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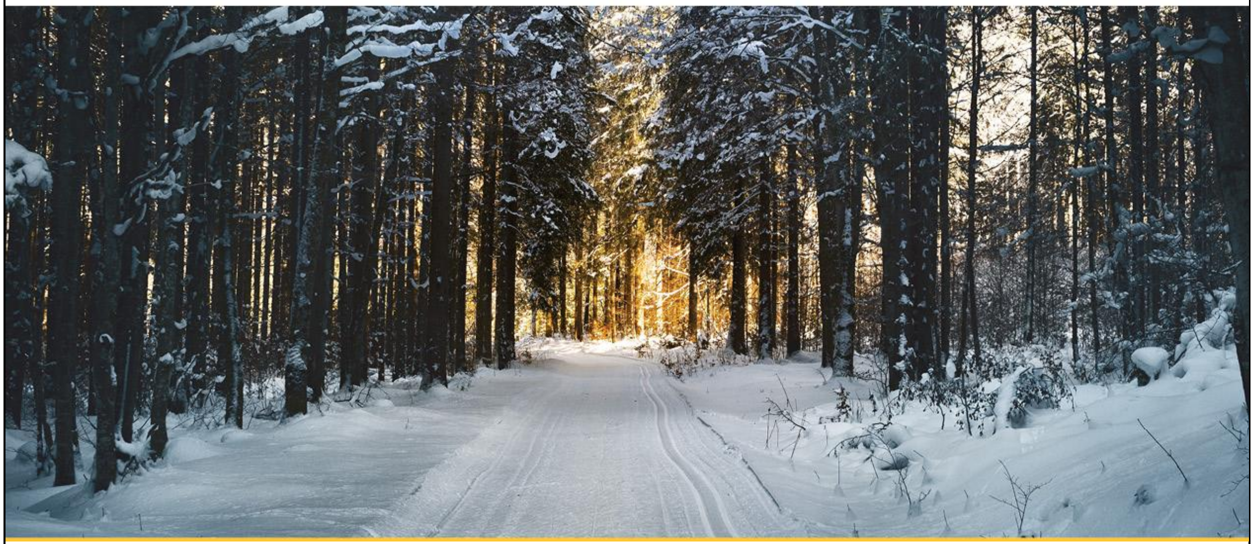

Update On Your Discretionary Portfolio

Locking in Profits after Outstanding Run for Stocks.

Allocating More to Bonds with Semi-Annual Rebalance

January 12, 2024

Dear Clients,

Well, we got what we asked for. In our last discretionary portfolio update email on November 28th, we outlined the following strategy at a time the S&P 500 was trading around 4,550 (about 5% below the current level):

"*When investors get too excited and the overwhelming majority turns bullish, that can be the time to take some money off the table. We're by no means there yet, but <u>should we get close to</u>*

reaching a new all-time high in the market (previously 4,818 on the S&P 500), ***we are already contemplating taking that opportunity to lock in gains from the equity market and shift a portion over to fixed income.”***

For the remainder of 2023, the S&P 500 continued to push higher toward the previous record level, with many of the stocks in our model going along for the ride.

Our previous November contemplation turned into decisive action in January to put this plan into motion. During our semi-annual rebalance that was initiated last week, we made a shift from equity to bonds for our discretionary clients. We'll get into the details below, but in simple terms: **we shifted about 5% of the total portfolio from equity to fixed income**. The proceeds were mostly invested in bonds with a little bit held in cash.

This may lead to some questions:

1) *“What exactly does this mean for MY portfolio?”*

Here is an asset allocation example for a client that has a 70% long-term equity target, both **before and after the rebalance**:

Before Rebalance	**After Rebalance**
Cash: **2%**	Cash: **3%** (+1%)
Fixed Income: **25%**	Fixed Income: **29%** (+4%)
Equity: **70%**	Equity: **65%** (-5%)
Alternatives: **3%**	Alternatives: **3%**

***all numbers are percentage of overall client portfolio**

This same shift would apply for a client with a 98% equity target or 55%. The new equity percentage would be 5% lower in the portfolio (or close to it) from this tactical shift.

To free up that 5%, we decided to sell about half (2.5%) from our Canadian Equity model and the other half from our US Equity model. Companies such as Amazon, Apple, Microsoft and Alphabet were trimmed more than others, yet still remain some of the largest positions across the portfolio.

The new preferred geographical mix for our equity model is now:

Canadian Equity – 46%
US Equity – 43%
Global Equity – 11%

2) *"Why now? Things are looking great for the markets!"*

We have been rewarded over the past year for looking through a constant barrage of negative headlines and economic forecasts. In late 2022 and early 2023, calls from forecasters for an impending recession were nearly unanimous. Clearly that recession has not happened yet. We have written several times about not letting fear drive your investment decisions, and to avoid panic selling when markets decline. When others are fearful, that is the time to stick with the plan, and even be a bit aggressive. That mentality has allowed us to outperform in 2023 as many companies in our model had outstanding returns (UBER, PANW, AMZN, AAPL, MSFT, NVDA, GOOG, SHOP, V – to name a few).

The setup to start 2024 is different. We are coming off a blazing 17% rally in the S&P 500 in just over 2 months, that has basically been a straight up line with very little drawdown. Investor sentiment has now significantly improved, with the most recent AAII Sentiment Survey showing almost 50% in the bullish camp (the long-term average is 38%). The Fear & Greed Index has also flashed into Extreme Greed territory in the past couple of weeks. Both of these are contrarian indicators that suggest we may be in for a more volatile period in markets, with downside risk elevated.

As you may recall, we were saying the exact opposite last year when sentiment was bearish, Extreme Fear was apparent, and the markets were much lower. We were expecting an equity rally in 2023, and boy did we get one! Now is the time to take some risk off the table, and lock in some profits. We are not saying that the stock market can't continue on to all-time highs and shoot higher. We're just saying the risk-reward is no longer as favourable as it was last year.

3) *“Why bonds? What do they offer?”*

For most of the past 10 years or so, it’s been hard to suggest owning bonds was a great idea. Interest rates were extremely low, and the return offered by fixed income products was roughly 1-2%. Today, after the extended period of rate hikes by central banks, we are able to lock in returns on bonds (or bond products) that are close to 5%.

The upside for bonds is they can also provide higher returns if interest rates decrease quickly as central banks begin to cut rates. Therefore, rather than waiting for your 2028 bond to mature for example, you may end up earning 7-8% over the next year or two in interest and price appreciation, pulling forward most of the return expected. You could then choose to sell the bond position to reinvest in equity.

Should a recession materialize later this year? Bonds can provide needed protection and offset some potential losses in the equity portfolio.

We pride ourselves on being disciplined investors.

We are also experienced enough to know that the best time to make investment decisions is from a **position of strength!** The recent stock market rally has put us in that position now. We’re not going to overthink it and have followed through on our planned course of action.

Over the next couple of weeks, you will be receiving your December 2023 Consolidated Portfolio Report. Please have a look and feel free to contact us directly if you have any questions. We hope you are as pleased with the annual results as we are!

We will continue to monitor the portfolio for tactical changes as they come up. Should you have any specific questions related to your own portfolio, please reach out to us directly.

Also, a reminder that if you have any family or friends that you know would benefit from our portfolio and wealth management services, please don't hesitate to introduce them to us any time. We appreciate all referrals, as it is a symbol of your confidence and trust in our team!

Best regards,

Ord Private Wealth Management

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