



Wealth Management
Dominion Securities

Newsletter

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Our Monthly Morning Coffee



*"All hockey players are bilingual.
They know English and profanity." –
Gordie Howe*

-Gordie Howe

Good day,

The verdict read 'Guilty' on 34/34 charges... and he still may win in November.

I have a small 14-inch TV here in my office which is normally tuned to either BNN or CNBC for corporate news & market updates. However, on occasion, I've been guilty about turning on CNN to follow the events surrounding this Trump 'hush money' case. I guess I can partly blame my own curiosity for this mis-spent time, but it amazes me how the American political & legal

machines function so differently than what we have in Canada.

After court most days, I would see DJT emerge in a fluster from his day in court only to yell at cameras, claiming the trial is a farce and severely criticize his persecutors, repeatedly saying that 'many scholars' (no names though!) have said that this case should be thrown out. For a man claiming to love America the way he does at his political rallies, he has turned his back both on the freedom of expression through a lack of acknowledgement towards the national electorate and voting public, and the individual's absolute right to freely elect their leaders. He's done the same thing with the judicial system which allows Americans themselves to legally decide between right & wrong without retribution, which could lead to a generous turn in how society views the committing of an illegal misdoing... you can't not accept decisions which only go against you!

Regardless, the news of his pending sentencing in July only seems to be driving the fundraising efforts his campaign is spearheading - which is astonishing in itself! The Republican candidate to the White House still also has several other legal cases which will assumingly be hammered

out in the courts while he continues to campaign.

With this type of abnormal behaviour at the very pinnacle of America's political office, I am just glad I live in the country we live it. I also may limit my future excursions 'south of the border' before Election Day.

RBC's Premiere Private Banking Service



I wanted to speak a little bit today about how you can benefit from the personal attention of a dedicated Premier Banking Advisor by being a client of RBC Wealth Management...

In this specialized & complementary service package, your household will have its very own private banking professional who acts as a member of your Wealth Management team. The features include:

- One RBC Private Banking Account, which includes the use of an exclusive Private Banking black client card.
- Three additional accounts (two Canadian and one U.S. dollar).

- Other exclusive features, including personalized cheques, overdraft protection, three free drafts, preferred FX rates, unlimited debits, etc.

This private client service is being introduced to clients of RBC Dominion Securities currently holding assets of \$1M and over. If you'd like more information, please contact either me or Maria directly, and we can make an introduction to our very own dedicated Premier Banker, Claudia...

An NHL Play-off Hockey 'Recap'



Realistically, this hockey action really should be over by the end of May...

Nevertheless, and despite Toronto's quick exit from the NHL play-offs, Canadians can still celebrate the fact that after a 2-decade dry spell, we will now have official representation as a country in the Stanley Cup Finals, c/o the Edmonton Oilers and

their perennial superstar Connor McDavid.

Edmonton's superstars certainly stepped up their game during the Oilers' first three series, as the big guns of McDavid, Leon Draisaitl and Zac Hyman (yes, wouldn't he look good still in a Toronto jersey?!) emerged from boys to men, overcoming tough opponents in series against LA, Vancouver & Dallas. Keep in mind that this Dallas squad had to go through Vegas & Colorado before they got to 'Oil country... possibly the two best teams in the west... so don't think for one second that they weren't battling some extra bumps & bruises from their last set of opponents. Nevertheless, these playoffs at times can simply be viewed as a system of attrition where it may simply come down to the 'last man standing'.....

At this stage, Edmonton will be in tough against a very resilient Florida Panthers squad, a solid and well-balanced hockey team with four deep solid lines that head coach Paul Maurice can simply role out, shift after shift. This final series will be an absolute test of fortitude & toughness, and I am personally both surprised & impressed that some of these players can still walk due to the physicality we've seen these last two months.



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I'm excited to continue to watch great on-the-ice action, despite going deep into June ...Go Canada Go!!

Insurance & RBC Wealth Management



If you've been catching some of the NHL playoffs on TSN or CBC, you've undoubtedly seen a television commercial which shows a young couple seated in front of an office desk with a fellow donning a hockey sweater and a bad mullet, mumbling something about **'investments in the front... insurance in the back... we do it all'**. It is a Co-operators commercial 'pumping the tires' on their financial accessibility using both platforms. I guess it's effective to some degree, because here I am referring to it in this newsletter.... wait, I do this too!!!

I have many, many personal faults! One major faux pas throughout my career is that I am guilty of the inability to speak in depth about the many services that Maria & I undertake for clients. Life insurance and its merits is absolutely an

integral tool for some households when it comes to investing within an estate plan. I'm not referring to home & auto insurance... rather, insurance in different ways, such as in the sense of offering a client additional tax-free growth via a whole life policy, or if it makes sense to use insurance to cover a potential tax liability in an Estate.

I want to take the next 2 minutes to highlight a current insurance case we are working on right now. Here's the scenario (and yes, the client has given me permission to share this story):

- Our client is a single father, age mid-50's with two daughters.
- His wife, an executive who recently passed away, had left a large RSP the result of her pension plan which he now owns as he was the beneficiary.
- Due to unforeseen circumstances, the family house was sold (partially to help pay medical costs, etc.)
- The father has shared some of the proceeds with his daughters for university costs (tuition & board) and is using the rest to rent a larger home outside of the city.
- His main asset is an RSP with a value of \$2M with the

two daughters as equal beneficiaries. His intention is for them to inherit as much as possible. However, here is the 'rub'... **when our client passes, there is no tax-free spousal rollover** (this is due to the fact there is no longer a spouse).

Consequently, the RSP account balance would be deemed 'income' in the year of death... and would be taxed as such. This means that despite the daughters being equal beneficiaries, there would be a tax bill of approx. 50% to pay out on the Estate prior to assets being divided.

If our client was to pass today, the daughters would not get \$1M each – they would get amounts closer to \$500k, while \$1M was sent to the Canada Revenue Agency (CRA) to cover income taxes from the Estate.

In this case, we are currently looking at different Term-20 as well as Term-100 insurance policy options to measure the cost of a policy to would cover most (if not all) of the future taxes that might be payable upon death. We've connected not only with RBC Insurance, but also Manulife and SunLife. Given that this is the father's main asset in his Estate, he expressed a desire to maintain & preserve its value. At this stage, given his age and non-smoking status, we are looking at monthly quotes of approx. \$800/month for \$1M coverage. I've run the figures



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a few times and will tell him this type of coverage deserves some consideration.

In times like this, the use of various insurance programs may be worth exploring when looking at the task of spending a little bit of \$\$ now to save a potentially hefty tax bill down the road. As always, please contact us with any life insurance questions or issues you might have, including reviewing an old existing policy that might need updating.

Interest Rate Cuts This Summer...?!



So according to documentation I've received in our fixed income report, RBC was not overly surprised when the Bank of Canada moved to reduce interest rates by a quarter point this week. Domestic demand here in Canada is dwindling in the face of elevated borrowing costs which has limited price growth. Businesses have repeatedly reported a loss of pricing power as a weakening demand backdrop adds to competitive pressures and pushes bankruptcies higher. Households

reduced spending on discretionary items, such as furnishings & household equipment, recreation & culture, with lower income households cutting back the most. Meanwhile, inflation on necessities forced low-income and middle-income households to rely on their savings to make ends meet. This will have direct implications on future spending as these families will have fewer liquid resources to tap into.

According to a report from TD Bank this year, middle-income Canadian households also became more indebted than before the pandemic. As households continue renewing their mortgages, the higher cost of debt servicing could cause some families to fall behind on their debt payments or seek relief measures from financial institutions. Based on this, a ¼ point cut we just saw was totally justified...

The situation however south of the border is very different. We believe that the Federal Reserve is in a much tougher spot when arguing for interest rate cuts. Slowing inflation readings last year, despite a solid economic backdrop, raised hopes that price pressures could ease without a significant deterioration in the broader economic growth backdrop. The U.S. labor market remains strong overall, but RBC Economics expects depleted pandemic savings will force U.S. consumers to gradually reduce their spending over the rest of the year, slowing inflation pressures before the Fed can pivot to interest rate cuts in December.

Based on the commentary above and the rationale, we see Canadian rates falling sooner than US rates. This is the time when being diversified geographically has benefits to a portfolio, as reduced rates will inevitably cause further weakness to the C\$ - which has an enhancing effect on the value of assets prices in US\$. As a long-term investor, you also want to own businesses that have a large earnings base outside of North America, as this can 'soften the blow' from slowing domestic sales. Being diversified by covering as many bases as you can allows your money ride out tough times as well as good times...

As always, call me directly with questions you might have.

UnitedHealth Group (UHN) – The premier managed care player in the US



The US Healthcare sector has severely under-performed the overall market year-to-date. However, over the long term, we still believe an investment in the managed care sector is the best way to gain exposure to serious population



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demographic 'tailwinds' (we see roughly 11,000 Americans ageing into Medicare each day – a rate that is only rising).

An investment in the managed care industry makes sense to us given these companies have scale advantages, operate in an oligopoly, have some pricing power, and generate significant free-cash-flows. In this commentary, we discuss the business model for managed care companies, recent issues impacting sector performance, and why we believe this is an entry opportunity for UnitedHealth Group (UNH), as we believe UNH is the best name to play the sector's underperformance:

1. Well-diversified - UNH's five main businesses include a pharmacy benefit manager, health insurance, home healthcare, ambulatory hospitals, and software/data analytics. Based on this, UNH is not materially exposed to a slowdown in any one area of the business.
2. Strong profitability and cash flow generation: UNH is a well-operated company generating high levels of free cash flow. The management team is well regarded for being disciplined and creating long-term shareholder value which continue to grow its dividend.

3. Attractive valuation: UNH's share price is down 2% year-to-date, underperforming the S&P 500 which is up 11%. I would buy this stock anywhere under \$500/share.

We've owned UnitedHealth Group in our Global discretionary models for the last 3 years and continue to add to it on any weakness.

The Canadian Market – How Attractive Is it?



Most of the portfolios we oversee for clients will typically maintain some degree of exposure to the Canadian market, even though our market is not what I refer to as being 'fully diversified'. When you look at a pie chart of the TSX, you have almost 2/3 of the exposure to financial stocks (and other rate-sensitive shares) as well as resource companies.

Nevertheless, the S&P/TSX Composite has returned a very respectable 8.5% year-to-date for 2024, supported by strength in the resource related sectors. To be

specific, rebounding commodity prices and return of capital initiatives have caused the Materials and Energy sectors to rally by 23% and 18% respectively. In terms of re-balancing, we've been active for clients in terms of moving funds into some of the under-performing banks; recently, the banking sector has been able to show some figures where loan-loss provisions are gradually falling, which adds to earnings. Despite BMO having a horrible quarter, our main holdings in RBC and TD Bank ** both showed earnings resilience this past month of May.

On the consumer side, we've also initiated a new position in Loblaws, which has benefitted from the uptick in earnings through its Shoppers Drug Mart brand.

Last month, our Investment Committee removed TELUS Corporation from our suggested RBC Income Portfolio. While TELUS is our preferred company for those wanting exposure to Telecommunications, the sector itself is under considerable pressure as competitive intensity remains robust. However, I will continue to own both TELUS and BCE for clients, collect the dividend, and ride out the storm here - I feel these shares will reverse course once Canada begins to trim interest rates. Recently due to pricing cuts with OPEC, we've seen large declines in oil prices and have added to existing resource-based names such as



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Suncor and Canadian Natural Resources, while exploring other names like ARC Energy and MEG Energy (both of which I own in my TFSA!).

The Canadian tech sector has been one of the worst performing sectors in 2024, partially driven by the selloff in Shopify and the headwinds in the telecommunication industry (i.e., increased competition, higher leverage, and elevated payouts). I do not own SHOP shares for clients but do offer exposure to the webservices company via the Canadian Information Technology Index ETF (symbol is XIT).

All-in, the year-to-date returns have been attractive relative to history in our view, and we would note that the index is trading at 13.4x earnings on 2025 estimates, representing a modest discount to its long-term average.

*(** For the record, TD Bank will continue to be a fixture in this Canadian portfolio model we oversee; despite the headline risk we are seeing from alleged money laundering charges in its US operations, the bank seems to be managing it quite well & has available cash to pay out any pending fines the DOJ may impose. BTW, one of the secrets to successful investing is the ability to buy good firms when they are under duress... TD Bank shares may well be a prime example of this type of opportunity)*

So once again, the 'Sell in May & Go Away' strategy would 've backfired badly this year had investors followed this strategy (and I use that term lightly)! Remember to stay invested and limit your media-driven 'noise' intake. Please call me directly with any individual names you'd like to discuss.

Last Words...

Over the last several weeks, the country of North Korea has been floating hundreds of gas-filled balloons filled with garbage... used toilet paper, manure, cigarette butts, animal feces, etc. – across the border into South Korea. The South Korean government has promised that it would respond to North Korea's "absurd, irrational acts of provocation" with "unbearable" retaliatory measures.

According to newsfeed Al Jazeera, observers say South Korea will likely restart front-line loudspeaker broadcasts into North Korea that include criticism of its human rights situation (or lack thereof!), world news and K-pop songs. North Korea is extremely sensitive to such broadcasts because most of its 26 million people have no official access to foreign TV and radio.

You can't make this stuff up - this is what our world has come to. One last thing... we shouldn't ever take for granted this fabulous country that we live in.

That's it from me. Have a great summer.

Ian



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