Wealth Management
Dominion Securities

Ord Private Wealth Management

# Update On Your Discretionary Portfolio

## Checking In on the Success of 2023.

## Looking ahead to 2024.

November 28, 2023

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Dear Clients,

If you only listened to the news this year to guess how your investment portfolio was doing, you may be entirely shocked to know this has actually been a pretty good year!  If you haven't looked at your discretionary portfolio in a while, maybe take the time to check it out and let us know if you have any questions.  We're happy to discuss.

Hopefully you are also following along with our monthly **"Not Your ORDinary Newsletter"** as that is our opportunity to provide our current views of the market and have a bit of fun in the process. Previous editions can be found on our website here:

This additional update will serve to highlight some of the portfolio themes in 2023 that have helped lead to positive performance.

**1) US Stock Exposure matters!**

The main reason there may be less enthusiasm about the stock market in Canadian media circles has to do with the massive gap in performance between the main indexes this year. The S&P 500 is outperforming the TSX by about 15% at the time of writing. For investors that do not have any significant US stock holdings, they may be viewing 2023 quite negatively. However, as we always maintain a significant US equity allocation for our discretionary clients, that is reflected in the overall portfolio returns. There are companies in certain US sectors that you just can't find a comparable to in Canada (technology; health care), and some of the best companies in the world are domiciled in the United States (more on some of those below).

**2) The quality of a stock is not measured by its dividend**

Occasionally we'll find ourselves in a conversation with clients about dividend yield, and how that source of income is vital, especially in retirement. Owning strong dividend paying stocks is certainly not a bad idea… but it shouldn't be your only idea! As 2023 has reminded us, companies with dividends do not necessarily equal quality or safety. As interest rates remained high through this past year, some of the stocks that underperformed the most were in sectors known for high dividends (utilities, financials, real estate). Some investors that wanted a 5% income stream were able to switch into bonds or GICs and not take on the risk of owning a stock with roughly the same dividend. That thought process led to flat to negative return years for many companies in those sectors.

On the other side of the coin, there are great companies out there that offer little to no dividend yield such as **Microsoft (up 58% YTD): Apple (up 46% YTD); Amazon (up 76% YTD); Alphabet (up 55% YTD); Uber (up 127% YTD); Palo Alto Networks (up 93%**

**YTD) and of course, Nvidia (up 230% YTD!!).** Most of these companies are using their cash in other ways than just paying shareholders dividends. Some are buying back their own stock at incredible rates, which has the effect of making the shares you already own immediately worth more! Others are using their gigantic cash piles to reinvest in their business; look for acquisition opportunities; or avoid having to raise money through debt at high interest rates.

For investors that require an income stream? Along with the usual dividends and interest, taking capital gains by trimming positions that have done well can free up cash at opportune times to fill up that cash bucket. This is something we do often for clients that require that income each month.

**3) Don't hold onto losing stocks without a reason. Tax-loss selling is also a portfolio tool.**

Not every stock you buy will be a winner. Odds are there will be several that don't pan out the way you initially thought. We constantly monitor each of the companies held within our model, and when the investment story no longer makes sense for one of those stocks, it's better to move on (sell) and apply that capital to a higher conviction investment. The beauty of diversification is that you are leaning on the winners to offset the downside of the disappointments. With roughly 50 stocks held in our Canadian and US model, there will most definitely be a handful that are underperforming at a given time. Some we may still like the long-term story on and hold, while others will be sold as part of prudent portfolio management. Newer companies in the portfolio such as **ServiceNow (NOW); Amphenol (APH); Applied Materials (AMAT) and Union Pacific (UNP)** were bought with proceeds from companies sold at a loss. They have all performed quite well (especially **NOW, up 19% in just over a month** since initial purchase).

**A quick related note for clients with non-registered accounts: we have recently done some annual "tax-loss" selling to reduce realized capital gains on the year. For many, this may result in zero to minimal capital gains, despite the solid overall return so far this year. Consider the tax savings an extra bonus**

**Looking ahead to 2024**

As seen by our monthly newsletter commentary throughout the year, we have been much more positive on markets in 2023 than most others. Consensus targets going into this past year were extremely negative, which we usually view with a degree of optimism (*if everyone has already positioned their portfolio cautiously, how much selling could be left?)*

However, the reverse of that can also be true. 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 should we get close to 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. Bonds currently offer a decent expected return (still over 5% in most cases), but more importantly they also offer protection if the cause of a stock market downturn is a recession. If central banks need to respond to a soft economy with rate cuts, existing bondholders will benefit. If we do end up making that decision in the portfolio, we will send out an email update to inform you. This is not meant to suggest the economy is 100% going into recession, it is simply planning to take opportunities when they are most advantageous to manage risk.

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 don't hesitate to reach out and ask. We want to make sure all of our clients are well informed about their investments and are getting the correct information from the proper source. We have the ability to send out an updated Portfolio Review document at any point in time upon request, so you don't have to wait until the end of each quarter to get a sense of where you stand.

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

We also understand that not everyone may consider 2023 a successful investment year. If you know of any family or friends that you think would benefit from our wealth management services, please don't hesitate to put them in touch with us. **A referral is the best compliment we can get!**

Best regards,

Ord Private Wealth Management

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