Wealth Management
Dominion Securities

JUNE '24 EDITION

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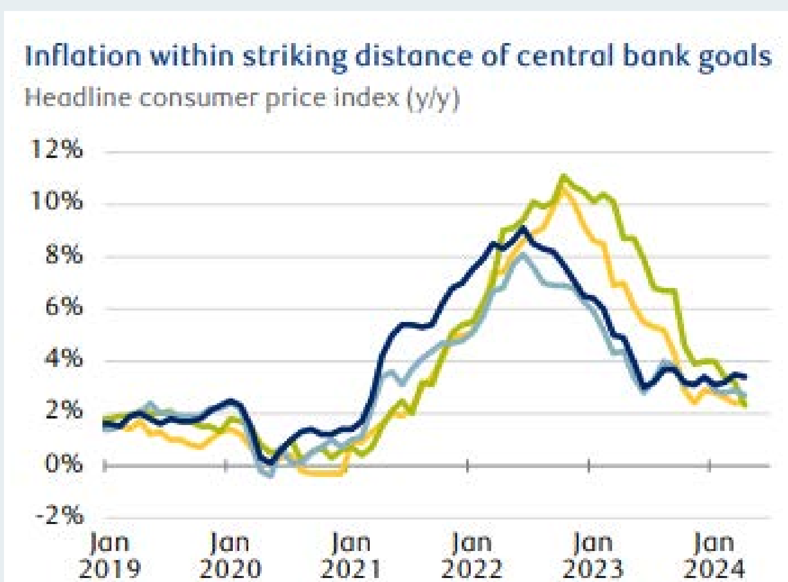
JUNE MARKET UPDATE

With the Canadian Open at Hamilton Golf and Country Club wrapping up just over a week ago and the U.S. Open at Pinehurst No. 2 starting this coming weekend, this seems like the perfect time to pop on a collared shirt, grab the clubs and tee off on a golf tournament-themed version of Not Your ORDinary Newsletter! Coincidentally, **much of the economic and stock market discussion this past month has centered around "making cuts!"**

FIRST ROUND - OPENING TEE SHOT: CENTRAL BANKS' INTEREST RATE POLICY

Let's tee up the current situation: For the first time in over 4 years, the Bank of Canada (BoC) made the decision to cut interest rates on June 5th. By doing so, they have lowered the overnight lending rate to 4.75% from the previous 5.00%. While this 25bps change will only cause a small divot to the debt pile of the average consumer (and/or homeowner), the important thing to remember is that **we are now only beginning this next part of this rate cycle.** Almost assuredly, **the Bank of Canada will continue to lower interest rates at their upcoming meetings,** absent any unexpected inflation surge. How much they decide to cut over the next several months can have significant effects on personal budgets, stock markets, real estate, and more. The next BoC rate decision is on July 24th. We'll be watching!

This shift in policy from the BoC is something we had been expecting, as CPI in Canada had fallen back into the bank's acceptable range of between 1% and 3% in recent months (currently 2.7% YoY) and closing in on their policy target of 2%.



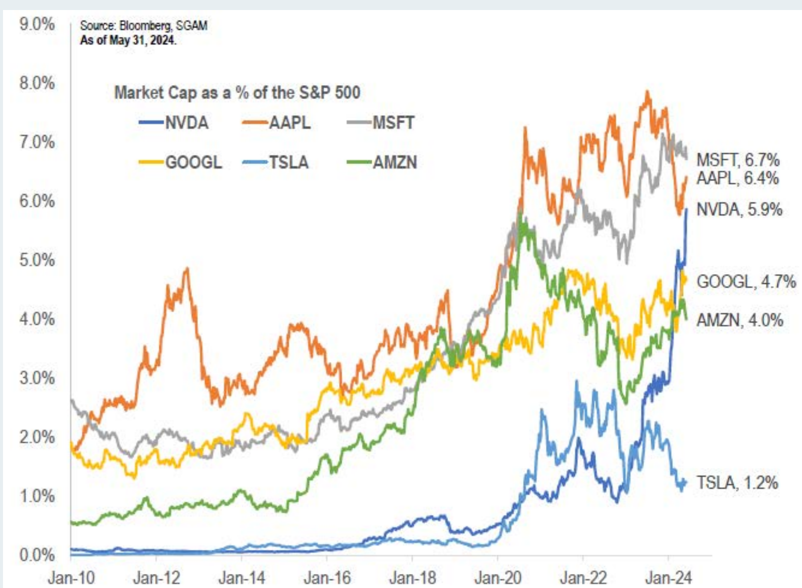
Combine that with some softer economic data recently and the timing was right for making the cut! The European Central Bank (ECB) apparently agreed, as they also cut rates for the first time in nearly five years! The ECB lowered their interest rate from 4.00% to 3.75%, which is a far cry from the -0.50% overnight rate they had back in 2019! Anyone remember negative interest rates? Feels like half a decade ago...

The Federal Reserve in the U.S. is in a slightly different position, as their stronger economy is keeping them on pause until the inflation data gives them enough reassurance to start cutting as well. To borrow some more golf lingo, **the U.S. economy is the leader in the clubhouse, with all other countries hacking away to play catch-up.** As the chart above shows, the major economies have all see a significant inflation reduction in the past two years, so the Fed will likely be joining the cut party later this year.

SECOND ROUND - WHICH COMPANIES ARE ALSO "MAKING THE CUT?"

For those of you that are not as familiar with professional golf: after the first two rounds of a tournament, there are a certain number of players that qualify to play the final two rounds (known as "making the cut"). The rest of the players "miss the cut" and must sadly go home and practice golf for a living before they get to come back next week and play golf for a living. Our sympathies to them.

From a market perspective, we are nearing the end of the 2nd quarter, which marks the halfway point of the year. **If the stock market were a golf tournament, clearly some of the "Magnificent 7" stocks would make the cut.** The chart below shows 6 of those 7 companies (Meta is excluded here despite being larger in size than Tesla), along with how big their market cap is relative to the entire S&P 500 index. Speaking of Tesla? Their recent performance would certainly



put them below the cut line, as they are down 30% on the year. Minus 30 might be incredible in a real golf tournament, but not here.

Nearly 28% of the S&P 500 is now made up of just 5 companies: Microsoft; Apple; Alphabet; Amazon and Nvidia. While the first four of those companies have taken up a large percentage of the index for some time, Nvidia has really shot up the leaderboard, and recently joined Microsoft and Apple as the only companies to ever cross the $3 trillion market cap milestone.

Microsoft and Apple could be referred to as the Tiger Woods and Rory McIlroy of this generation, with their instant name recognition, utter dominance shown at times, and the fact that it just wouldn't feel the same without them around.

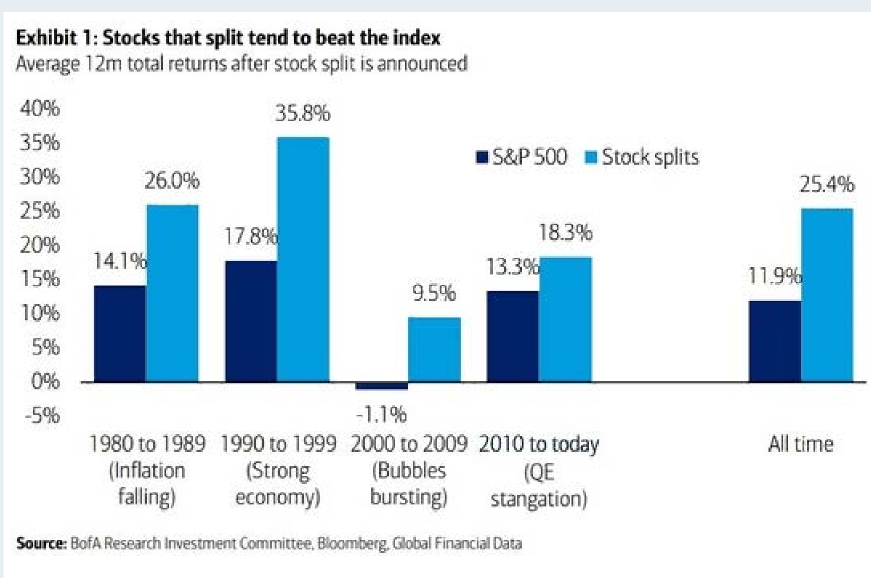
Nvidia would be Scottie Scheffler. The "next greatest" that people are only now beginning to recognize. Everything they touch has turned to gold, with Scottie winning 5 tournaments already in 2024 (including the Masters) and Nvidia up 145% year-to-date while smashing earnings expectations along the way. They are undoubtedly the best in the game this year and seem to only get better.

Alphabet would be Christiaan Bezuidenhout, since that is what his name reminds me of.

THIRD ROUND - MOVING DAY: WHO IS BEST POSITIONED TO WIN FROM HERE?

Which companies could have the best chance of being champions going forward? There are some factors that often lead to positive stock outcomes. A couple of these are referenced in the following charts:

1. Companies that announce stock splits. While it may seem silly that issuing more shares and reducing the price of your stock by an equivalent level would lead to share



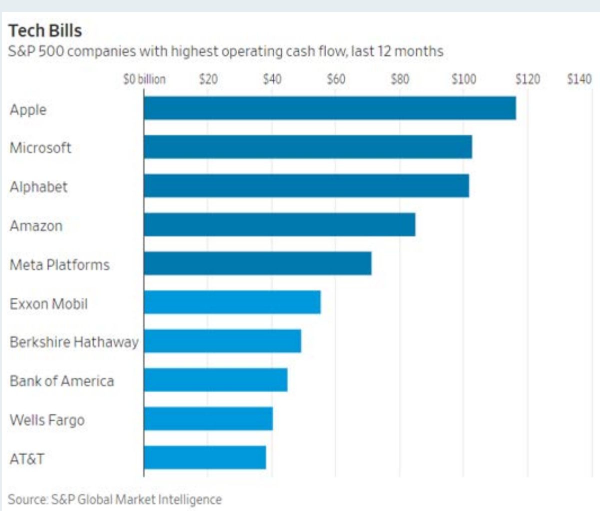
price gains, there is tangible proof that it has done exactly that in the past. **Stock splits are a tried-and-true technique to not only get your company's name in the headlines, but to increase your investor base** by making the share price more affordable to retail clients. This month alone: Nvidia, Amphenol and Canadian Natural Resources are all finalizing their previously announced stock splits. Since they are all companies in our discretionary model portfolio, here's hoping this positive correlation continues.

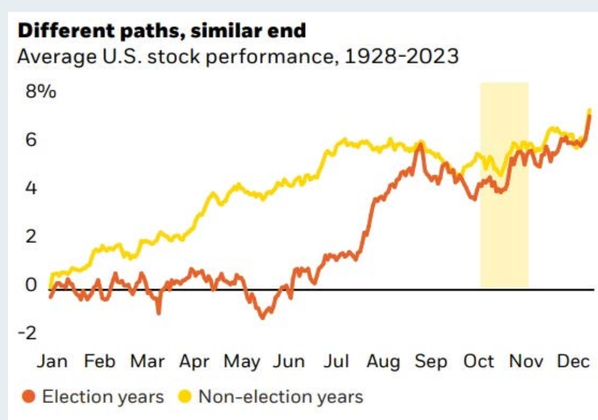
2. Generating a LOT of cash. There are some very familiar names on this chart below. **Producing massive cash flows is the hallmark of a great company, especially true in times of higher interest rates.** If a company does not have to take on debt to finance their activities and can simply invest their excess cash to earn interest (or save it for a timely capital investment or share buyback), it makes them that much more attractive to investors than many other cash-burning companies out there.

FINAL ROUND: CROWNING A CHAMPION (OR PRESIDENT?)

Since we don't know for sure which company will win the Best of 2024 tournament just yet, we can look at market history to show that the latter half of election years has often been very successful for investors. As you can see in this chart, **the stock market during election years has usually found its footing on the "back nine" after putting along at the beginning.** With interest rate cuts expected for later in 2024, perhaps we see something similar this time. Once there is certainty around who the U.S. president will be, that can lead to continued gains through December.

Time for us to hit the 19th hole! Until next time.





Source: BlackRock Fundamental Equities, with data from Bloomberg, January 1928 to December 2023. Chart shows the average progression of U.S. equity performance in election years and non-election years. Shaded area represents the Election Day window.

THE IMPORTANCE OF HAVING THE TOUGH CONVERSATIONS WITH YOUR LOVED ONES

Talking about death, incapacity and money can be uncomfortable, but it's crucial. Having these discussions with loved ones can ensure that your wishes are known and will be respected, reducing the risk of legal complications, and ensuring a smooth transition of assets during difficult times.

In this section, we will discuss the importance of choosing the appropriate retirement residence or long-term care home for your loved ones, as well as the important considerations regarding the duties of Executors & Powers of Attorney.

Understanding and planning for these aspects of long-term care and end-of-life arrangements can ease the burden on yourself and your loved ones, ensuring peace of mind and well-being.

NAVIGATING RETIREMENT RESIDENCES AND LONG-TERM CARE

When planning for retirement residences or long-term care, it's essential to understand the various options available and the responsibilities associated with them. Here's an overview:

Public Sector: Provincial Health Authority

Provincial Health Authorities offer long-term care services funded by the government, ensuring access to necessary care for those who need it. These services typically include medical care, assistance with daily activities, and various support services.

Private Home or Personal Care Aide

Private care options provide flexibility but can be more costly. These include:

- Hourly to Overnight Care: Typically costs around $35 per hour.
- Agency or Private Hire: Costs vary significantly, often higher than public sector options.

Live-in Caregiver Program

The Employment & Social Development

Canada program allows families to hire caregivers to live in their home and provide care.

RESPONSIBILITIES OF AN EXECUTOR

An executor's role is similar to a general manager. They must tend to the needs of beneficiaries, business partners, and professionals involved in the deceased's affairs while managing their own commitments. **Settling an estate can involve over 70 separate duties, depending on its complexity.**

Some of these duties include:

- Settling the estate in accordance with both the wishes of the deceased and the law
- Identify, collect, safeguard and distribute the assets of the deceased.
- Provide ongoing communication with the estate beneficiaries or family members.
- Identify and work with competent professionals to assist in their duties, like tax, legal and investment professionals where applicable.
- Fulfil all legal and tax obligations.
- Maintain an accounting record of the estate settlement for the beneficiaries.

POWER OF ATTORNEY (POA):

A POA is a legal document that names a person to make decisions on your behalf. There are two main types:

- POA for Property: Manages finances and assets.
- POA for Personal Care: Covers personal decisions like housing and healthcare. The attorney for personal care can only be an individual, while a POA for property can be an individual or a trust company.

Having separate attorneys for property and care is possible, but they must work together harmoniously.

Importance of Regularly Reviewing POAs

Without valid POAs, incapacitated adults require court-appointed substitute decision-makers. **No one, not even a spouse, has the legal right to act on behalf of the incapacitated individual without a POA!** A recent survey revealed that 65% of Canadians lack a POA, highlighting the need for awareness and preparation.

If no attorney is named, the court must appoint a guardian or trustee, a complex and time-consuming process involving affidavits, medical evidence, asset inventories, and potentially a bond. It is vital to name a primary and an alternative attorney to avoid this situation.

If you would like to learn more, we have provided a link to an article that discusses this topic in more detail. Please reach out to the team if any further information is needed.

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

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Best regards, John, David, Tim, Mikail & Michael

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