



DECEMBER 2023 NEWSLETTER

MARKET REVIEW

2023 was a year of recovery for most of the world markets. Prior to November markets were led by the "magnificent seven," all of them large-cap US technology companies. Other than those companies there were very few good performers among stocks on either side of the border. In late October, after some positive comments from the US Federal reserve, the rest of the markets came back to life and saved the year for investors without exposure to those seven companies.

	<u>Dec. 30, 2022,</u> <u>Close</u>	<u>Sept 29, 2023,</u> <u>Close</u>	<u>Dec. 29, 2023,</u> <u>Close</u>	<u>1-Year %</u> <u>Change</u>	<u>90-Day %</u> <u>Change</u>
S&P 500*	3,840	4,288	4,770	24.2%	11.2%
S&P/TSX Composite	19,385	19,541	20,958	8.1%	7.3%

*USD Currency

Source: Factset, 12/29/2023

Published for the friends and clients of
Douglas Duncan Wealth Management
 Raymond James Ltd.
 #1-5767 Turner Road, Nanaimo, BC V9T-6L8
 Toll free: 1-866-729-2830
www.douglasduncanwm.com

FIXED INCOME

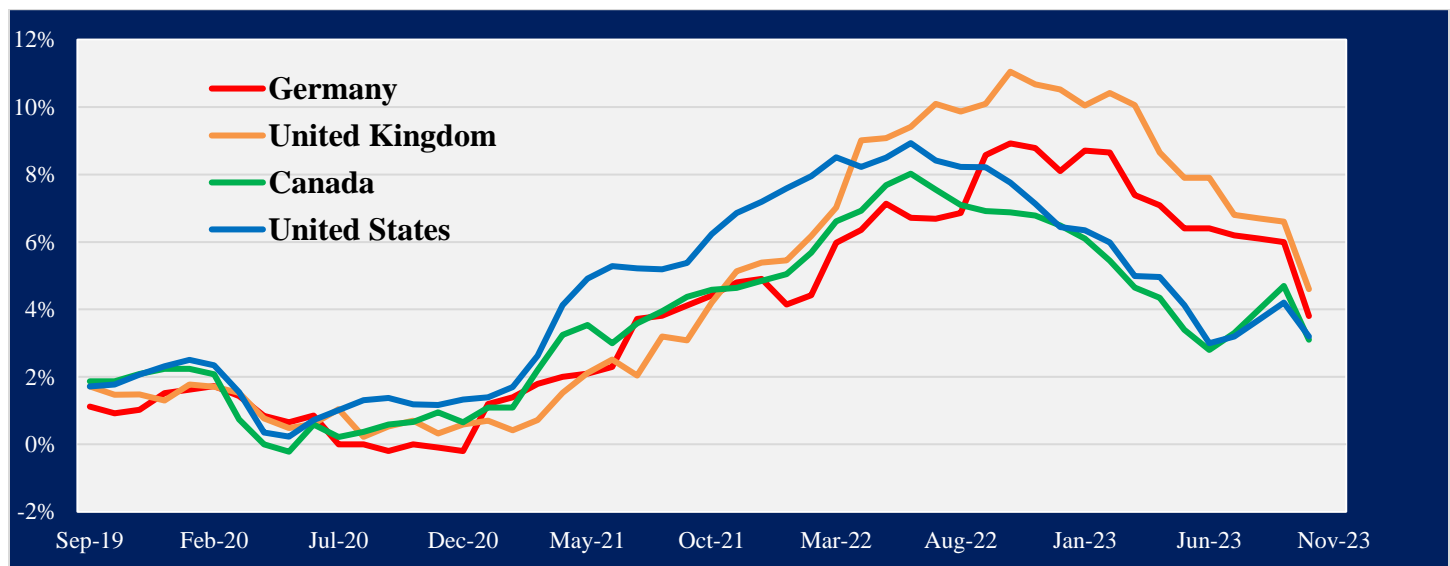
Bonds surprised us this quarter, with the Canada 5 year, for example, peaking at 4.34% on October 4th, and now yielding 3.17%. Based on the expected Nanaimo property tax increase of 8% and some high-profile wage settlement increases in the 11% range we did not expect inflation to fall as quickly as it has. While we did not capitalize on this move by buying longer term bonds in October, the fall in yields improves the balance sheets of banks that we own, and makes all investments look better on a relative basis.

Canadian T-Bill and Bonds Yields

<u>T-Bills & Bonds</u>	<u>Dec 30, 2022</u>	<u>29 Sept, 2023</u>	<u>Dec 29, 2023</u>
1-Year	4.61%	5.30%	4.68%
2-Year	4.05%	4.88%	4.07%
5-Year	3.41%	4.25%	3.17%
10-Year	3.30%	4.03%	3.10%
30-Year	3.03%	3.81%	3.02%

Source: Factset, 12/29/2023

Inflation



Source: Factset, 12/29/2023

PREFERRED SHARES

The market gave us some great opportunities to accumulate out-of-favour preferred shares at attractive prices this year. In our September newsletter we recommended four preferred shares with reset dates in proximity. Investors purchasing all four would have locked in an average yield of 8% for the next five years and during the last 90 days enjoyed an average capital gain of 11.12%. Fortunately, our clients embraced these opportunities, and we

purchased as many as we could within the constraints of not over-concentrating any client with one issuer or asset class, and our ability to accumulate these illiquid shares without driving up the prices.

While we don't expect any of our clients to be buying mega-yachts or private jets with their preferred share gains, we are very pleased that clients have enjoyed a quick gain on these investments in addition to the income. These preferred shares are all callable by the issuer at \$25 per share so at today's prices the National Bank preferred G would be off our buy list due to limited upside potential as it is now trading at \$24.96. After the recent run-up in the price of preferred shares we may have to be patient to get another chance to buy these at attractive prices. If these shares interest you please contact Meaghan or Mark, and they can let you know the best current opportunities.

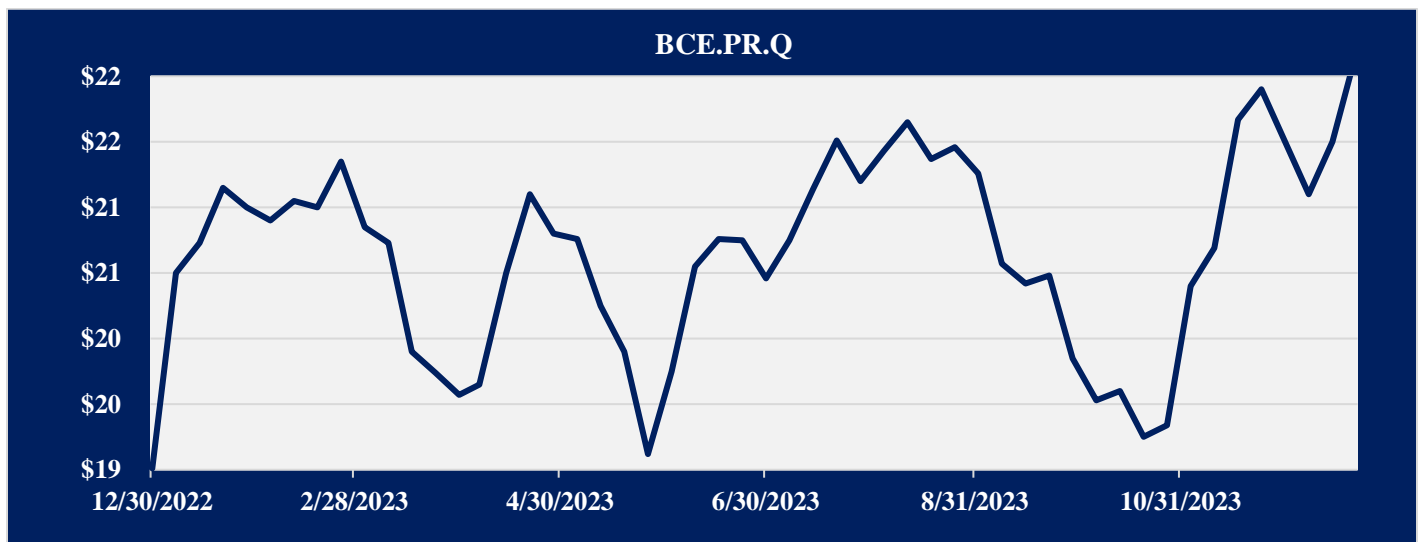
Preferred Shares - Past Picks

Name	Q3 Close Sept. 29, 2023	Q4 Close Dec. 29, 2023	% Change (3 months)	Div.	Current Yield	Reset Date	Reset Premium	
NA Bank Pref. G	\$22.46	\$24.96	11.13%	\$1.76	7.05%	11/15/2028	GOC+	2.77%
BCE Pref. Q	\$19.85	\$22.52	13.45%	\$1.64	7.28%	9/30/2028	GOC+	2.64%
ManuLife Pref. K	\$20.00	\$22.35	11.75%	\$1.59	7.11%	9/19/2028	GOC+	2.22%
Fortis Pref. G	\$19.07	\$20.62	8.13%	\$1.53	7.42%	9/1/2028	GOC+	2.13%

Source: FactSet, 12/29/2023

The chart below indicates the price volatility for the BCE preferred Q this year, indicating why we wait for the stock to get into buying range.

BCE Preferred Share



Source: Factset, 12/29/2023

TAX CHANGES FOR 2024

The maximum TFSA contribution for 2024 has increased to \$7,000, up from \$6,500. With listed beneficiaries and tax-free compounding, TFSA's are one of the best tax savings vehicles available and we recommend their use for residents of Canada with the cash flow to fund them. American citizens residing in Canada should not purchase TFSA's due to the lack of a tax treaty.

Tax brackets have also been increased to account for inflation. The chart below is very helpful to manage RRIF withdrawals to stay below key marginal tax rates. Note the tax rates on Canadian dividends. Investors with taxable incomes below \$55,867 have negative marginal tax rates, and investors with taxable incomes between \$55,867 and \$95,875 are taxed at a rate of only 1.63%. This will go a long way to reducing your tax bill when compared with a GIC or bond portfolio.

Combined Federal & BC Tax Brackets and Tax Rates				
2024 Taxable Income	BC 2024 Marginal Tax Rates			
	Income	Capital Gains	Canadian Dividends	
			Eligible	Non-Eligible
first \$47,937	20.06%	10.03%	-9.60%	10.43%
over \$47,937 up to \$55,867	22.70%	11.35%	-5.96%	13.47%
over \$55,867 up to \$95,875	28.20%	14.10%	1.63%	19.80%
over \$95,875 up to \$110,076	31.00%	15.50%	5.49%	23.02%
over \$110,076 up to \$111,733	32.79%	16.40%	7.96%	25.07%
over \$111,733 up to \$133,664	38.29%	19.15%	15.55%	31.40%
over \$133,664 up to \$173,205	40.70%	20.35%	18.88%	34.17%
over \$173,205 up to \$181,232	44.02%	22.01%	23.46%	37.99%
over \$181,232 up to \$246,752	46.12%	23.06%	26.36%	40.41%
over \$246,752 up to \$252,752	49.80%	24.90%	31.44%	44.64%
over \$252,752	53.50%	26.75%	36.54%	48.89%

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

OUR TOP EQUITIES BY TOTAL RETURN

The indices and ETFs highlighted in blue are not holdings of ours but are included in the chart to illustrate how equity and bond markets performed this year. The best performers by far this year were the large US multinational technology stocks, and a few other companies such as Costco which have negligible dividend yields. While these returns are amazing, it is easy to forget that the Nasdaq Composite Index was down 27.1% in Canadian dollar

terms in 2022 and some of 2023's great performers such as Amazon and Google are still below their 2021 highs. Higher yielding Canadian companies such as banks, telecoms, REITs, and insurers had mostly negative 2023 returns until the rally that started in early November. Most of these companies are still below their highs from early 2022. Our clients with the best performance this year would have had significant positions in Apple, Microsoft, Google, and Amazon, or used the market weakness during the year to add to the Canadian dividend paying companies and preferred shares while they were out of favour.

Total 2023 Return - Top 30 Holdings

Position	Symbol	Security	Dec 30, 2022 Close	Dec 29, 2023 Close	2023 Income	Total Performance
26	AMZN	Amazon Inc*	\$113.93	\$201.71	\$0.00	77.0%
15	GOOGL	Alphabet Inc. Cl. A*	\$119.67	\$185.45	\$0.00	55.0%
14	MSFT	Microsoft Corp*	\$325.28	\$499.21	\$3.70	54.6%
27	AAPL	Apple Inc*	\$176.23	\$255.59	\$1.26	45.7%
18	COST	Costco Wholesale Corp*	\$619.17	\$876.29	\$5.42	42.4%
21	BAM	Brookfield Asset Mgmt Ltd	\$38.77	\$53.22	\$1.74	41.8%
11	MFC	Manulife Financial Corp	\$24.15	\$29.28	\$1.46	27.3%
8	JPM	JPMorgan Chase & Co*	\$181.89	\$225.82	\$5.38	27.1%
28	FTS.PR.G	Fortis Inc. Cum. Re. Sr. G	\$17.24	\$20.62	\$1.21	26.6%
5	BN	Brookfield Corp. Cl. A	\$42.58	\$53.15	\$0.38	25.7%
25	SPY	S&P 500 Trust ETF*	\$518.71	\$631.00	\$8.83	23.4%
24	VFV	Vanguard S&P 500 Index ETF	\$92.17	\$112.12	\$1.34	23.1%
	S&P500	S&P500 Index*	5,207.71	6,332.19	68.09	22.9%
2	WSP	WSP Global Inc	\$157.09	\$185.74	\$1.50	19.2%
22	BMO	Bank Of Montreal	\$122.66	\$131.11	\$6.04	11.8%
	TSX	TSX Composite Index	19,384.92	20,958.44	713.90	11.8%
1	RY	Royal Bank of Canada	\$127.30	\$134.00	\$5.52	9.6%
16	BEPC	Brookfield Renewable Corp	\$37.27	\$38.14	\$1.81	7.2%
17	BEP.UN	Brookfield Renew Partners LP	\$34.28	\$34.81	\$1.84	6.9%
29	IFC	Intact Financial Corp	\$194.91	\$203.86	\$4.40	6.8%
4	CNR	Canadian Ntl Railway Co	\$160.84	\$166.55	\$3.16	5.5%
9	FTS	Fortis Inc	\$54.18	\$54.51	\$2.29	4.8%
	VAB	Vanguard Aggregate Bond ETF	\$22.69	\$23.06	\$0.68	4.6%
19	BIP.UN	Brookfield Infrastructure LPU	\$41.94	\$41.76	\$2.06	4.5%
23	SU	Suncor Energy Inc	\$42.95	\$42.45	\$2.11	3.7%
7	RJF	Raymond James Financial Inc*	\$144.93	\$148.02	\$2.23	3.7%
13	BNS	Bank Of Nova Scotia	\$66.34	\$64.50	\$4.18	3.5%
12	TRP	TC Energy Corp	\$53.98	\$51.76	\$3.69	2.7%
20	TD	Toronto Dominion Bank	\$87.67	\$85.62	\$4.18	2.4%
3	VHT	Vanguard Health Care ETF	\$336.44	\$332.82	\$4.53	0.3%
6	T	TELUS Corp	\$26.13	\$23.58	\$1.43	-4.3%
30	BCE	BCE Inc	\$59.49	\$52.17	\$3.87	-5.8%
10	JNJ	Johnson & Johnson*	\$239.60	\$208.08	\$6.24	-10.6%

*USD Converted to CAD Dec 30, 2022 at 1.35635 and Dec 29, 2023 at 1.32655

Source: Factset, 12/29/2023

2023 Dividend Changes - Top 30 Holdings

Position	Security	Symbol	2022 Dividend	2023 Dividend	Increase
28	Fortis Inc Cum. Re. Preferred - G	FTS.PR.G	\$1.10	\$1.53	39.09%
18	Costco Wholesale Corp. ^{1,3}	COST	\$3.60	\$4.08	13.33%
24	Vanguard S&P 500 Index ETF	VFV	\$1.21	\$1.34	10.74%
11	Manulife Financial Corp.	MFC	\$1.32	\$1.46	10.61%
14	Microsoft Corp. ¹	MSFT	\$2.72	\$3.00	10.29%
29	Intact Financial Corp.	IFC	\$4.00	\$4.40	10.00%
4	Canadian National Railway Co.	CNR	\$2.93	\$3.16	7.85%
1	Royal Bank of Canada	RY	\$5.12	\$5.52	7.81%
6	TELUS Corp.	T	\$1.40	\$1.50	7.14%
7	Raymond James Financial Inc. ¹	RJF	\$1.68	\$1.80	7.14%
21	Brookfield Asset Mgmt Ltd ^{1,4}	BAM	\$0.00	\$1.28	7.10%
5	Brookfield Corp. ^{1,4}	BN	\$0.56	\$0.28	
3	Toronto Dominion Bank	TD	\$3.84	\$4.08	6.25%
19	Brookfield Infrastructure LPU ¹	BIP.UN	\$1.44	\$1.53	6.25%
22	Bank Of Montreal	BMO	\$5.72	\$6.04	5.59%
16	Brookfield Renewable Corp. ¹	BEPC	\$1.28	\$1.35	5.47%
17	Brookfield Renewable Partners LP ¹	BEP.UN	\$1.28	\$1.35	5.47%
10	Johnson & Johnson ^{1,2}	JNJ	\$4.52	\$4.76	5.31%
30	BCE Inc.	BCE	\$3.68	\$3.87	5.16%
8	JPMorgan Chase & Co. ¹	JPM	\$4.00	\$4.20	5.00%
25	S&P 500 Trust ETF ¹	SPY	\$6.32	\$6.63	4.91%
23	Suncor Energy Inc.	SU	\$2.08	\$2.18	4.81%
9	Fortis Inc.	FTS	\$2.26	\$2.36	4.42%
27	Apple Inc. ¹	AAPL	\$0.92	\$0.96	4.35%
20	Vanguard Health Care ETF ¹	VHT	\$3.30	\$3.41	3.33%
12	TC Energy Corp.	TRP	\$3.60	\$3.72	3.33%
13	Bank Of Nova Scotia	BNS	\$4.12	\$4.24	2.91%
2	WSP Global Inc.	WSP	\$1.50	\$1.50	0.00%
15	Alphabet Inc. Class A ¹	GOOGL	\$0.00	\$0.00	0.00%
26	Amazon.Com Inc. ¹	AMZN	\$0.00	\$0.00	0.00%

¹Reported in USD

Source: Factset, 12/29/2023

²Adjusted for stock split/spinoff

³Not accounting for special \$15 dividend Jan 12, 2024

⁴Shareholders received 1 share of BAM for every 4 shares of BN in Jan, 2023

The largest dividend increases this year were preferred shares that reset based on the higher bond yields. Among our dividend paying common shares we had decent increases, with most being above the rate of inflation. Until November many of these shares were down, indicating that companies can be growing internally even while out of favour with the markets. The good news is that clients holding our core positions enjoyed income increases this year.

CHARLIE MUNGER

This year the world lost Charlie Munger, who was Warren Buffett's longtime partner in Berkshire Hathaway.

As a billionaire in his 90's Charlie did not have much of a filter and has some memorable quotes. Below are some of his quotes that are relevant to business and investing:

"Always take the high road, it's far less crowded."

"Stay within a well-defined circle of competence."

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

"A man who jumps out of a high building is OK until he hits the ground."

The last quote was referring to government deficits, but it could also be interpreted as a comment on Bitcoin and other intangible investments.

While we are not egotistical enough to think that we are as talented as Charlie Munger, we have a similar strategy of trying to stick with investments that we understand and trying to avoid investments that are impossible to value with our skill sets.

SUMMARY AND STRATEGY FOR 2024

As the big Nasdaq growth companies had an amazingly good year in 2023, and their share prices have started to level out, we do not expect them to lead the market in 2024. The more inexpensive companies such as banks, insurers, rails, telecoms, and pipelines have only been in an up market for two months, so we expect them to be market leaders in the new year. Preferred shares will likely continue to have positive total returns, but much of the expected capital appreciation happened in the last quarter.

In our experience stock *collectors* tend to have better returns than stock *traders*, so clients with Apple, Google, Microsoft, Amazon, etc. are probably better off holding their positions. At the market levels of January 2024 we would defer purchases of these companies and put new money into the cheaper companies that have just started to perform well.

As long as inflation and bond yields continue to fall the market should have a modest tailwind that should help our equities. While the market outlook is positive at present, we can always be surprised by an unexpected development so all equity purchases should be within your risk tolerance and in context with your current portfolio mix.

Meaghan and Mark will be contacting you regarding TFSA contributions early in 2024 and that will be a good time to update us if there is any change to your financial goals and needs.

HAPPY NEW YEAR

We wish everyone a happy, healthy, and prosperous 2024!



**Mark
Duncan**

Senior
Financial
Advisor



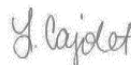
**Meaghan
Douglas**

Senior
Financial
Advisor



**Ian
Douglas**

Consultant



**Lisa
Cajolet**

Administrative
Assistant



**Heath
Dean**

Investment
Associate



**Michelle
Dieterich**

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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