RBC Dominion Securities Inc.

THE STANTON REPORT

Spring 2023

Views and opinions for the friends and clients of Investment Advisor Richard Stanton

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If you know anyone who would like to receive a copy of this newsletter or be added to our mailing list, please contact Tracy Dykens at (250) 847-6680. Please contact Tracy if you would like secure internet access to your accounts. Use our toll-free number from anywhere in North America.

A Word from Richard

Welcome to Spring Everyone! Easter has come and gone, and golf and gardening season is just around the corner.

Global capital markets reversed course after a notably difficult 2022, rebounding to post mainly positive results for the first quarter of 2023. The Canadian benchmark S&P/TSX Composite Index posted a quarterly gain of 3.7%.

The steep decline in mid-March and the dramatic reversal is a timely reminder of how quickly markets can turn and underscores the importance of staying invested for the longer term.

Moving right along to news about the girls: Olivia will graduate from UBC this June with a degree in organic chemistry. She has been working part time at an optometrist office in Vernon for the last year and has also been volunteering with the BC Ambulance on the weekends. She will be writing her admission exam for optometry in July and if she is successful will begin the program at The University of Waterloo. Jenelle just got home from exploring S.E. Asia for the last 5 months and will be working in Kelowna over the summer before returning to university in the fall.

As always, I am available to discuss all your investment goals and objectives for the coming year. Give Tracy a call or send her an email if you want to setup an appointment.

Thanks for reading,
Richard

Here is what happened the first quarter of 2023;

- **S&P/TSX Composite Index 3.7%**
- **Dow Jones Industrial Average -0.9%**
- **MSCI World Index 6.6%**
- **Crude Oil -6.6%**
- **Gold 8.6%**
- **Silver -0.1%**
- **Copper 7.6%**

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Market Perspectives

Stock market: The importance of staying on course

Navigating equity bear markets requires greater-than-usual patience. Given the potential cost of missing periods of strong returns, the more suitable course of action for most investors is to remain disciplined and fully invested.

Corrections Are Normal

Equity markets endured high volatility in 2022, with many major indices finishing the year in negative territory. While sharp corrections and prolonged bear markets are unpleasant, they are a normal part of investing in stocks. Since 1928, the S&P 500 has experienced 26 bear markets-defined as declines of 20% or more-with many of these corrections coinciding with recessions. This means investors should expect a bear market, on average, once roughly every four years.

Maintaining Discipline Is Crucial

Market corrections tend to set off emotional responses for investors. When volatility increases, it is natural to believe that it might continue and/or that something should be done. The current environment has certainly tested the mettle of investors. But for those that have a well-devised investment plan, resisting the impulse to deviate from the long-term plan is important during the inevitable “cold stretches” in equity markets.

Time In The Market Matters More

Precisely timing the market peaks and troughs requires three conditions: avoid selling as the market continues to move higher; sell at the top; and time the re-entry at the bottom. Even with a healthy dose of luck, the possibility of consistently fulfilling all three conditions across multiple market cycles is extremely low, especially when considering that, historically, the market’s best days have often followed the sharpest drops. As illustrated in the following charts, the more suitable strategy may be to stay disciplined and fully invested, which can help keep investors on the trajectory towards achieving their long term financial objectives.

The cost of missing out

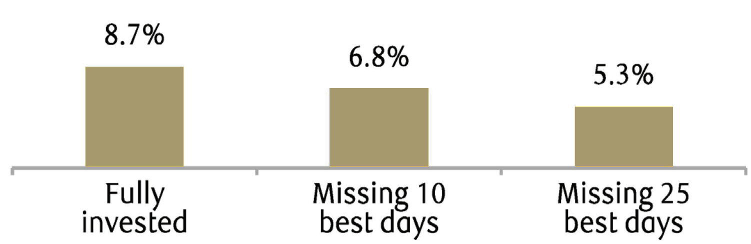
Invest for the long term, rather than trying to avoid the inevitable bad days

S&P 500: Growth of $100 invested Jan. 1, 1980

S&P 500: Annualized returns since Jan. 1, 1980

TSX Composite: Growth of $100 invested Jan. 1, 1980

TSX Composite: Annualized returns since Jan. 1, 1980



Source - RBC Wealth Management, Bloomberg; data through 12/31/22

Stocks Vs. Real Estate

Considerations for Canadian investors

The Canadian residential real estate market has enjoyed a prolonged period of strong price appreciation. Understandably, this has inspired debate in recent years as to whether the stock market or real estate has been a better long-term investment. On balance, we believe the historical data paints a more nuanced picture than commonly perceived. In this report, we compare the long-term performance of the TSX to that of residential real estate markets across major Canadian cities. Though we acknowledge that comparing real estate to stocks is fraught with many pitfalls, we believe the analysis provides a few high-level, but noteworthy, takeaways.

Both the stock market and real estate have delivered attractive long-term returns

The persistent strength of many Canadian housing markets over the last decade has left many people with the impression that real estate is a more compelling longterm investment vehicle than other asset classes such as equities. Over the past two decades, however, both the stock market and real estate have delivered attractive long-term returns, in our view. As the chart below shows, the S&P/TSX Composite has generated annualized total returns since early 1999 that are in line with, or better than, various Canadian real estate markets-including Toronto and Vancouver, which have experienced some of the most robust house price appreciation in recent years.

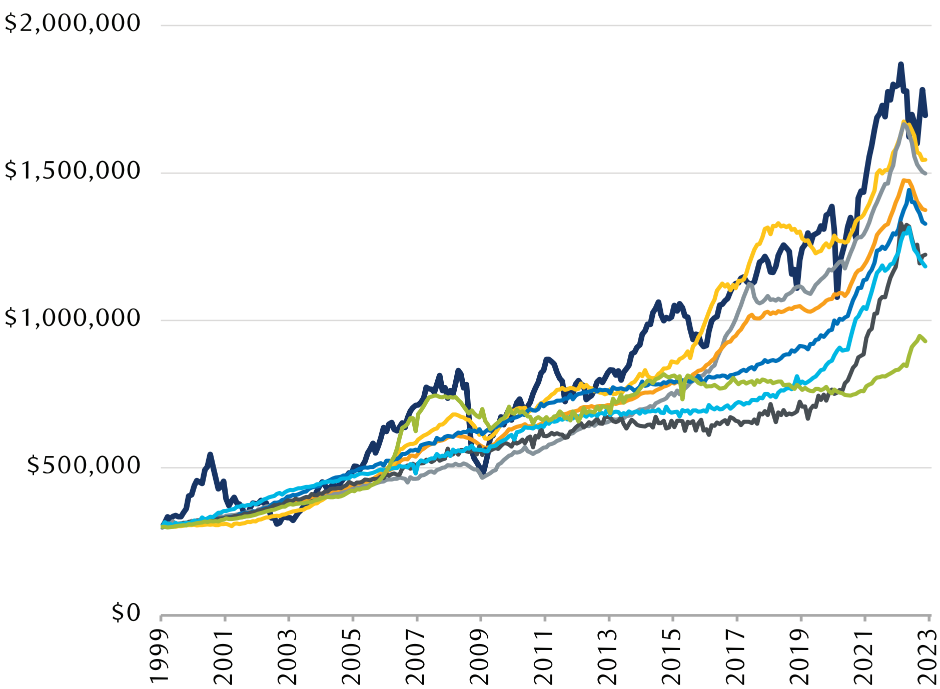
However, home price gains in a number of major Canadian cities hove outpaced the performance of the Canadian equity market in recent years. While it may be tempting to extrapolate from housing's recent strong run when forming future expectations, we note that time horizon matters and the TSX Composite has more than kept pace with many local real estate markets as time horizons are lengthened.

Understanding the pitfalls of comparing stocks and real estate

Although the main topic of discussion at many dinner parties in recent years has been how much each person's home has appreciated in value, most people purchase their homes as primary residences, and thus price appreciation may not be their primary focus. In contrast, investing capital in the stock market is typically done with the goal of having that capital appreciate over the long term to meet the investor's financial objectives. That said, there are others who look to residential real estate as a potential investment vehicle. While comparing housing and equities may seem reasonable on the surface, we believe there ore numerous factors that make a direct comparison difficult, if not outright misleading. As a start, it is crucial to take the need

S&P/TSX Composite Vs. Select Canadian Real Estate Markets

Total returns based on an initial $300,000 investment with no leverage in February 1999



Market	End value	Rate of return
S&P/TSX Composite	$1,695,475	7.5%
Vancouver	$1,544,759	7.1%
Toronto	$1,498,156	7.0%
National composite	$1,374,154	6.6%
Montreal	$1,328,077	6.4%
Halifax	$1,222,914	6.1%
Ottawa-Gatineau	$1,183,432	5.9%
Calgary	$929,060	4.9%

Source - RBC Wealth Management, Bloomberg; data through 12/31/22. Equity returns based on S&P/TSX Composite Total Return Index, housing returns based on Tero net-National Bank House Price Index unsmoothed data series. All returns ore annualized.

Report Card

Positive Developments ✓	Negative Developments ✗	Interesting !
• Chinese economy is rebounding nicely • Strong North American economic data emerges for January • Global air travel returns to pre pandemic level • Inflation continues to fall	• U.S. inflation was hotter than expected in January • Good economic data is now being viewed as bad by markets • Business lending standards are tightening sharply • Ukraine war is intensifying • Elevated downside risks over the next six months • Recession still likely this year	• We delayed our recession call to the second half of 2023 • Friend-shoring is well underway • U.K. and EU agree to reduce Northern Ireland frictions

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for liquidity and diversification into account. Real estate can seldom be quickly liquidated for cash. This lack of liquidity compared to other types of assets (such as equities and bonds) makes real estate generally unsuitable for investors with ongoing or expected cash flow requirements. Except for those with sizeable amounts of wealth, it can also be quite challenging for investors to attain an appropriate level of diversification in their real estate holdings. Additionally, real estate comes with potentially onerous barriers to entry, including down payments, access to affordable mortgage financing and insurance coverage, and an array of transaction costs such as agent commissions, legal fees, and land transfer taxes. The long-term cost of home ownership-including, for instance, property taxes as well as repair and maintenance expenses-is another consideration that is often under appreciated, as investors tend to place too much emphasis on the initial purchase price. In contrast to real estate, it is typically less arduous for investors to gain exposure to the stock market in terms of initial capital requirements, transaction costs, and achieving a suitable level of diversification across geographies, sectors, and industries. We have omitted some other important considerations, such as the impact of leverage (mortgage) on returns, differences in the taxation of capital gains, and whether a primary residence should be viewed as an investment, but our main takeaway is that any direct comparison between the stock market and residential real estate is likely to be a flawed exercise.

Parting thoughts: To each their own, but be mindful of the trade-offs

Understanding the trade-offs and differences between the stock market and real estate is crucial. While the stock market tends to be considerably more volatile, a review of historical performance supports the view that equities have been an equally effective means for investors to build wealth over the long term relative to residential real estate in Canada. It is also worth noting that investments in real estate and stocks are not mutually exclusive, and a residential property can certainly play a role in one's overall investment portfolio. The choice of what assets to invest in and own over the long term ultimately depends on an investor's financial objectives, time horizon, and risk capacity and tolerance.