Wealth Management
Dominion Securities

APRIL '24 EDITION

not your ORDinary newsletter

The Total Solar Eclipse: A Metaphor for Investing

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APRIL MARKET UPDATE

Earlier this week, a total solar eclipse was seen across many parts of Ontario for the first time in a couple of generations. During this phenomenon, a few things have to happen: the moon completely blocks out the sun from view in the middle of the day; schools close down to avoid having children accidentally blind themselves; and the marketing departments for large companies attempt to one-up each other with lucrative eclipse-related consumables (check out this article from CNN and either laugh or shake your head in disbelief… or both).

As much as the hype around the eclipse may have gotten a bit (or a lot) overdone, it was a pretty amazing sight. **We can take for granted that human beings have developed the technology and ability to predict - *to the exact second* - when a giant rock 385,000 kilometers away from our slightly larger (and much nicer!) giant rock will briefly obstruct our view of a flaming, energy-giving ball of plasma 400 times further away**… science and space can be mind-boggling sometimes!

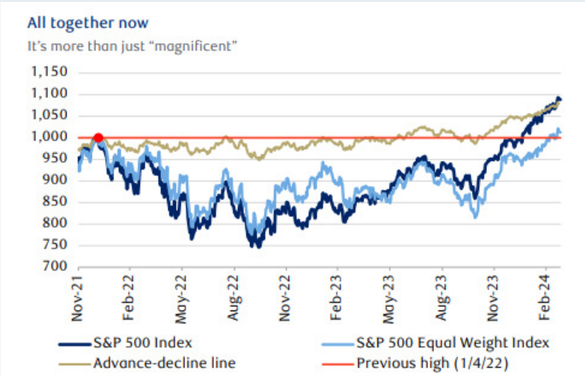
Since this particular event apparently won't happen again in Ontario until the year 2099, we had only one shot to capitalize on "Eclipse Mania" and use this as a metaphor for investment strategy in our newsletter. So, even if it's a bit of a reach, we had to do it!

For our simplistic eclipse-related investment scenario, let's assume the following:

Earth = Investor
Sun = Long-Term Financial Plan
Moon = Short-Term Distraction

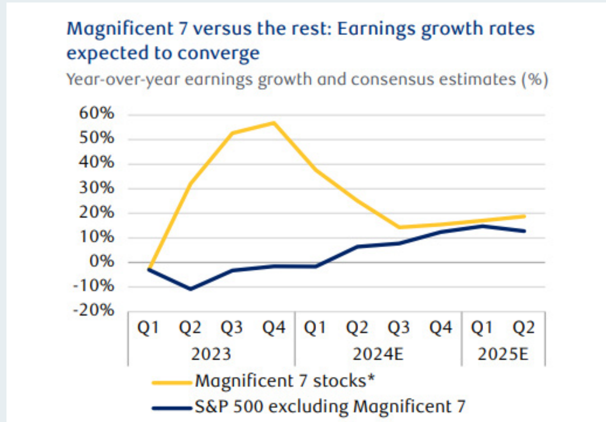
Told you it was simplistic! The Earth has relied on the Sun for a very, very long time. An investor relies on their long-term planning to achieve their financial goals.

For Earth, every so often, the Moon will get in the way to block its view of the Sun. Temporarily that may cause some problems (recent headlines said the United States could have lost 30 gigawatts of power during the eclipse, equivalent to the output from 30 nuclear reactors). For an investor, those short-term distractions (like a market correction or influx of negative headlines) can often feel just as draining as that loss of power. What is important to remember is even if your long-term plans are hard to visualize at that moment, they're still there. Also, any ophthalmologist will tell you it's not healthy to keep staring at the moon when it's blocking the sun. Or more clearly put: **If you focus on the short-term for too long, you can damage your long-term vision!**



Not only has the market-capitalization-weighted S&P 500 Index reached a new all-time high, so too have the S&P 500 Equal Weight Index and the advance-decline line.

Note: Data series indexed to 1,000 on 1/4/22, the date of the previous S&P 500 high.
Source - RBC Wealth Management, FactSet, stockcharts.com; data through 3/25/24



* Magnificent 7 stocks are Apple, Microsoft, Alphabet, Amazon.com, NVIDIA, Tesla, and Meta Platforms.

Source - Bloomberg Intelligence, RBC Wealth Management; data as of 4/3/24; 2023 actual results, Q1 2024 onward Bloomberg consensus estimates (E)

For most of 2023 and into 2024, a common short-term narrative in markets was that the rally was too narrow to sustain itself. The Magnificent 7 stocks were almost entirely responsible for gains in the S&P 500, and most other sectors were not yet participating. While that could have been a valid concern at one time, it is clearly no longer the case. Not only has the main index reached new highs, the chart above confirms that the S&P 500 Equal-Weight Index (which limits the outsize effect of the "Mag 7" companies) has also scaled new heights. This goes to show that **more and more stocks are beginning to participate in this rally,** something known as positive "market breadth" which is a hallmark for sustainable rallies (visually indicated by the Advance-decline line on the chart).

Similarly, we are also beginning to see earnings growth start to broaden out to other sectors and companies. While the Mag 7 rode their blowout 2023 earnings to major gains, those same blowout earnings will now provide a tough comparison to beat in the next few quarters. This will more than likely bring their earnings growth rates lower to close the gap with the rest of the overall market (see chart above). Encouragingly, the earnings of those other companies are expected to increase, which could lead to some timely opportunities in previously underperforming sectors. **As always, diversification is strongly recommended to maintain your long-term focus and to avoid putting too much risk into one area, no matter how compelling the opportunity seems.**

With the exception of those physicists and astrologists who figured out the path of the eclipse, **human beings usually have a very difficult time forecasting the future.** This is evident in many facets of life, but it is made obvious when looking at past predictions for the stock market or economy. Look no further than this graph below from Bank of America. Near the beginning of each year, they survey financial professionals for their opinion on where they think the United States currently is in the economic cycle.

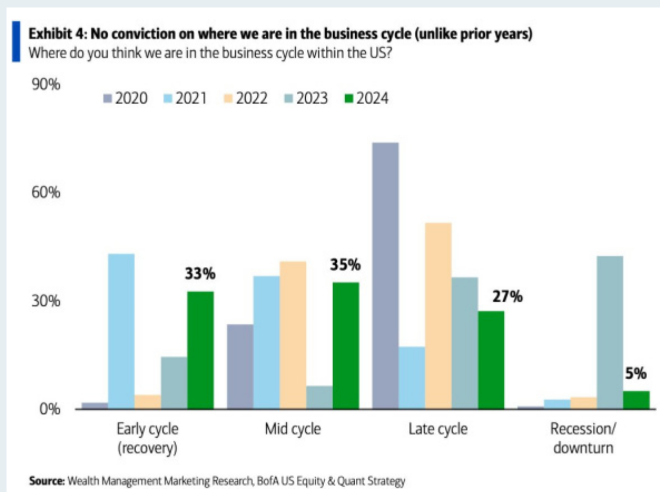
As you can see, there is rarely a consensus view as forecasts are wide-ranging. However, looking at 2023, there was a significant group (roughly 40%) in the survey that predicted the US was already in a recession. A majority of the others thought they were in the late innings of an expansion with a recession soon to follow, clearly displaying a strong negative bias. At the time, the stock market had just come off a very difficult 2022 and pessimism was rampant. Of course, the S&P 500 would then go on to rally over 24% in 2023, while the United States' Gross Domestic Product (GDP) rose 6.3% on an annual basis to over $27 trillion. The point being: most short-term forecasts were dead wrong last year due to this very scientific formula:

Human Brain + (Money x Fear)^2 = Mistakes

Science.

On the other hand: now that markets have rallied to all-time highs and investors are feeling more comfortable, the survey for 2024 looks entirely different. Most now expect the economic boom to continue for a while with little chance of a recession (looking a bit similar to 2021 in that respect).

The market has seemed to take fear out of the equation for now, and hopefully that will help to keep things moving along smoothly for a while. However, it never hurts to keep your guard up when consensus is growing on one side of an argument. **Will the stock market once again "eclipse" its previous highs? Or is there something dark and ominous lurking out there, ready to swoop across our collective vision to distract us?** If that were to happen, just remember the advice we all received many, many times this past week: "Don't stare directly at it!". The sun will re-appear as it always does, it just takes time.



UNLOCKING TAX EFFICIENCY: THE TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA)

As we settle into 2024, the days are growing brighter (apart from the recent solar eclipse), and spring has finally sprung! With the RSP contribution season for 2023 behind us, many are now focused on filing their taxes. At Ord Private Wealth Management, we believe this is the perfect time to shed some light on a beneficial tax-saving opportunity: the Tax-Free First Home Savings Account (FHSA).

What Is the FHSA?

The FHSA is a registered account introduced last May, specifically designed for first-time homebuyers. Here's why it's worth considering:

- **Tax-Free Savings:** Qualified investors can contribute up to $8,000 per calendar year, with a total limit of $40,000. These funds can be withdrawn when purchasing your first home.
- **Eligibility:** To benefit from the FHSA, neither you nor your spouse should have owned a home as a principal residence in the last 4 calendar years.
- **Tax Efficiency:** The FHSA offers tax-free growth within the account (similar to a TFSA). Additionally, you can write down your $8,000 annual contribution against your personal income (similar to an RRSP).

Additional Advantages:

- **Contribution Room Carry-Forward:** Even if you don't plan to contribute this year, opening an FHSA in 2024 allows you to carry forward contribution room. If no contribution is made this year, you can contribute $16,000 in 2025.
- **Complements the Home Buyers' Plan (HBP):** The FHSA works alongside the HBP, which allows you to withdraw funds from your RRSP for a first-time home purchase.
- **Benefit for Your Kids:** Consider opening a FHSA for your children. As previously mentioned, their carry-forward contribution room accumulates, supporting their aspirations of being homeowners.

We've also included a **link** to an article that discusses the features and advantages of the FHSA. If you're interested in opening a Tax-Free First Home Savings Account or have any questions, please don't hesitate to reach out to us.

AS ALWAYS, PLEASE REACH OUT TO US DIRECTLY IF YOU HAVE ANY QUESTIONS OR CONCERNS RELATED TO YOUR PORTFOLIO.

ORD PRIVATE WEALTH MANAGEMENT

Best regards, John, David, Tim & Mikail

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