Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Update On Your Discretionary Portfolio

January 2022

Dear clients,

Happy New Year! We hope that you and your families are staying healthy and safe. We wanted to take this opportunity to provide you with an important update on your discretionary portfolio.

During the beginning of 2022, we initiated the semi-annual rebalancing of your portfolio, as part of our disciplined investment process. The trades for this were completed earlier this week on Monday, January 10th.

We also made the decision to bring your equity exposure back to the long-term target on your Investment Policy Statement. Since we were previously allocating a small overweight percentage to equities vs. fixed income for most of the past year, this would mean that we reduced your overall equity exposure during this rebalance on Monday, and added to other assets classes such as fixed income; alternatives; and cash.

**Please note that if you are a client that only invests in equity, then your asset mix would not be affected.

We are still confident in the markets over the medium term and expect that they will continue to be the main driver of investment performance. We took this rebalancing opportunity to lock in some previous gains and use sound portfolio management to manage the portfolio risk going forward.

Within the equity portfolio, we also shifted more of our US exposure over to Canada, continuing the trend in recent shifts we had made during the past year. We now have Canada and US as equal weights in the equity portfolio (42.5% Canada, 42.5% US, 15% Global). We feel that there is opportunity for the Canadian market (ie. TSX) to play some catch up with the US (ie. S&P 500) over the next couple years, as Canadian stocks on average are trading at a near historical discount to their US counterparts. There are great companies to own in both countries, but we want to be tactical and take advantage of this opportunity.

On a sector basis: we continued to add exposure to the Canadian banks (financials) by adding a new position in Bank of Montreal (BMO), and increasing the weights of CIBC (CM); Royal Bank (RY); and Toronto-Dominion Bank (TD). We sold our position in Thomson Reuters (TRI) after very positive returns since entry into our model, but the valuation was beginning to be less attractive.

Within the US we added a new position in General Motors (GM), as we wanted to add some exposure to the electric vehicle space, but without having to buy a company with a very extended valuation. GM covers both of those aspects. We have made a conscious transition over the past year to more cyclical companies that are less affected by rising interest rates and inflation that we are seeing in the North American economy now. We also sold one of our technology positions (Twilio), as part of that same transition. In the fall, we had sold Pinterest (PINS), while adding a new position in General Electric (GE), which we think is a strong turnaround candidate with great leadership.

For those of you that have non-registered investments with us, we also wanted to point out that we went through the process of tax-loss selling in late November/early December of last year. This means that

we sold a few positions that were trading at losses to offset some realized gains that would have been taken in 2021. Since we could not rebuy any of those companies that were sold for 30 days (as per superficial tax loss rules), we instead invested that cash into some exchange traded funds (ETFs) on a temporary basis to keep your equity market exposure the same. During the rebalancing on Monday, we sold those ETFs, and reinvested the proceeds into our current model at the desired weightings.

Finally, a couple quick thoughts on the economy:

Inflation has been a hot topic for much of last year, and we are now beginning to see central banks confirm plans to raise short-term interest rates in order to try and help cool the effect of that inflation. As markets are forward looking, we have seen longer-term treasury yields (ie. 5 and 10-year) rise throughout much of last year in anticipation of this central bank policy. Although we expect inflation to remain elevated in the short term, the extremely high levels that we are currently seeing are not likely to be maintained (inflation is roughly 7% year-over-year in the US right now). The reason for this is in part due to the removal of quantitative easing by central banks (and potential tightening) while raising short-term rates. Another reason is the eventual full re-opening of global economies, after COVID is no longer the cause of major supply issues that we see now. We understand that it continues to be a moving target on when this pandemic is no longer such a huge factor in everyone's life, but eventually that will be the case and the economic data will reflect that. In the meantime, we wish everyone good health during 2022, and look forward to better times ahead.

There are currently no warning signs of a recession that are flashing, as the economy is still growing at a strong rate. Growth rates are not quite as high as we saw after the COVID-cause recession of 2020, and during 2021. This is normal, an reflects what occurs during an economic cycle. Most likely, we are in the middle rounds of this cycle, and there is still plenty of growth ahead. We will continue to monitor these trends as time goes on.

We do also expect continued volatility in the stock market, which will almost always be the case. In 2021, we did not see a 10% correction during the entire year for equity markets, which is more the exception than the rule for any given year. Historically, those types of deeper corrections are quite common even during very positive years, and are basically impossible to predict ahead of time. Should that type of correction occur during 2022, it does not mean that we are headed for a larger drop in general. For those of you that have been with us for a while, there have been plenty of 10%+ corrections over the years, and every time it has been best to not panic and stay the course. Recessions, on the other hand (which usually lead to larger drops in the market), can have some warning signs in advance (ie. inverted yield curve) that we just do not see right now, nor does our Global Portfolio Advisory Committee, which includes Co-Chair, Jim Allworth (who many of you have heard speak before).

Our job is to remain focused on owning the best businesses we can in your portfolio, while managing your risk through proper asset allocation. We feel that the recent adjustments during this portfolio rebalance reflect that commitment.

Please feel free to contact us directly if you have any questions.

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen