Wealth Management
Dominion Securities

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Back-to-School:
Filling up our Investor's Backpack

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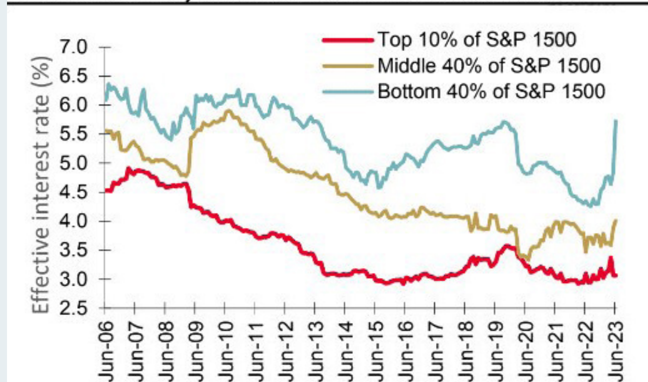
As the summer starts to wind down, it often seems like the warmest months fly by at twice the speed they should. However, for many people, there is an event each September that can help keep their spirits high despite the weather turning cooler: **It's BACK TO SCHOOL!!** The one phrase that will make anyone with school-age children high-five a stranger out of pure joy! But before those kids head back to the classroom, there are a few things they need in order to prepare for the year ahead: a backpack full of supplies; some words of wisdom from their parents; and yeah.. probably a little bit of cash. The basic needs of an investor are really not that much different, in our opinion. Join us as we prepare for Back-to-School time and find out what key items we'd recommend stuffing into your "Investor's Backpack" this September.

WHAT TO PACK:

1) A Diversified Account Lineup – If you haven't taken advantage of all the different ways to invest in tax-sheltered accounts, then make that a priority this year! Every Canadian investor should have a Tax-Free Savings Account (TFSA)... period. They should also have a Registered Retirement Savings Plan (RRSP) if they are earning employment income, and a Registered Education Savings Plan (RESP) if they are starting to save for their kids' education after they are born. More on RESPs later in this newsletter. Saving up for a down payment on your first home? The new First Home Savings Account (FHSA) is now available and is a great addition to this lineup. Each of these accounts can hold investments the same way a non-registered account can, except that tax consequences when selling positions is either deferred or non-existent in the case of a TFSA. An RRSP and FHSA also provide an income tax deduction in the amount of the contribution. **Saving on taxes is one way to enhance your total returns, so make sure you are not missing out!**

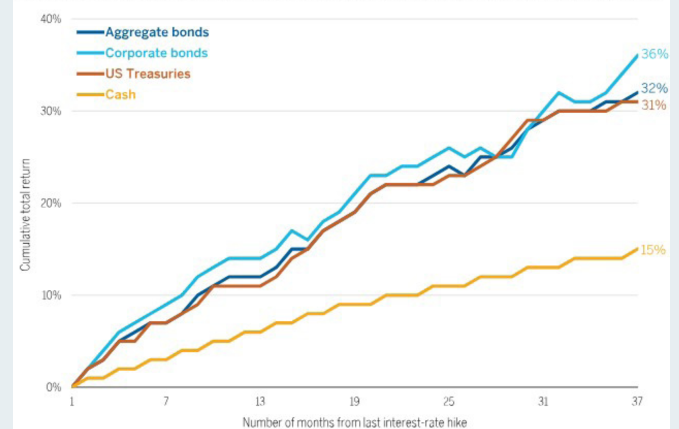


2) Quality Large-Cap Companies – Sometimes, bigger is just better! That has rung true in the stock market for most of this year, as the largest companies have put the S&P 500 on their back and pushed the index higher despite the elevated interest rate environment that we find ourselves in. There is some logic to this. Large, well-managed companies took advantage of low

interest rates prior to 2022 to lock in any funding needs while the getting was good. Some of them also have plenty of cash on hand, and don't need to borrow or raise money right now. Many smaller companies don't really have that luxury, as they need to access financing to fund their growth at whatever interest rate the market will offer them. The chart below shows that situation playing out in precisely that way. The biggest of the big U.S. public companies have an effective interest rate around 3%, while the smaller ones are paying almost double that amount. **Large companies with secured funding and piles of cash experience inflation and interest rates very differently than smaller companies** do (and the general public for that matter). They are not feeling the pinch of increased costs in nearly the same way. That is a big reason why they have continued to post very strong earnings ahead of analyst expectations this year, resulting in a higher stock price.

3) Cash, Bonds or GICs

– It never hurts to have a bit of cash on hand as an investor. However, much like you wouldn't want to give your hungry teenager too much cash to spend on lunch each day, you need to make sure your portfolio is not too heavily weighted to cash as it can end up being a drag on returns. The reason for this is the opportunity cost of holding on to cash when other asset classes provide superior long-term returns, such as stocks or fixed income instruments like bonds and GICs. We've written previously (in our July newsletter) about how even the near-5% returns on cash holdings can pale in comparison to equity returns over time, especially as we get close to the end of the rate-hiking cycle by central banks. Similarly, bonds really begin to show their value once that final rate hike has occurred. The attached chart shows the sizeable outperformance of both government and corporate bonds vs. cash in the 3 years following that last rate hike. Once interest rates pause and central banks eventually decide to cut, cash holdings start to lose their relative value due to a lower interest payment based on a floating rate. Meanwhile, bond investments increase in value, as their prices go up when interest rates go down. If you'd rather not deal with any volatility in bond prices? Currently, you can even lock in a GIC rate over 5% for up to 5 years.

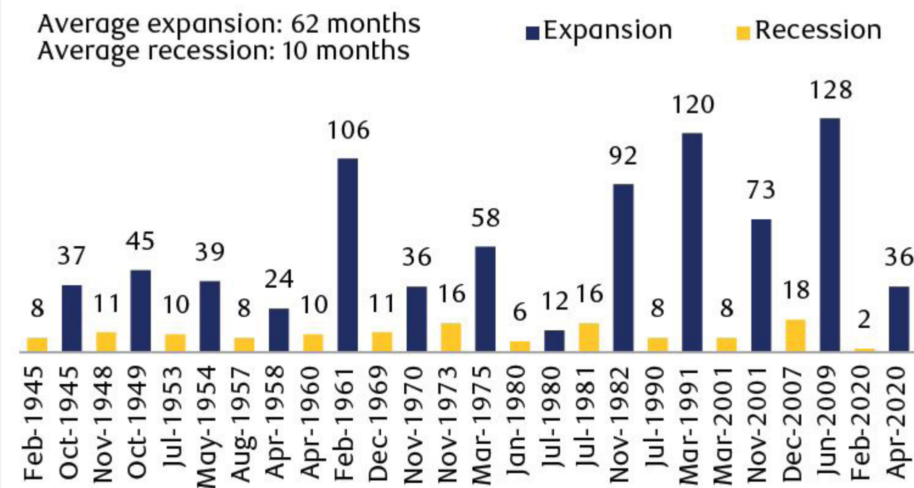


This is a great time to review how much cash you have on the sidelines and put some of that to work in another asset class if you don't have a short-term purpose for it.

Parting Words of Wisdom:

"Try to keep a positive attitude!" This simple cliché that you could say to a first grader on his way to class is actually not a bad way to frame your mindset about investing. It's not productive to spend most of your time focusing on the negatives, as there are many more positives to long-term investing. For example: **Since 1945, the U.S. economy has only been in recession roughly 14% of the time** (as seen in the chart below). If you shorten that time frame to the past 40 years (starting November 1982), there have only been 36 months out of 485 (and counting) that were recessionary. That is less than 7.5% of the time! Yet, the amount of financial media coverage devoted to the topic of recession over that timeframe is assuredly well over 7.5% (using unofficial math of course!). Since stock market returns are positively correlated to the economy, this 40-year period of mostly expansion has led to great results. At the end of October 1982, the S&P 500 index was at 133.72. It closed the day at 4,507.66 on August 31, 2023. **Even with 4 recessions (including the Global Financial Crisis), and many other difficult situations along the way, that's a gain of 3,271% before accounting for dividends.** Positive indeed!

We wish all the parents out there a happy "Back to School!" and all the students in your life a great year ahead. Keep that positive attitude!



Source - RBC Wealth Management, National Bureau of Economic Research; data through 5/31/23

MAKING EDUCATED DECISIONS: SAVE MONEY ON SCHOOL WITH GRANTS AND TAX-SHELTERED GROWTH

Even if the temperature hasn't felt like it, fall is just around the corner and for many, the new school year has just started. Those with family members enrolled in a post-secondary institution will be making tuition payments and many of you will be contacting us about setting up withdrawals from your Registered Education Savings Plan (RESP). We thought this was an ideal time to remind clients **about the benefits of setting up an RESP** if you have children or grandchildren you anticipate may choose to pursue post-secondary education one day.

The RESP Information page on our website is where you can find all the basics on these accounts. As mentioned above in the Diversified Account Lineup, the RESP is one of the tax-sheltered accounts that has a number of advantages. Here you can find information about establishing and withdrawing from REPS, FAQs, and most importantly, **the educational grants provided by the Government of Canada** for RESPs. There is also information on these about the proof of enrollment, which we do require in order to process withdrawals.

Please let us know if you feel you may be interested in setting up an RESP and we would be happy to discuss this further with you.

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, Liam & Mikail

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