The Fortnighter

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As an employee of possibly the best-run bank in North America, it would be a relatively safe bet to say that I personally own shares in Royal Bank Corporation ("RBC"). In fact, every month since I've been at RBC, a portion of my monthly pay is automatically invested in RBC shares (something called "dollar cost averaging", which I've spoken about in past newsletters).

I won't disclose how many RBC shares I personally own, but let's say for argument's sake that I own 1,000 shares. At a recent price of about $120 per share, that's a cool $120,000.

As we all know, it's been a "tough sled" in the markets over the past couple of years – and in fact in early 2022 Royal Bank shares were trading at $147 per share, not $120.

I know that there are many investors out there who, if in a similar position, would say "OMG – I've lost $27,000 – that's almost 20% of my money!". Taken a step further, the strategy of owning RBC shares (and even the way Royal Bank itself is managed) "hasn't worked" and clearly needs to change. Why wouldn't I just park my money in GICs or cash – I'd get 5% risk free!

Of course, the early months of 2022 were a vastly different time and place. Inflation? What inflation? Rates were low – and in fact GICs and bonds were not yielding 5% at the time, they were less than 2%. The price, or "value", of RBC shares in early 2022 was simply a reflection of those conditions and expectations for the future.

I never had $147,000 (just like I don't "have" $120,000 today) - it's a valuation. I'm not selling my shares now - and I was not-in-the-least motivated to sell my shares last year (with their 3.5% dividend yield) and move to cash at less than 2% (and paying a bunch of capital gains tax, to boot).

I also know that Royal Bank makes a lot of money! In fact, in the past 18 months (while its share price has declined by over 15%) the bank has had additional net earnings of over $20 billion (!). A good chunk of those earnings was paid out (to me and other shareholders) in dividends – but the rest was invested back in the business, increasing its "book" value. RBC's strategy does not need "fixing" – it's one of the most consistently profitable businesses in the country for a reason.

Similar "price moves" have occurred in other great Canadian businesses – Telus, Fortis, TransCanada (to name a few) as central banks have aggressively increased rates to combat inflation. I have no idea what the next 6 months will bring, but at some point, rates will start coming back down and "interest-sensitive" stocks like the banks and utilities should benefit handsomely.

This Friday is pay day for those of us at RBC. And when a portion of my pay is invested into RBC stock, I'll be getting almost 20% more shares with my money than I was in early 2022. Just one more thing to look forward to!