



DECEMBER 2024 NEWSLETTER

MARKET REVIEW

2024 has been an excellent year for equity investors. While most large-cap US technology companies continued to enjoy positive returns, other sectors such as financials and pipelines had better performance as they returned to investor favour. Short-term Canadian bonds performed well, but longer-term bonds barely broke even, and US long bonds had negative returns. While the year has had some losing sectors, most investors will be doing the "happy dance" when they review their 2024 progress.

	<u>Dec. 29, 2023</u> <u>Close</u>	<u>Sep. 30, 2024</u> <u>Close</u>	<u>Dec. 31, 2024</u> <u>Close</u>	<u>90-Day</u> <u>Change</u>	<u>1-Year</u> <u>Change</u>
S&P 500*	4,770	5,762	5,882	2.1%	23.3%
S&P/TSX Composite	20,958	23,998	24,728	3.0%	18.0%

*USD currency

Source: FactSet

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FIXED INCOME

Canadian T-Bills and Bond Yields

<u>T-Bills & Bonds</u>	<u>Dec. 29, 2023</u>	<u>Sept. 30, 2024</u>	<u>Dec. 31, 2024</u>
3-Month	5.05%	4.01%	3.14%
6-Month	4.99%	3.74%	3.11%
1-Year	4.68%	3.31%	3.06%
2-Year	4.07%	2.91%	2.94%
5-Year	3.17%	2.72%	2.96%
10-Year	3.10%	2.95%	3.23%
30-Year	3.02%	3.14%	3.33%

Source: FactSet

INTERNATIONAL BOND YIELDS

Bond yields have diverged significantly this year as inflationary expectations are remarkably different among the world's largest countries, even within the G7 countries. The chart below shows a surprising picture in that previously fiscally challenged countries, such as Italy and Greece, can now borrow money cheaper than the US.

<u>10-Year Bond Yields</u>	
India	6.79%
US	4.58%
UK	4.57%
Italy	3.53%
Canada	3.23%
Greece	3.21%
France	3.19%
Germany	2.37%
China	1.70%
Japan	1.09%

Source: MarketWatch

Conventional economic theory is that applying tariffs exports unemployment and imports inflation, so we do not believe that US bonds present a compelling risk/reward for buyers at these yields. It remains a mystery to us that investors continue to purchase long term bonds of heavily indebted countries at such low rates.

INVESTMENT STRATEGIES

There is no investment strategy that works all of the time, but three common strategies are listed below:

The All-In Strategy:

These investors invest every dollar when they become available and stay invested until the day they need the funds. They fully participate in every bull and bear market and can have volatile returns. This strategy is quite profitable over the long run as markets tend to rise, and with good stock selection a few big winners can give the investor very nice long-term returns.

The Trading Strategy:

These investors attempt to become fully invested at the bottom and sell everything at the top, with the intention of participating fully in up-markets and avoiding down-markets. This strategy looks very appealing in hindsight, but Ian started in the investment business in 1984, and has never seen a client, colleague, competitor, fund manager or himself do this successfully.

The Hybrid Strategy:

This is the strategy that we feel is the most practical and provides peace of mind. The objective is for equity investors to stay invested in the market, but reduce equities by a few percent when markets appear frothy and overvalued and add to our equities when we see lots of opportunities. In addition, we make sure that we have enough cash equivalents available to take care of any major upcoming expenses. The benefit of this strategy is that if we are entirely wrong on our outlook, we don't completely miss unexpected bull markets and are never forced to sell at horrible prices to cover expenses that come up at market lows.

TAX CHANGES FOR 2025

The 2025 TFSA limit is \$7,000, unchanged from 2024. Tax rates for 2025 are the same as 2024 with two exceptions. Tax brackets have been moved up to allow for inflation, which is a small relief for taxpayers. The big change happened in June of 2024 when the capital gains inclusion rate for gains above \$250,000 increased from 50% to 66.67%. This complicates large liquidations of assets and increases the incentive to spread gains over a number of years.

2025 Taxable Income	BC 2025 Marginal Tax Rates				
	Other Income	Capital Gains		Canadian Dividends	
		First \$250K	Excess Over \$250K	Eligible	Non-Eligible
first \$49,279	20.06%	10.03%	13.37%	-9.60%	10.43%
over \$49,279 up to \$57,375	22.70%	11.35%	15.13%	-5.96%	13.47%
over \$57,375 up to \$98,560	28.20%	14.10%	18.80%	1.63%	19.80%
over \$98,560 up to \$113,158	31.00%	15.50%	20.67%	5.49%	23.02%
over \$113,158 up to \$114,750	32.79%	16.40%	21.86%	7.96%	25.07%
over \$114,750 up to \$137,407	38.29%	19.15%	25.53%	15.55%	31.40%
over \$137,407 up to \$177,882	40.70%	20.35%	27.13%	18.88%	34.17%
over \$177,882 up to \$186,306	44.02%	22.01%	29.35%	23.46%	37.99%
over \$186,306 up to \$253,414	46.12%	23.06%	30.75%	26.36%	40.41%
over \$253,414 up to \$259,829	49.80%	24.90%	33.20%	31.44%	44.64%
over \$259,829 +	53.50%	26.75%	35.67%	36.54%	48.89%

Source: <https://www.taxtips.ca>

OAS CLAWBACK 2025

The OAS clawback for individuals between 65 and 74 is unchanged from 2024 to 2025 starting at \$90,997 of taxable income, with all the benefits clawed back at \$148,451. Due to the higher OAS levels for seniors 75 years or older, those individuals now experience a complete clawback at \$154,196 of taxable income. While most taxpayers are not usually affected by the OAS clawback, it complicates investment decisions. For example, selling profitable investments may not only trigger capital gains tax, but also may cause the loss of some or all OAS benefits during that year.

EQUITIES

Our Top 30 Holdings: 1-Year Total Return

<u>Position</u>	<u>Symbol</u>	<u>Security</u>	<u>Dec 29, 2023 Close</u>	<u>Dec 31, 2024 Close</u>	<u>2024 Income</u>	<u>Total Performance</u>
22	AMZN	Amazon Inc*	\$201.71	\$315.32	\$0.00	56.3%
8	MFC	Manulife Financial Corp	\$29.28	\$44.16	\$1.60	56.3%
3	BN	Brookfield Corp. Cl. A	\$53.15	\$82.62	\$0.44	56.3%
6	JPM	JP Morgan Chase & Co*	\$225.82	\$344.52	\$6.61	55.5%
5	RJF	Raymond James Financial Inc*	\$148.02	\$223.25	\$2.59	52.6%
18	COST	Costco Wholesale Corp*	\$876.29	\$1,316.91	\$6.47	51.0%
19	BAM	Brookfield Asset Mgmt Ltd	\$53.22	\$77.96	\$2.08	50.4%
14	GOOGL	Alphabet Inc. Cl. A*	\$185.45	\$272.07	\$0.86	47.2%
27	AAPL	Apple Inc*	\$255.59	\$359.92	\$1.42	41.4%
2	WSP	WSP Global Inc	\$185.74	\$252.96	\$1.50	37.0%
11	TRP	TC Energy Corp	\$51.76	\$66.99	\$3.81	36.8%
25	SPY	S&P 500 Trust ETF*	\$631.00	\$842.34	\$10.08	35.1%
21	VFV	Vanguard S&P 500 Index ETF	\$112.12	\$149.99	\$1.45	35.1%
1	RY	Royal Bank of Canada	\$134.00	\$173.32	\$5.60	33.5%
-	S&P500	Standard and Poor's 500	6,332.19	8,453.37	-	33.5%
28	V	Visa Inc	\$345.63	\$454.23	\$3.09	32.3%
23	IFC	Intact Financial Corp	\$203.86	\$261.73	\$4.84	30.8%
12	BNS	Bank Of Nova Scotia	\$64.50	\$77.19	\$4.24	26.2%
24	SU	Suncor Energy Inc	\$42.45	\$51.31	\$2.21	26.1%
15	MSFT	Microsoft Corp*	\$499.21	\$605.80	\$4.43	22.2%
-	TSX	Toronto Stock Exchange	20,958.44	24,727.94	-	18.0%
30	FTS.PR.G	Fortis Inc. Preferred Series G	\$20.62	\$22.29	\$1.53	15.5%
20	BIP.UN	Brookfield Infrastructure LP	\$41.76	\$45.66	\$2.21	14.6%
9	FTS	Fortis Inc	\$54.51	\$59.73	\$2.39	14.0%
26	VHT	Vanguard Health Care ETF	\$332.82	\$364.62	\$5.56	11.2%
29	BMO	Bank Of Montreal	\$131.11	\$139.55	\$6.12	11.1%
16	BEPC	Brookfield Renewable Corp	\$38.14	\$39.78	\$1.94	9.4%
-	VAB	Vanguard Cdn Agg Bond Index ETF	\$23.06	\$23.21	\$0.74	3.9%
13	JNJ	Johnson & Johnson*	\$208.08	\$207.86	\$7.06	3.3%
17	BEP.UN	Brookfield Renew Partners LP	\$34.81	\$32.74	\$1.94	-0.4%
4	TD	Toronto Dominion Bank	\$85.62	\$76.53	\$4.08	-5.9%
7	CNR	Canadian Ntl Railway Co	\$166.55	\$145.97	\$3.38	-10.3%
10	T	TELUS Corp	\$23.58	\$19.49	\$1.53	-10.9%

All values converted to CAD - Dec, 29, 2023 @1.32755, Dec 31, 2024 @1.43725

Source: FactSet

During 2024, Canadian investors holding US stocks got a lift from the US dollar appreciating to the Canadian dollar. There was quite a bit of rotation this year as a number of out-of-favour companies such as TC Energy, Raymond James, and Suncor rallied after modest 2023 returns. Canada's telecom sector continues to be under pressure, as is the renewable energy sector. Our takeaway from our 2024 results is that "this is a tough act to follow", and now is not likely the time to stick our necks out.

2024 Dividend Changes - Top 30 Holdings

<u>Position</u>	<u>Symbol</u>	<u>Security</u>	<u>Quarterly Dividend, 2023</u>	<u>Quarterly Dividend, 2024</u>	<u>Increase</u>
14	GOOGL	Alphabet Inc. Class A	\$0.00	\$0.20	∞
6	JPM	JP Morgan Chase & Co.	\$1.05	\$1.25	19.1%
19	BAM	Brookfield Asset Mgmt Ltd	\$0.32	\$0.38	18.8%
3	BN	Brookfield Corp.	\$0.07	\$0.08	14.3%
18	COST	Costco Wholesale Corp.	\$1.02	\$1.16	13.8%
28	V	Visa Inc	\$0.52	\$0.59	13.5%
5	RJF	Raymond James Financial Inc.	\$0.45	\$0.50	11.2%
15	MSFT	Microsoft Corp.	\$0.75	\$0.83	10.7%
23	IFC	Intact Financial Corp.	\$1.10	\$1.21	10.0%
8	MFC	Manulife Financial Corp.	\$0.365	\$0.400	9.6%
1	RY	Royal Bank of Canada	\$1.38	\$1.48	7.3%
10	T	TELUS Corp.	\$0.3761	\$0.4023	7.0%
7	CNR	Canadian National Railway Co.	\$0.790	\$0.845	7.0%
21	VFV	Vanguard S&P 500 Index ETF	\$0.3748	\$0.4002	6.8%
20	BIP.UN	Brookfield Infrastructure LP	\$0.3825	\$0.4050	5.9%
29	BMO	Bank of Montreal	\$1.510	\$1.590	5.3%
17	BEP.UN	Brookfield Renewable Partners LP	\$0.3375	\$0.3550	5.2%
16	BEPC	Brookfield Renewable Corp.	\$0.3375	\$0.3550	5.2%
24	SU	Suncor Energy Inc.	\$0.545	\$0.570	4.6%
9	FTS	Fortis Inc.	\$0.590	\$0.615	4.3%
13	JNJ	Johnson & Johnson	\$1.19	\$1.24	4.3%
27	AAPL	Apple Inc.	\$0.24	\$0.25	4.2%
11	TRP	TC Energy Corp.	\$0.93	\$0.96	3.3%
25	SPY	S&P 500 Trust ETF	\$1.906	\$1.966	3.2%
4	TD	Toronto Dominion Bank	\$1.02	\$1.05	3.0%
26	VHT	Vanguard Health Care ETF	\$0.8947	\$0.9188	2.7%
30	FTS.PR.G	Fortis Inc Preferred - G	\$0.3827	\$0.3827	0.0%
22	AMZN	Amazon Inc.	\$0.00	\$0.00	0.0%
12	BNS	Bank Of Nova Scotia	\$1.06	\$1.06	0.0%
2	WSP	WSP Global Inc.	\$0.38	\$0.38	0.0%

Source: FactSet

We are pleased that in 2024 most of our dividend paying stocks had dividend increases above the rate of inflation, and we had no dividend decreases.

INVESTMENT QUOTES FOR 2025

“But investing isn’t about beating others at their game. It’s about controlling yourself at your own game.”
— Benjamin Graham.

“Buy when everyone else is selling and hold when everyone else is buying. This is not merely a catchy slogan. It is the very essence of successful investments.”
— Jean Paul Getty.

“Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.”
— Peter Lynch.

“He who lives by the crystal ball will eat shattered glass.”
— Ray Dalio

TRADE AND TARIFFS

Over most of our lifetimes we have seen a liberalization of world trade, including the North American Free Trade Agreement (NAFTA) which went into effect on January 1, 1994, and China's admission to the World Trade Organization (WTO) on December 11, 2001. While free trade has long been supported by investors and the business community, we are experiencing a time of political pushback against the free trade trend.

We collected some data from the implementation of NAFTA, China's acceptance to the WTO, and present.

	<u>Jan. 1, 1994</u>	<u>Dec. 11, 2001</u>	<u>Dec. 31, 2024</u>
US Inflation	2.7%	2.8%	2.7%
US Unemployment	6.7%	5.8%	4.2%
US GDP per capita	\$26,387	\$37,133	\$86,601
S&P 500	460.42	1,136.76	5,881.63

Source: FactSet

From the start of NAFTA we have seen stable US inflation, unemployment reduced by over 37%, GDP per capita more than triple, and the S&P 500 appreciate by 12 times. While society has a challenge taking care of citizens who bore the costs of trade without sharing in the benefits, protectionism has always reduced the size of the overall economic pie, which can hardly be the optimal solution.

The hope of the US business and investor community is that the current protectionist rhetoric is bluster and gamesmanship, but as investors we can't rate the chances of increased tariffs at zero. Any significant increase of tariffs will be inflationary, which is a lose/lose for consumers and investors.

Due to this elevated risk and uncertainty around potential tariffs, we feel that now is a good time to be slightly more conservative than your normal risk tolerance would indicate.

US LICENSING

We are excited to announce that this Fall Meaghan completed her requirements to become licensed in the US. This will not affect the majority of our clients but will allow us to manage the investments of US residents. In addition, Meaghan can manage IRAs and Roth IRAs for Canadian residents who worked in the US and have these American registered plans. Please call Meaghan if you have any questions.

SUMMARY AND STRATEGY FOR 2025

We enter 2025 with a very good investment year in our rear-view mirror and most of our favourite companies trading at high valuations. In addition, we have a new US president who may not have a "business as usual" presidency. While businesses will welcome the hoped-for reduction of red tape and over-regulation, they fear the inflation and economic stagnation caused by potential tariffs and protectionism. As the news cycle unfolds in 2025, we expect volatility as these positive and negative themes play out.

As investment advisors and investors, we have to be humble about our ability to predict the world, so while we are cautious at this moment, we recommend incremental rather than aggressive asset allocation changes.

TFSA investors may consider TD Bank and Brookfield Renewable Partners LP for their 2025 investments, as these are both out of favour but seem fundamentally sound and have good dividends. They may have been tax loss selling candidates at the end of 2024 so could enjoy a bounce back.

Meaghan and Mark will be contacting you regarding TFSA contributions early in 2025 and look forward to hearing about any life changes that may affect your investment strategy.

HAPPY NEW YEAR

We wish everyone a terrific year ahead!

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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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