Newsletter
Spring 2024

Ian Fitz-Gerald

Senior Portfolio Manager & Investment Advisor

Our Monthly Morning Coffee

'If Karl, instead of writing a lot about capital, had made a lot of capital, it would have been much better.'

-Karl Marx's Mother

Good day,

After spending most of last Friday here in my office with the television tuned to TSN's Trade Deadline show, I feel that I witnessed several playoff-bound NHL teams get better by adding key personnel to their line-up via a litany of late-season trades.

I did not see however the Maple Leaf franchise fortifying their roster in any meaningful way. Yes, I admit, they can be an exciting team to watch on a Tuesday night in February against an over-matched Anaheim Ducks teams, but the definition of insanity is to keep doing the same thing again and again without success… given the fact that they are entering the playoffs with the same roster yet again lays credence to this, and I'm still not sure that this group has the grit required for a meeting with Lord Stanley this year.

At this stage, many of you should've received any RBC tax packages we owe you from our end. If not, please give us a call @ 416-699-4076 or have your accountant contact this office, as we are more than pleased to email this information directly in a protected format.

At this stage, you may be still waiting tax information from any of the ETF or Real Estate Investment trust (REIT) holdings you may hold in your taxable account. Feel free to call us to ensure you have every bit of information you are looking for.

In addition, please let us know if you have a financial plan through this office that has not been properly updated in the last 12-24 months.

Artificial Intelligence (AI) Exposure in Your Portfolio

To anyone wondering what outside exposure they might own to Artificial Intelligence (AI) outside of firms in your account like Apple & Microsoft, many of you hold a position called the TD Science & Technology fund, which is run by a Baltimore-based firm called T. Rowe Price.

Inside this fund, Nvidia is the largest holding by far at 14%, followed closely by Advanced Micro Devices (AMD) and Taiwan Semiconductor. This team is extremely sharp and has been managing a few funds for TD Asset Management the last couple of decades. Given their expertise, I would much rather get exposure to these names via this type of actively managed fund as opposed to owning these shares outright.

This fund itself is still an extremely volatile holding and was pummeled during 2022, showing almost a 40% loss… it did however rebound effectively in 2023 with a 51% gain.

In Canada, if there was one company we had to pick for AI exposure in the TSX Composite (other than Shopify), it'd be Thomson Reuters according to our own research. According to the current CEO, TRI has spent $2B over past 18 months to acquire AI-focused companies and has a few more billion ($) to spend on further M&A and investment in this space.

The First Homebuyer Savings Account (FHSA); An 'Alternative' Approach

I've recently fielded some questions about the flexibility & merit of this new FHSA account and if it would be a suitable alternative to a TFSA for a young investor. Through my research however, I've also found a possible alternative function for this account… In its initial design, young Canadians may invest up to $40k into the FHSA.

This account itself is almost like a hybrid between an RSP (where contributions are tax-deductible & proceeds grow tax-deferred) and a TFSA, where funds are withdrawn to buy a first home without taxation.

However, if the funds are not used to an initial home purchase via a 'qualifying' withdrawal, clients are allowed to transfer assets from their FHSAs to their RRSPs or RRIFs without any immediate tax consequences if it is a direct transfer and the RSP/RIF is also registered in the same name. Furthermore, the amount that is transferred directly from their FHSAs to their RRSPs or RRIFs will not impact their unused RRSP deduction room or their unused FHSA participation room. Given that you can open such an account between the ages of 19-72, it could possibly act as a secondary RSP.

In the case of someone having a significant pension adjustment (PA) on a paystub (and therefore little room for RSP deposits), this route might be an option to consider as an option shelter additional long-term funds.

The Impact of Tax Brackets on Income

My idea of enjoyable 'bracketology' is something that relates to the annual March Madness NCAA College Basketball Tournament, starting later this month…

However, as we are currently in tax season, there is another form of bracketology we need to be cognizant of. If you plan on incorporating investment income as part of your retirement income stream, you want to stay mindful of certain tax brackets to ensure to stay under certain thresholds.

In any event, here's a look at our limits currently in place:

Wealth Management
Dominion Securities

Canada:

• Up to $55867 - 15%

• $55867-$111733 - 20.5%

• $111733-$173205 - 26%

• $173205-$246752 - 29%

•Over $245752 - 33%

Ontario:

• Up to $51446 - 5.05%

• $51446-$102894 - 9.15%

• $102894-$150000 - 11.16%

• $150000-$220000 - 12.16%

• Over $220000 - 13.16%

(c/o of the CRA Website)

Keeping this in mind, know that any taxable dividends income stream within your tax filing, as 'eligible' Canadian dividends undergo what is referred to as a 'gross'-up' calculation prior to being assessed as income. These 'eligible' dividends means that they pay higher tax rates but receive a higher tax credit.

Another form of income that is affected is the Old Age Security (OAS) pension that is subject to what is referred to as a 'claw back', once we as Canadians exceed a certain income level in retirement.

Please feel free to call your accountant or myself directly should you wish to discuss this topic further.

'How Much Money Will I Need… ?!'

Some investors might say that their biggest fear of investing is the risk of losing principal; hence, why some brag about sleeping soundly at night with nothing but GICs. However, according to my colleague Mr. J.P. Owen, one of the biggest risks is not accumulating enough capital and outliving our money long after we've retired… which makes sense to me.

As an investor, you may presently have a decent-paying job and a lively portfolio of savings you've accrued over the years. It might be easy to be complacent about the future, but in fact, you may need a far larger pool of capital than you might think (especially given what inflation has done the last 2 years!).

1. We tend to underestimate how much income we need after kids' tuition fees and mortgages are paid off. Many folks feel they can retire on 60-70% of their previous incomes, but 80-90% is more realistic.

2. Life spans are growing longer; this means you could be drawing on your retirement savings for 25 years or even 30 years after leaving the workforce.

3. Many financial plans do not consider the potential for medical costs, where a serious illness could mean a huge monetary setback.

4. In the US, the savings rate today had dropped from 11% in the 1970s to less than 3% today, according to a University of Michigan study (this is only a presumption, but I am guessing that Canadian figures may be comparable)

A former McGill football teammate & one of my oldest friends (his initials are BG, but his alias on campus was 'Fathead!') managed to churn out a very successful career here on Bay St. BG was a man of wisdom and became somewhat of a mentor to me during my younger years. He had a funny rule for travelling that I will never forget, which incidentally ties into this topic… the rule was this: look at the clothes you're packing & the money you are bringing - cut the clothes in half and double the money… brilliant!!

If you are not getting the performance figures to provide the necessary funds you will need in retirement, there are alternatives, such as:

Wealth Management
Dominion Securities

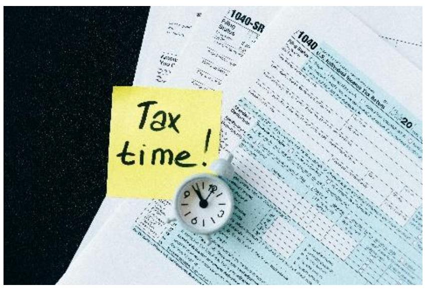
1. Pumping up your investment earnings

2. Start to save a lot more each month, or

3. Keep working into your 70s.

… this is why I rank a client's financial plan on the same level of importance as their investment mix - please give it some thought.

The TFSA - 'Yes… I Did Say 'Tax-Free!'



Yeah, yeah… I am obviously a little passionate about this topic & wanted to follow up our discussion from last time on the Tax-Free Savings Account, reminding you once again that we all have fresh contribution room of another $7k as of Jan 2024, compliments of our federal government in Ottawa.

Given the flexibility of this vehicle and the tax haven it can create within a household, it only makes sense to maximize what the government is offering in terms of potential benefits of this account. It also prompts me to suggest to clients to consider being slightly more 'aggressive' in your investment mix than you would otherwise inside an RSP account…

'Why on earth would I do that, Fitz…?!'

In the TFSA, both profits & capital may be withdrawn without any tax implications whatsoever.

Furthermore, these withdrawals can also be repaid back to the account the next calendar year without affecting your contribution limits. Given that most Canadian couples now have a combined lifetime limit of $190k ($95k x 2), this account could possibly play a very prominent role in retirement planning.

I mentioned this note during my last newsletter, but I will reiterate once again that Canadians 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.

(Beware of tax implications here, which I am more than happy to explain over a phone call).

For general equity exposure, I've always been a fan of using ETF holdings within a TFSA as a core component, as this approach enables an investor to be aggressive by owning equity without taking 'stock-specific' risk on a company that may possibly go belly-up in a ditch.

Let me make a point here – when I use the term 'aggressive', I do not mean offering this account as a licence to gamble. Over the years, I've seen TFSA statements sent to me from other firms featuring say, shares of Peruvian junior gold mining companies that lost their drilling rights, or drug firms experimenting with shark tissue to fight cancer that ran out of funding. Ideas such as these might've seemed like good ones at the time, but now are trading well below their book value @ pennies on the dollar; on some occasions, they are listed on a monthly statement as having no value whatsoever, simply stuck on the sidewall sludge of a client's account showing no value and completely unsaleable. In these cases, a monthly statement will arrive every 30 days almost as a cruel reminder not to be this stupid…!! If you want to gamble, go to Casino Rama or Vegas – just don't do it with money you've pegged to help you in retirement.

My own TFSA was filled at one time with nothing but US equity - the major holdings were two ETF shares; VFV (a Vanguard share representing the broader US S&P 500) and ZQQ (represents the tech-heavy NASDAQ 100). Over time, I've trimmed some of these holdings back in favour of individual stocks and ventured into energy shares (i.e., my holdings now include

RBC Wealth Management
Dominion Securities

Baytex Energy & MEG Energy) as well as tech firms I feel to be attractive. I may even look to add shares of BCE to act as a bond 'proxy' that may not even mature while it pays an 8% yield.

Please know that I research these names with almost as much fortitude & conviction as I research the companies which we own in client accounts. Losing money is not what I refer to as fun; besides, if I take a capital loss in this account, it is useless from a tax standpoint as it cannot be used to offset gains elsewhere. Regardless of the holdings either now or years ago, I will own nothing but equity in my TFSA as this makes sense for me – the lingering question here is what makes sense for you…?!

As always, call us with questions you may have.

Stocks to Watch: Cenovus Energy (CVE)

Cenovus is a Canadian energy firm which I've never added to my list of core holdings. The two dominant energy producers I tend to gravitate towards are Canadian Natural Resources and Suncor Energy. Our portfolio analysts however feel I should begin to follow CVE a little more stringently… so I did!

On the most recent quarterly earnings report, I learned that Cenovus had updated its 5-year plan that should leave investors and potential investors feeling good. The firm is now in the second of a three-year investment cycle ending in 2025 that will support about 150,000 barrels upstream growth, driven by investments in assets already in place. From 2026-28, the funds invested into capital assets should decline by about $1B/year; this figure is important as it should reflect a build-up of cash on its balance sheet… always a good thing for shareholders.

Overall, this update should be supportive of Cenovus shares which pay a dividend yield of 2.3%. Our strategists continue to prefer CNQ, SU and CVE (and in that order!) among Canadian oil producers.

** CNQ and SU pay dividends of 4.28% and 4.62%, respectively**

You recall the game that was played between the Kansas City Chiefs and the Miami Dolphins back in January?! The game time temperature was minus 20 degrees, with a wind chill of minus 33 degrees. According to a Missouri hospital, some fans in attendance had to undergo amputations after suffering frostbite. These were primarily fingers and toes…

Hey, I'm a huge fan but I would've been watching this from my living room…100%!

Last Words…

Here's a quick note from 'The Book of Awesome' about something we've all used at one time or another… the Five-Second Rule! You know… it's that ancient scripture that states it is perfectly fine to eat a morsel of food off the floor if you pick it up within five seconds! The rule has been known to be extremely handy, but is also scientifically proven…

If a floor is covered with salmonella or E. coli, your food will instantly be infected, even if it touches the floor for only a split second. However, the University of Illinois study shows no significant evidence of contamination on public flooring in general.

Hey... chalk one up to science!

That's it from me.

Ian

Wealth Management
Dominion Securities
