

## Our RBC Monthly Morning Coffee

*How I made my fortune:*

*It was quite simple – I bought an apple for 5 cents, spent the evening polishing it, and sold it the next day for 10 cents. With this, I bought two apples, spent the evening polishing them and sold the pair for 20 cents. And so it went until I had amassed \$1.60.*

*It was then that my wife's father died & left us \$1M – Anonymous Entrepreneur*



Good day,

It was so cold & snowy in the US northeast this past week that the City of Buffalo announced it would pay \$20/hour USD to any citizens willing to arrive at Highmark Stadium to help with the snow removal in preparation for last Monday's playoff match-up against the Pittsburgh Steelers.

The snow removal team and the Buffalo Bills both prevailed, with the Bills notching a 31-17 win and the right to host the Kansas City Chiefs this upcoming weekend.

Currently, Vegas has the Bills as a 2.5-point favourite at home versus Patrick Mahomes and the Super Bowl Champion KC Chiefs. You know what?! ... as much as I dis-like going against the Chiefs, I really believe the stars will align in Buffalo this weekend and I fully expect QB Josh Allen and the Bills to roll in this one... take the Bills and the points.

Final score 32-24.

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Scrolling over an array of online newsfeeds this past weekend, I read a plea by a mid-American pet shelter in a small town to owners who had attempted to abandon their pets just because their decision no longer 'fit' with their current lifestyle. I could not agree more, as the words seemed to come from a place of frustration. To be frank, this type of behaviour infuriates me!

The Facebook post was more of a prolific rant against irresponsible pet owners & included words such as '*commitment*' and '*irresponsible*'. The targets were primarily people who thought owning a pet would be a good way for a family to negotiate COVID lockdown at home. Now that this protocol has been 'shelved' in society, the pet decision suddenly did not gel with current household objectives.

Hey, this whole issue leaves me spitting bullets! I totally appreciate the fact that choosing between caring for a pet and caring for your well-being is not always a fair choice but come on... have some compassion! We should be using pure common sense (and some selflessness!) before subjecting a helpless animal that cannot speak for itself to potential abandonment, just because it is the convenient thing to do!

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### The Tax-Free Savings Account (TFSA)

As of Jan 1<sup>st</sup>, Canadians eligible to contribute to a TFSA have another \$7k worth of deposit room (up from \$6500 last year). As this room is entirely cumulative, that

means that the total allowable deposit room that most Canadian now carry is \$95k since 2008, when the Harper-led Conservative government introduced this account.

In addition to cash deposits, please keep in mind that we are also able to contribute securities as 'in kind' contributions (as opposed to 'in cash'). This means if you have some shares of Royal Bank or Enbridge inside a non-registered taxable account, you can move these shares into a TFSA and count the value as a contribution. However, please recognize the following:

- Moving shares at an **unrealized gain** may result in a taxable transaction, despite not physically selling a share (CRA regards such a move as a 'deemed disposition'). This could result in a taxable capital gain.
- Moving shares at an **unrealized loss** does not result in a taxable transaction; this means you cannot recognize a taxable loss.

Taking this into consideration, this option might make good sense for some investors, especially those who may be looking to save/maintain a cash position for an alternative future use.

As always, call us with questions you may have.

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## Your RBC Annual Review

We intend to reach out to many of you over the next few months regarding an update on your current portfolios as well as your household financial plans in the past. Some priority will be given to those we did not meet with during the latter months of 2023.

In terms of maintaining the accuracy of our own client management records, we would also very much appreciate you informing us if any of the following has changed:

- Mailing Address

- E-mail Address
- Mobile #

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## My Interest Rate Outlook... or 'What A Difference A Year Makes'

For the last 18 months, I've been quite adamant in my views during client meetings that we would not begin to see any levity in the equity markets until we were given some degree of clarity on interest rates... well, that happened late last year when we saw an absolute 'pivot' by the FOMC in December, with the US Federal Reserve declaring that policy is now restrictive enough to bring inflation back towards their 2% target.

At this stage, the market is now looking at both the timing of the first interest rate cut we see, and how many cuts are to be expected. The market expects a 50% chance of a rate cut at the March Fed meeting and for rates to move from 5.5% to below 4% by the end of 2024. We (RBC) believe this first cut will not happen until around June with rates ending the year at 4.25%. In Canada, we are the tail that the big dog typically wags, so I expect the Bank of Canada not to be a leader here but a follower (which will likely result in a decline in the value of the C\$ into 2024).

For investors however, a decline in rates across the bond market will allow capital-intensive firms such as telecom and pipeline shares to reduce the interest rate burden they carry to help fund their daily operations. It will also make lending products through Canadian banks more attractive & assist in future earnings. Lower bond yields also will result in lower GIC rates, which will make dividend-paying stocks look more attractive from an after-tax cash-flow basis.

2024 is starting out as 'promising' for investors and I think we're in good shape here. Moreover, expectations for central bank policy rate cuts in 2024 and a further decline in long-term yields are gaining pace and have provided a broad-based tailwind for company valuations. The bottom line is this; stay invested & own high-quality names across your portfolios... if you want to gamble, go to Vegas!

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### Trying to Time the Market

Market-timing in theory is a great idea!! If you had the ability to be fully invested in good markets and move entirely into cash during bad market, your performance would leave Warren Buffett in the dust - heck, you could even manage my money for me! The issue is that this is virtually impossible to do this consistently, as market-timers have the odds overwhelmingly stacked against them. Since the turn of the century, the market has risen approximately 70% of the time. That means if you exit the market, you have a 7-in-10 chance of 'missing the boat'.

Another lesson is that stocks make most of their gains in short spurts. This means that the price you pay for being 'out of the market' at the wrong time could be enormous. Between 1926 and 1993, a study out of the University of Michigan showed that 99% of the stock market gains occurred during the best 48 months, or less than 6% of the total time. During that same 68-year period, \$1 invested into the market would have grown to \$637. However, for the investor that missing only 12 out of those best 48 months, the return drops to \$65!

*Final words: It is time...not timing... that makes one successful in the market.*

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### Stocks to Watch – Constellation Brands (STZ)

For those of you new to the name, Constellation Brands is a huge US-based firm and a defensive stalwart in that it is very well entrenched in the liquor business... a sector which seems to do well both in good & bad times.

Their clients like to reach for the higher-end imported beer brands such as those in the Corona brand family like the flagship Corona Extra, Modelo Especial and the flavorful lineup of Modelo, Pacifico, and Victoria. They also offer wine and craft spirits brands, including The Prisoner Wine Company, Robert Mondavi, and the very recognizable Kim Crawford line.

As an investment, we see positive momentum leading into 2024, as 1) momentum in beer consumption remains solid with better cash flow, where the firm has stated a focus on returns and capital allocation to improve visibility.

**RBC's Thoughts:** Constellation has been delivering strong execution in the beer business, and the strategy for distribution expansion discussed by management provides further confidence in the company's ability to continue driving top-line momentum in beer. Additionally, RBC is encouraged that management may be more focused on driving improved returns going forward. The shares trade at a slight discount to its historical average and STZ competes against firms such as Diageo. RBC's Portfolio Group suggests that the current price level is attractive, and we would be buyers.

*I am gradually looking at increasing exposure to this name across our global equity model. Be careful, as we also own Constellation Software for clients as well (this is not it!)*

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### Last Words...

(from 'The Book of Awesome!)

Saying the same thing the sports commentator says just before they say it! At that moment you go from a track pant-wearing couch potato to an insightful sports critic with a sharp eye & a quick tongue... awesome!

That's it from me.

Ian

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