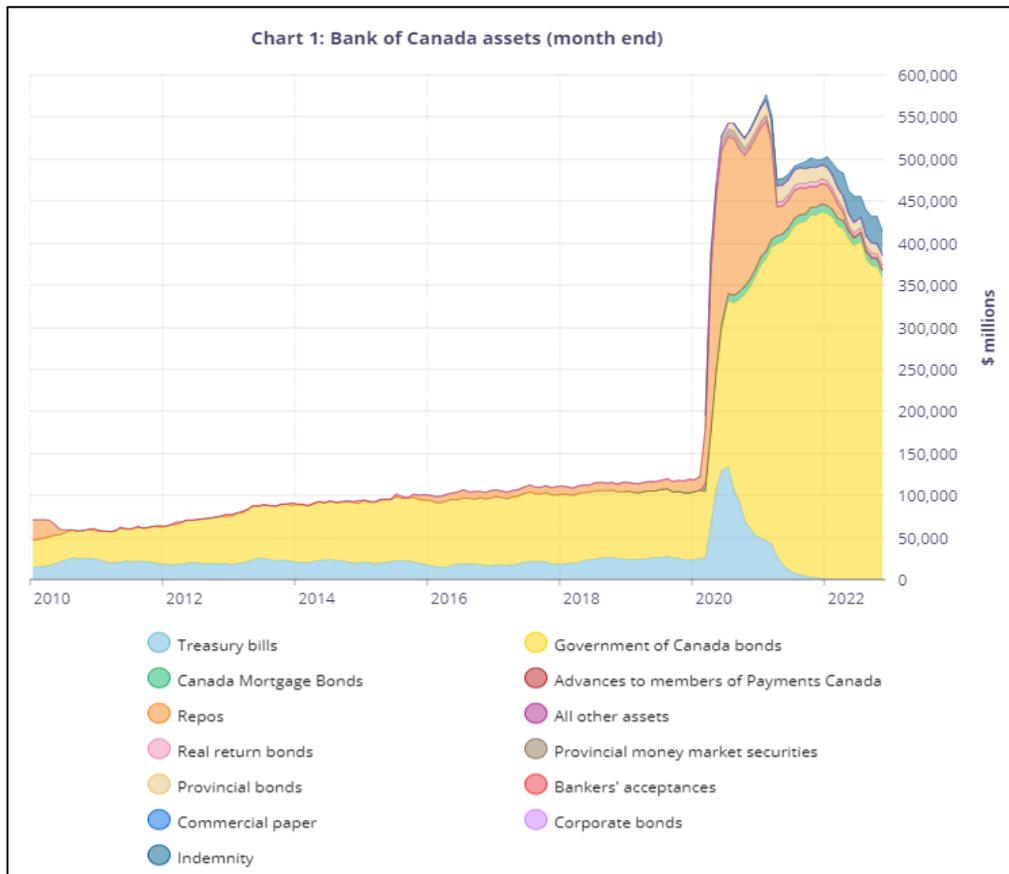
This year "naked swimmers" were abundant, and below are some of the higher profile ones:

- 1) FTX Trading Ltd. is a poster child for bad corporate behavior. This company was the third largest Cryptocurrency exchange in the world, reportedly valued at \$32 billion US with 1.2 million registered users in 2021. While Cryptocurrencies are a new phenomenon, the practice of making lavish bi-partisan political donations and hiring high profile celebrities to provide credibility is a time honored way of separating investors from their savings. The CEO of FTX Trading, Sam Bankman-Fried has been arrested and is currently out on bail, the company is in bankruptcy, and the final chapter of this story will be written by the lawyers and the regulators. It has not escaped our attention that Mr. Bankman-Fried, who claimed to be down to his last \$100,000, managed to post a \$250 million bail bond. The \$32 billion loss of equity is not significant to the world economy but like Bre-X and Enron, FTX is a testament to how little due diligence takes place when enormous returns are seemingly being made.
- 2) Credit Suisse is a Swiss Bank which since 1856 has provided clients with asset management and banking secrecy. Unfortunately, their business niche has been on a collision course with the US government which has the international political and financial clout to decide who has access to global banking. In addition to billions of dollars of government fines, Credit Suisse has had some high profile blow-ups such as a \$5.5 billion loss from the collapse of a hedge fund called Archegos Capital in 2021. Credit Suisse recently raised \$4.3 billion through a rights offering to existing shareholders to provide capital to weather the storm. The chart below indicates the nasty experience for Credit Suisse shareholders as the stock is down -67.1% year to date and -91.2% from the 2013 high of \$31.46. While government fines and lending losses are unavoidable in the banking business, we are thankful that the Canadian banks have managed to avoid the worst of these.



Source: FactSet

3) When the Covid crisis became evident in the spring of 2020, Central Banks around the world started printing money to buy mostly their own government bonds to lower the yields, with the intention of stimulating their economies. As of March 31, 2020 Canadian and U.S. 10 year federal bonds yielded under 0.7%, UK bonds yielded 0.35%, and German and French bonds had negative yields. As the chart indicates below, the Canadian Central Bank purchased over \$400 billion of federal bonds and similar assets with borrowed money. Initially governments were borrowing at close to 0%, but now have to borrow at over 4% to finance bonds yielding less than 0.7%. Fortunately almost half of the money borrowed was invested in bonds of three years or less maturity but the Bank of Canada lost \$522 million on the negative interest rate spread in the third quarter of 2022. After careful examination of the Bank of Canada financial statements, we couldn't find the mark to market losses on the bonds purchased, but estimate they may be in the \$30 billion range. This is not a unique Canadian problem, the US, Australia, the UK, the EU, and other countries all used Quantative Easing (buying bonds with borrowed money) to stimulate their economies in 2020. Due to the hundreds of billions of dollars involved, we feel that central banks are the winners of this years "swimming naked" contest.



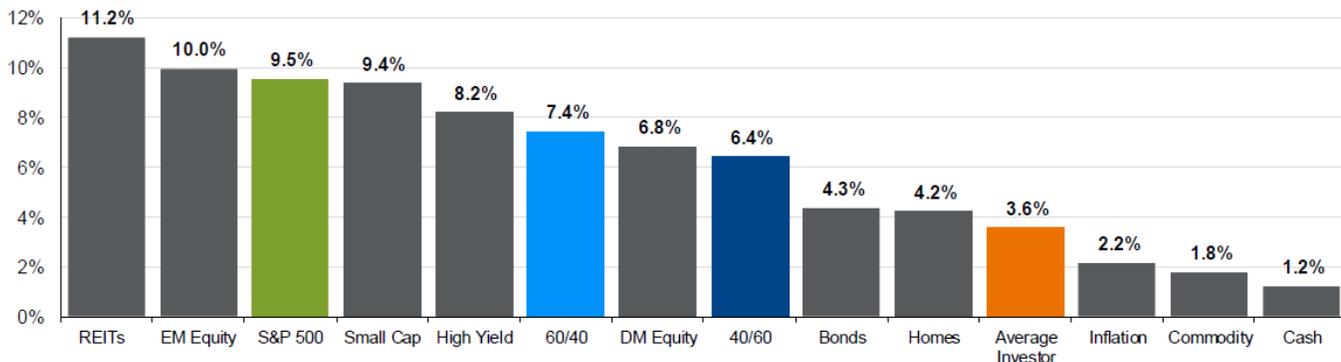
Source: www.bankofcanada.ca

CAVE DWELLERS AND SABRE TOOTHED TIGERS

In the bad old days when humans lived in caves and were constantly in fear of dangerous animals, we evolved to hide when danger was close by, and only come out to hunt and gather when the coast was clear. While this was a good strategy to avoid sabre toothed tigers, it doesn't adapt so well for investing. The JP Morgan chart below indicates the 20 year return for US asset classes and investors ending in 2021. The S&P 500 earned an average of 9.5% per year, a 60/40 stock/bond portfolio earned 7.4%, but the average investor only earned 3.6% during the same time period. The discrepancy highlights the risk of focusing too much on the high-profile hot stocks when markets are great, and the cost of throwing in the towel and selling when markets are challenging.

One of the challenges that investors face is that news outlets gain their audience by reporting the most exciting and salacious stories. The business model of many news outlets is to provide untrue or biased content to support what their viewers already believe. If you feel that your favourite sector will increase by 1000% over the next year, or that the market will drop by 90% over the next year, you are assured to find multiple news sources that agree with you. During market euphoria even reputable business news outlets feature guest experts predicting a never ending rosy future. During market panics they provide guest experts who predict unprecedented economic collapse and encourage nervous investors to sell before it is too late. We find that the best source of financial news is company annual reports, as the executives have a legal responsibility to be truthful, and risk significant legal consequences if they provide misleading information. As always we have to strive to temper our enthusiasm when we see extraordinary profits being made, and strive to stay calm and rational when markets are falling.

20-year annualized returns by asset class (2002 – 2021)



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell. Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. *60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. *Guide to the Markets – U.S.* Data are as of September 30, 2022.

SANTA CLAUS CAME TO TOWN

TOP 30 HOLDINGS BY DIVIDEND INCREASE

Symbol	Dividend per share - January 2022	Dividend per share - January 2023	Dividend Change (Y/Y)
FREEHOLD ROYALTIES LTD	\$0.0600	\$0.0900	50.0%
VANGUARD HLTH CARE ETF**	\$0.7220	\$0.9796	35.7%
SUNCOR ENERGY INC	\$0.4200	\$0.5200	23.8%
RAYMOND JAMES FINANCIAL INC**	\$0.3400	\$0.4200	23.5%
COSTCO WHOLESALE CORP**	\$0.7900	\$0.9000	13.9%
ROYAL BANK OF CDA	\$1.2000	\$1.3200	10.0%
MICROSOFT CORP**	\$0.6200	\$0.6800	9.7%
VANGUARD S&P 500 ETF	\$0.3350	\$0.3657	9.2%
S&P 500 TRUST ETF**	\$1.6360	\$1.7810	8.9%
TORONTO DOMINION BK	\$0.8900	\$0.9600	7.9%
BK OF MONTREAL	\$1.3300	\$1.4300	7.5%
TELUS CORP	\$0.3270	\$0.3511	7.4%
BROOKFIELD ASSET MGMT INC CL*	\$0.1780	\$0.1900	6.7%
BROOKFIELD RENEWABLE CORP	\$0.4070	\$0.4340	6.6%
JOHNSON & JOHNSON**	\$1.0600	\$1.1300	6.6%
BROOKFIELD RENEW PARTNERS LP	\$0.4070	\$0.4320	6.1%
BROOKFIELD INFRASTRUCTURE	\$0.4580	\$0.4860	6.1%
H&R REIT	\$0.0433	\$0.0458	5.8%
FORTIS	\$0.5350	\$0.5650	5.6%
BELL CANADA	\$0.8750	\$0.9200	5.1%
BANK OF AMERICA **	\$0.2100	\$0.2200	4.8%
APPLE INC **	\$0.2200	\$0.2300	4.5%
TC ENERGY	\$0.8700	\$0.9000	3.4%
BANK OF NOVA SCOTIA	\$1.0000	\$1.0300	3.0%
CANADIAN NATIONAL RAILWAY	\$0.7325	\$0.7340	0.2%
WSP GLOBAL ENGINEERING	\$0.3750	\$0.3750	0.0%
JP MORGAN CHASE & CO**	\$1.0000	\$1.0000	0.0%
MANULIFE FINANCIAL	\$0.3300	\$0.3300	0.0%
INTACT FINANCIAL	\$1.0000	\$1.0000	0.0%
GOOGLE** (ALPHABET) INC.	\$0.0000	\$0.0000	0.0%

BN, formerly BAM.A (corporate action, Dec. 2022)*
Reported & Issued in USD**

Source: Factset

While very few investors will be ecstatic about their investment returns this year, the economic fundamentals of the majority of the companies we own remained strong enough to reward the shareholders with reasonable dividend increases. Our largest position, the Royal Bank, announced a \$13.5 billion cash acquisition of HSBC Canada in 2022. Should this not pass the regulatory tests there should be excess capital for a further dividend increase, and if the acquisition completes as planned a 6% increase in earnings per share is expected. We would expect a more meaningful dividend increase once the purchase is absorbed. In spite of the market volatility we had no dividend decreases this year.

TAX CHANGES for 2023

Canadian taxpayers have some relief for 2023. The maximum TFSA contribution has been increased from \$6,000 to \$6,500, and the tax brackets have been moved up to account for inflation. The BC tax brackets have moved up 6%, and the Federal tax brackets have moved up 6.3%. For other provinces, we refer you the taxtips website <https://www.taxtips.ca/marginal-tax-rates-in-canada.htm>.

This chart is useful for investors trying to manage their RRSP contributions or RRIF withdrawals to stay below key marginal tax rates. Meaghan and Mark can assist you if you have any questions on how this may affect you.

Combined Federal & BC Tax Brackets and Tax Rates									
2023 Taxable Income	BC 2023 Marginal Tax Rates				2022 Taxable Income	BC 2022 Marginal Tax Rates			
	Income	Capital Gains	Canadian Dividends			Income	Capital Gains	Canadian Dividends	
			Eligible	Non-Eligible				Eligible	Non-Eligible
first \$45,654	20.06%	10.03%	-9.60%	10.43%	first \$43,070	20.06%	10.03%	-9.60%	10.43%
over \$45,654 up to \$53,359	22.70%	11.35%	-5.96%	13.47%	over \$43,070 up to \$50,197	22.70%	11.35%	-5.96%	13.47%
over \$53,359 up to \$91,310	28.20%	14.10%	1.63%	19.80%	over \$50,197 up to \$86,141	28.20%	14.10%	1.63%	19.80%
over \$91,310 up to \$104,835	31.00%	15.50%	5.49%	23.02%	over \$86,141 up to \$98,901	31.00%	15.50%	5.49%	23.02%
over \$104,835 up to \$106,717	32.79%	16.40%	7.96%	25.07%	over \$98,901 up to \$100,392	32.79%	16.40%	7.96%	25.07%
over \$106,717 up to \$127,299	38.29%	19.15%	15.55%	31.40%	over \$100,392 up to \$120,094	38.29%	19.15%	15.55%	31.40%
over \$127,299 up to \$165,430	40.70%	20.35%	18.88%	34.17%	over \$120,094 up to \$155,625	40.70%	20.35%	18.88%	34.17%
over \$165,430 up to \$172,602	44.02%	22.01%	23.46%	37.99%	over \$155,625 up to \$162,832	44.08%	22.04%	23.54%	38.06%
over \$172,602 up to \$235,675	46.12%	23.06%	26.36%	40.41%	over \$162,832 up to \$221,708	46.18%	23.09%	26.44%	40.48%
over \$235,675 up to \$240,716	49.80%	24.90%	31.44%	44.64%	over \$221,708 up to \$227,091	49.80%	24.90%	31.44%	44.64%
over \$240,716	53.50%	26.75%	36.54%	48.89%	over \$227,091	53.50%	26.75%	36.54%	48.89%

Source: TaxTips.ca

SUMMARY AND STRATEGY FOR 2023

We do not anticipate a rip-roaring bull market to start as long as short and long term interest rates continue to rise. Due to the damage already in the market we are also not expecting a significant pullback. Usually markets bottom at about the same time that newspaper headlines announce that the economy is in recession and this may not be too many months away. We feel that investors who carefully and gradually accumulate quality companies during the next few months will likely be happy with their purchases a year from now. Predicting which sector will be the best for 2023 is quite challenging but we believe that both high quality dividend payers and reasonably valued growth companies will provide decent returns with limited downside risk.

Meaghan and Mark will be contacting you regarding TFSA contributions early in 2023 and that will be a good time to update us on your financial goals and needs.

HAPPY NEW YEAR

We wish everyone a happy, healthy and prosperous 2023!



**Mark
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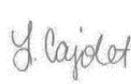
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If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!

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