



MARCH 2022 NEWSLETTER

MARKET REVIEW

We hoped that 2022 news would be focused on falling Covid rates, and the return to a more normal economy. We also hoped that the most upsetting news would be celebrities behaving badly or the cargo ship that sank in the Atlantic. All crew were rescued, but over 4000 vehicles including Porsches, Bentleys and Lamborghinis were lost.

Unfortunately we have a tragic humanitarian crisis in Ukraine, and a lose-lose military conflict between Russia and Ukraine supported by NATO. The Raymond James Canada Foundation has donated \$215,000 to the Red Cross for humanitarian relief for Ukraine, but ultimately your Raymond James Nanaimo team has to focus on what we can control, guiding our clients to make the best financial decisions possible.

Published for the friends and clients of
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	<u>March 31</u> <u>2021 Close</u>	<u>Dec 31</u> <u>2021 Close</u>	<u>March 31</u> <u>2022 Close</u>	<u>90-Day</u> <u>Change</u>	<u>1-Year</u> <u>Change</u>
S&P 500*	3,973	4,766	4,530	-4.95%	14.03%
S&P/TSX Composite	18,701	21,223	21,890	3.14%	17.06%

*USD currency

Source: FactSet

While the Ukraine news has been upsetting, our investment portfolios have been performing well. Canada's largest export is oil and gas, and we also export wheat and base metals, which have increased in price during the conflict. For this reason the TSX is actually *higher* than at 2021 year end. The U.S. is self-sufficient in oil and gas so its market has only fallen 4.95% this quarter. While some of the companies we own such as Apple, Microsoft and JPMorgan have revenues in Eastern Europe and around the world, we have no direct investments in either Ukraine or Russia.

The conflict in Ukraine has thrown fuel on the fire of rising commodity prices, rising interest rates, and the sharp correction of the speculative growth stocks, but these trends were already in place prior to the Russian forces crossing the Ukrainian border.

FIXED INCOME

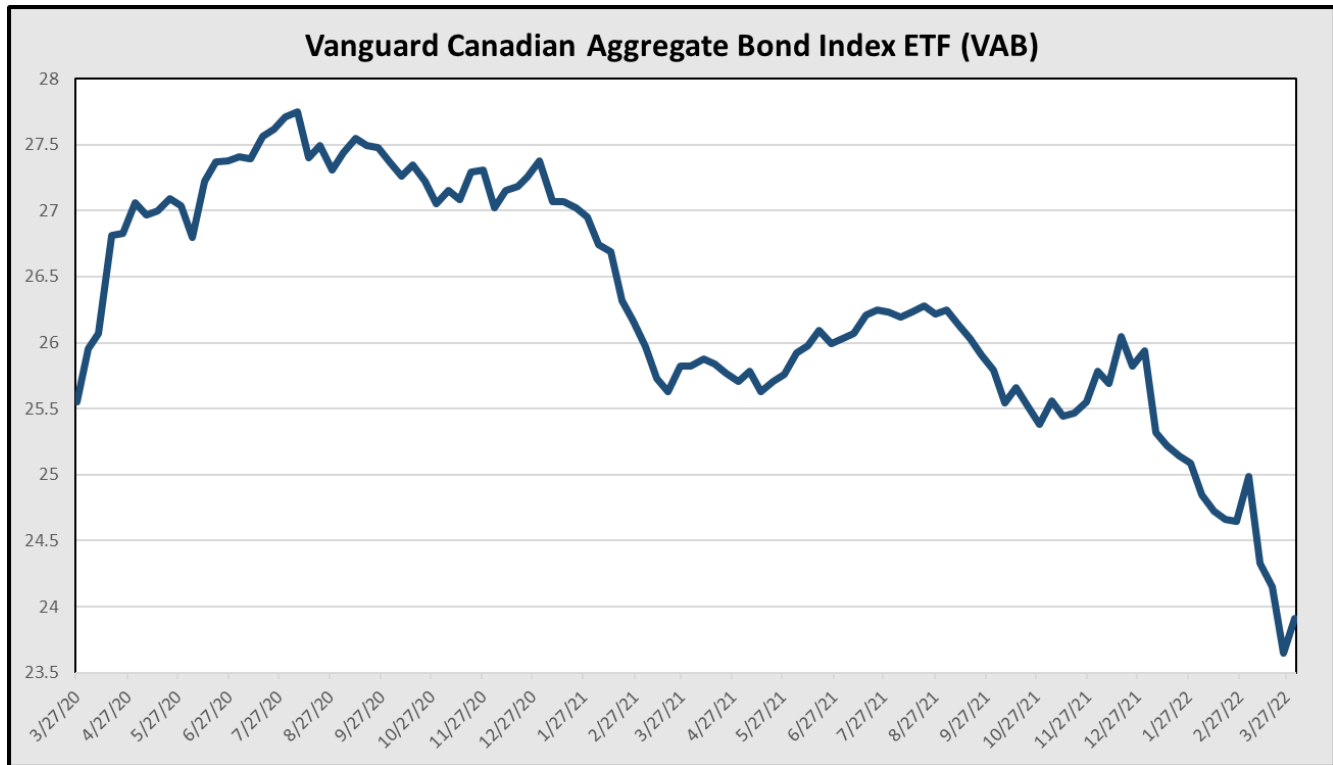
CANADIAN T-BILLS AND BONDS YIELDS

	<u>March 31,</u> <u>2021</u>	<u>Dec 31,</u> <u>2021</u>	<u>March 31,</u> <u>2022</u>	<u>90 Day</u> <u>Change</u>	<u>1 Year</u> <u>Change</u>
3-Month	0.10%	0.17%	0.73%	329.4%	630.0%
6-Month	0.13%	0.40%	1.34%	235.0%	930.8%
1-Year	0.17%	0.78%	1.98%	153.8%	1064.7%
2-Year	0.26%	0.96%	2.28%	137.5%	776.9%
5-Year	1.02%	1.26%	2.39%	89.7%	134.3%
10-Year	1.60%	1.43%	2.38%	66.4%	48.8%
30-Year	1.99%	1.68%	2.35%	39.9%	18.1%

Source: FactSet

Interest rates jumped very sharply this quarter, particularly at the short end, from one to five years. There are currently two schools of thought regarding interest rates. The first is that inflation is "transitory", and will subside once disruptions such as Covid restrictions and the war in Ukraine run their course. This might give bond holders some relief if inflation and interest rates start to fall. The second is that inflation will be more persistent, and higher interest rates and potentially a recession will be necessary to keep inflation under control. We are in the second camp, and continue to believe that owning longer term bonds at these rates is not attractive. Our aversion to owning bonds is not permanent, but we will not be recommending bonds until the yield to maturity exceeds the expected inflation rate to provide a real return.

Also of concern is that two year and ten year rates are almost the same, indicating the risk of a recession. This may change if we get a negotiated settlement in Ukraine, but it is definitely a concern at this point.



Source: FactSet

The above chart indicates the two year performance of an ETF that owns a diversified Canadian bond portfolio. This reached \$27.37 March 10, 2020, and is \$23.97 as of March 31, 2022, down 12.4%. Considering that the effective yield to maturity at the time was roughly 1.2% (www.vanguard.ca), this loss is equal to the total expected return over 10 years.

OUR TOP 30 EQUITY POSITIONS & DIVIDENDS

Position	Holdings	Stock Price as of March 31/2022	March 31/2020 Dividend	March 31/2022 Dividend	2-Year Change in Dividends
26	Freehold Royalties	\$14.31	\$0.05	\$0.08	52%
9	Raymond James Financial Inc. ²	\$109.91	\$0.25	\$0.34	38%
5	Canadian National Railway Co	\$167.70	\$0.58	\$0.73	27%
18	Bank of Montreal	\$147.11	\$1.06	\$1.33	25%
19	Microsoft Corp	\$308.31	\$0.51	\$0.62	22%
24	Costco Wholesale Corp	\$575.85	\$0.65	\$0.79	22%
14	Manulife Financial Corp	\$26.66	\$0.28	\$0.33	18%
4	Brookfield Asset Management Inc Class A	\$70.68	\$0.12	\$0.14	17%
22	Bank of America Corp	\$41.22	\$0.18	\$0.21	17%
7	Telus Corp	\$32.66	\$0.29	\$0.33	13%
2	Toronto Dominion Bank	\$99.19	\$0.79	\$0.89	13%
8	Johnson & Johnson	\$177.23	\$0.95	\$1.06	12%
6	Fortis Inc.	\$61.83	\$0.48	\$0.54	11%
10	Bank of Nova Scotia	\$89.60	\$0.90	\$1.00	11%
11	JPMorgan Chase and Co	\$136.32	\$0.90	\$1.00	11%
13	TC Energy Corp	\$70.51	\$0.81	\$0.90	11%
1	Royal Bank of Canada	\$137.64	\$1.08	\$1.20	11%
16	Brookfield Renewable Corp ^{2,3}	\$54.60	\$0.29	\$0.32	11%
25	BCE Inc. (Bell Media)	\$69.30	\$0.83	\$0.92	11%
12	Brookfield Renewable Partners LP	\$51.31	\$0.29	\$0.32	10%
28	Algonquin Power & Utilities	\$19.39	\$0.20	\$0.21	7%
21	Vanguard Health Care ETF ¹	\$254.52	\$0.45	\$0.77	6%
17	Brookfield Infrastructure LPU	\$82.78	\$0.54	\$0.54	0%
3	WSP Global Inc	\$165.91	\$0.38	\$0.38	0%
15	Alphabet Inc Class A (Google)	\$2,781.35	\$0.00	\$0.00	0%
29	Amazon.com Inc	\$3,259.95	\$0.00	\$0.00	0%
27	SPDR S&P500 Trust ETF	\$451.64	\$1.41	\$1.37	-3%
23	Suncor Energy Inc	\$40.70	\$0.47	\$0.42	-10%
30	Vanguard S&P500 Index ETF	\$100.50	\$0.27	\$0.24	-10%
20	H&R Real Estate Investment Trust ⁴	\$13.05	\$0.12	\$0.06	-48%

All figures in local currency

4 - Distribution adjusted for spinoff

3 - Stock did not exist during March 2020, earliest dividend applied

2 - Dividend adjusted for stock split

1 - Trailing 1 year dividend

Source: FactSet

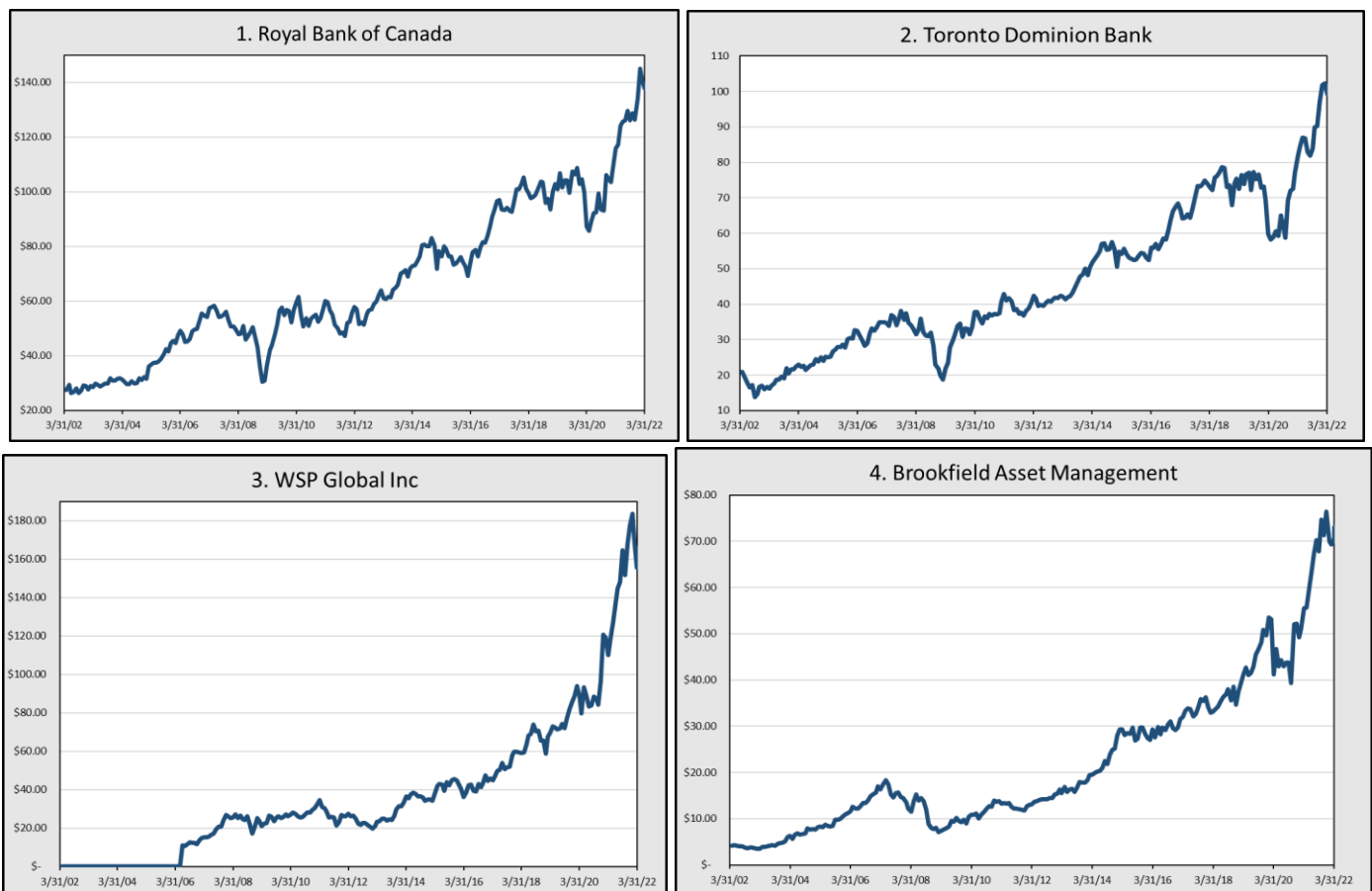
During the last two years we have witnessed a Global pandemic and more recently a war involving nuclear powers. In spite of that our portfolios enjoyed respectable dividend increases. The dividend decreases in our two S&P 500 ETF's are primarily due to timing and currency conversion. The Freehold Royalties dividend increase is accurate, but it doesn't account for the dividend decrease prior to March 31, 2020. The important takeaway from this table is that solid companies tend to be more resilient than one might think based on panicky newspaper headlines.

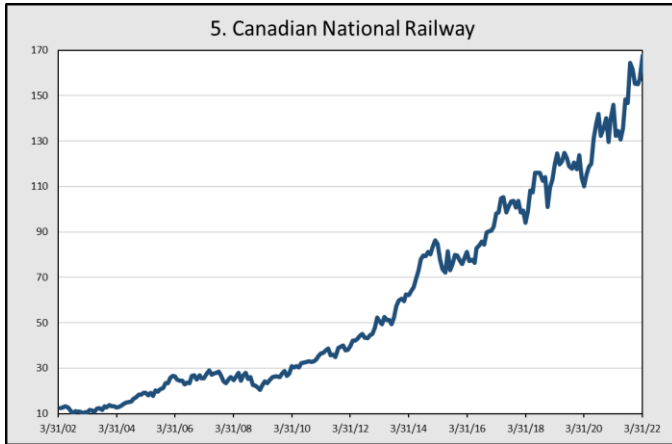
THE RAVAGES OF INFLATION

On April 1, 1975, Canada converted from imperial to metric, and Ian remembers putting gas into his Pontiac Astre at 20 cents per liter. (He also had to add a quart of oil each time, it was not GM's greatest automobile.) Today automobile gas is close to \$2.00 per litre, a tenfold increase. At that time houses in Departure Bay went for around \$30,000, and now go for around \$1 million, a 33 fold increase. While investors who rely exclusively on GICs never "lose money", their purchasing power has been horribly eroded by successive governments printing money to finance deficits.

We feel that the best protection to preserve your standard of living is to build a portfolio of hard-to-replicate companies providing valuable goods and services. Warren Buffett calls this a "moat". While it is very easy for governments to devalue their currency by printing more money, creating another Costco, Apple, Royal Bank, CN Rail, Fortis, etc. is much more difficult. For this reason we believe that an equity portfolio of quality companies, supported with some short-term cash on the sidelines for liquidity and opportunities, is the best option for today's investors.

OUR TOP 6 HOLDINGS 20 YEAR PRICE HISTORY



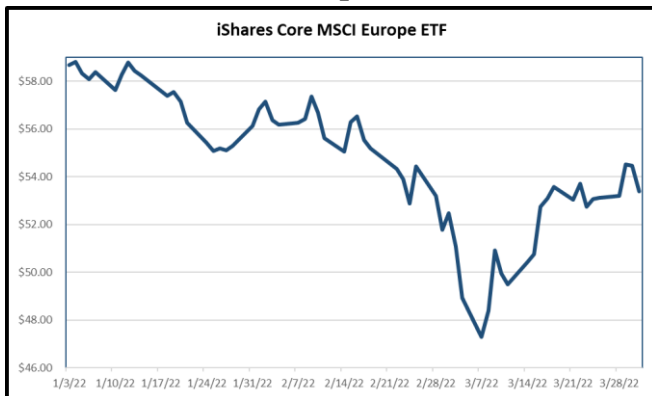


Source: FactSet

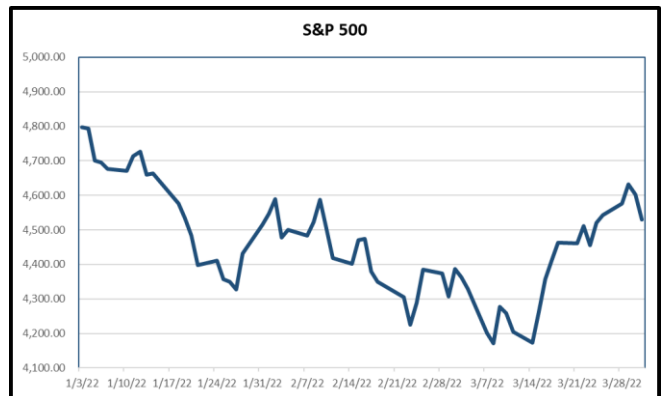
Our strategy is to invest in companies with positive growth and lower than average volatility. Commodity and higher risk companies can be much more profitable over shorter periods of time, but if you purchase them at the wrong time the wait to get even again can be much longer.

GLOBAL STOCK INDICES YEAR-TO-DATE

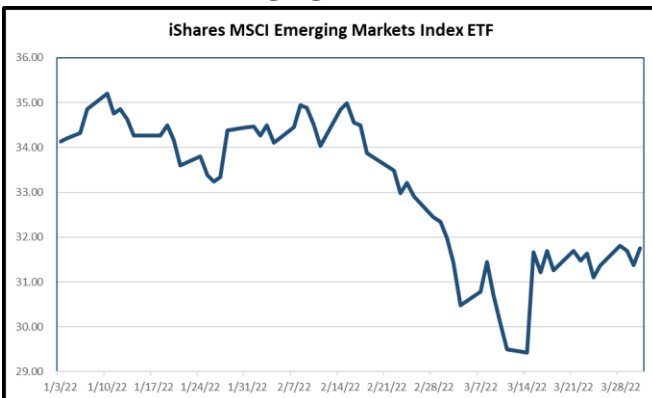
Europe



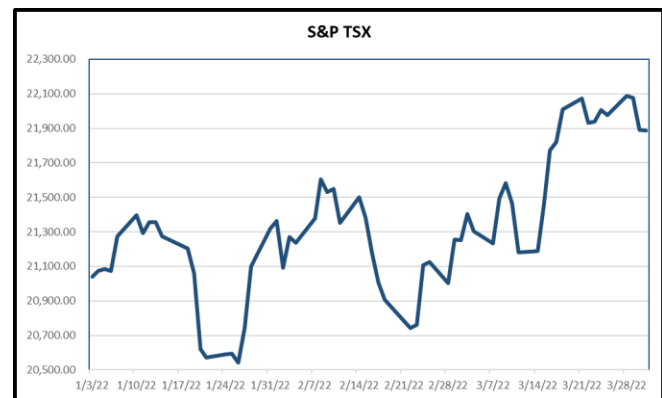
U.S.



Emerging Markets



Canada



Source: FactSet

While Canada and the US have fared reasonably well in the last quarter, the more energy import dependent European and emerging markets have fared worse. For the time being we are content to only hold Canadian and US holdings.

SUMMARY AND STRATEGY

As most of your portfolios are slightly higher than at the end of 2021 when we advised caution, we have very similar advice for the next quarter. Should we get more volatility from either interest rate increases or geopolitics we can use the opportunity to add to companies where you have less than a full position. In the meantime any cash on the sidelines is best to stay in the daily interest accounts.

SAVE THE DATE

After deferring our last two client appreciation events due to health concerns, we are pleased to announce that we will host another client appreciation event at the Nanaimo Golf Club, September 14, 2022 from 4 to 8 PM. Dinner and drinks will be provided and we are in the process of arranging live music for the afternoon. Please mark your calendars.

Thank you for your business!



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Consultant



Lisa Cajolet

Administrative
Assistant



Heath Dean

Administrative
Assistant

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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