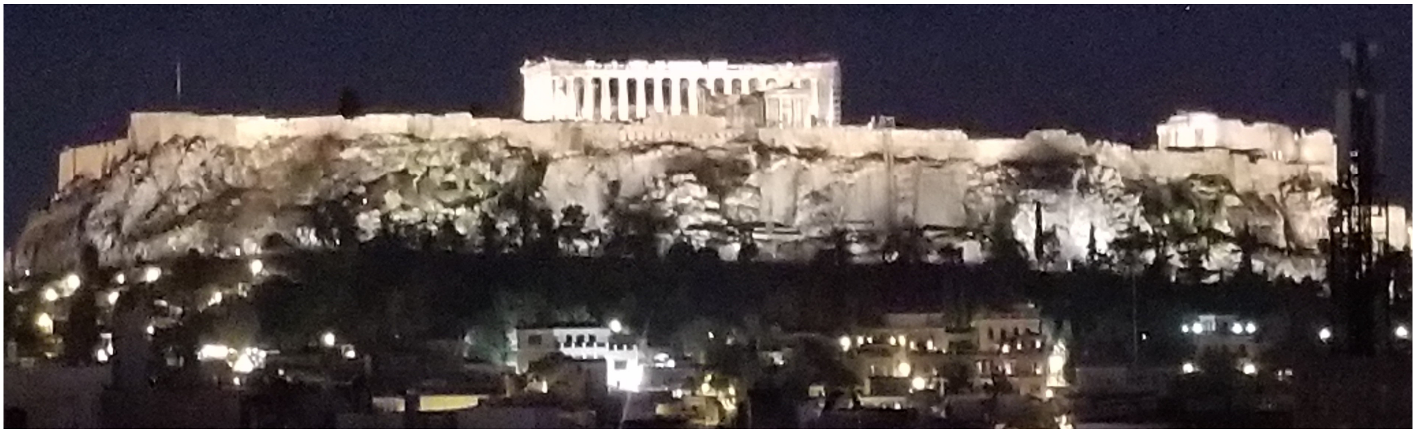

Investing Wisely

A Newsletter from Mike Wise

November 2024

Portfolio Strategies Corp passed a significant milestone last month. This year marks our 30th year in business, and the logo below marks the occasion. I use the term “our” in the sentence above because I joined Port Strat shortly after its founding, so I’m celebrating 30 years with Port Strat as well. I was the 3rd advisor to join; now there are 270 advisor teams and over 30,000 clients trust us with around $4.7B in assets under management. Portfolio Strategies is Western Canada’s largest independent dealer.

Carmen and I recently returned from our cruise to Greece and Turkey. It was my first cruise, and the experience was very positive – particularly the level of service and the evening entertainment. The cruise started and ended in Athens. We flew into Athens a few days early, and toured the Acropolis and the new Acropolis Museum before the day of departure. The Museum is an architectural wonder. It was built on top of an active archaeological site; the engineers sunk pilings through the ancient ruins and built the structure on top of the pilings. The floor of the foyer and courtyard is glass, so you can look down and actually watch the excavations proceeding.

Mike at a Greek Taverna

With my geology background, I was interested to see that the strata of the ancient Santorini volcano is very regular and traceable over long distances

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Santorini – the Elusive Blue-Domed Church

along the cliff, reminiscent of sedimentary rocks. This is very different from the volcanic craters in Costa Rica and Nicaragua, where the strata are highly contorted and discontinuous. Clearly a different volcanic process was involved.

The narrow street along the edge of the crater is lined with tourist shops and restaurants; the "regular" folks live in the town on the north side of the island. My highlight was a search for the elusive blue-domed church that appears in most photos of Santorini. I finally found it (see photo), but came to the conclusion that the iconic tourist photo had to have been taken from a drone or kite; not from any land-based location.

We hadn't planned to go ashore in Rhodes, but the ship docked close to town and the old fortress walls looked so inviting that we disembarked and went exploring. The walls date from the 14th century, at the time of the Crusades and the Knights Templar. I'd like to do a little bit of research about that; it seems to me that the Masonic orders of today descend from that time period.

We really wanted to visit Ephesus; in fact this was the reason why we chose this particular cruise. We wanted to see the city where Paul preached, and wrote his Letter to the Ephesians in the Bible. The city collapsed when the harbour silted over and has since fallen into ruins, but the Turkish government has excavated much of it. The size is impressive. Excavations continue to this day. Our visit wasn't a solitary experience so we had difficulty communing with the spirit of Saint Paul. There were something like 4 cruise ships in port so our visit to Ephesus was more akin to visiting Walmart on Black Friday.

We'd like to go back to Istanbul. We were there for 2 days, and saw only the tiniest fragment of the city, mostly around SultanAhmet Square. There is lots more to explore. We got captured by one of the many itinerant salesmen on the Square, and that experience was fun in itself.

Where We Are

Table 1 shows how stocks, bonds and commodities are performing this year. Most of my clients have a balanced portfolio. My pension-style Canadian Neutral Balanced Benchmark is up 10.8% so far this year (to November 1). This is an after-fees benchmark with a weighting of 60% equities (2:1 CAD/US) and 40% fixed income.

Portfolio Strategies is Moving!

Effective 25 November 2024

Our new head office will be

6700 MacLeod Trail, Unit 550

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Table 1
2024 Returns - Year to 31 October

	31 Dec 2023 Price	31 Oct 2024 Price	YTD Change
Equities			
TSX (CAD)	20958.44	24255.16	15.7%
S&P500 (USD)	4769.83	5728.80	20.1%
NASDAQ 100 (USD)	15011.35	18239.92	21.5%
Commodities			
Oil (WTI; USD)	$71.33	$69.33	-2.8%
Gold (Comex; USD)	$2071.80	$2746.20	32.55%
Fixed Income			
DEX Universe Bond Index (CAD) - Total Return	1121.5	1153.4	2.8%
Govt of Canada 10-Yr Bond Interest Rate	3.128%	3.289%	0.161%
5-yr GIC Rate (rate as of Nov 20)	4.10%	3.46%	-0.64%
High Interest Savings Account (rate as of Nov 20))	5.00%	4.40%	-.60%
Exchange Rates			
USD/CAD	$0.7549	$0.7159	-$0.039
EURO/CAD	$0.6840	$0.6619	-$0.022

The Bank of Canada has been very aggressive in lowering Canadian interest rates, and by extension the Prime Rate and GIC rates. The BoC has already dropped rates by 1¼%. The Prime Rate now stands at 5.95%. The cut in interest rates, while welcomed by borrowers, has hurt savers and has also adversely impacted the looney. As shown in Table 1, the Canadian dollar has fallen by almost 4c relative to the greenback so far this year. This gets passed on to every one of us in the price of imported goods at the grocery store and elsewhere.

The European Union and the United Kingdom have also started on a rate-cutting cycle.

As I predicted in my September letter, the US Federal Reserve cut their policy rate by ½% shortly before the election.

Interest rates remain inverted, which means that short term interest rates are higher than longer term rates. You'll notice from Table 1 that only short-term rates have declined; the yield on the Canada 10-year bond has increased this year. I quote B2B Bank (part of Laurentian Bank) GIC rates in Table 1. Table 1 also shows that my favoured supplier of a High Interest Savings Account offers an "advisor-only" rate of 4.40% to my clients. This rate is for a standard bank savings account, CDIC-insured, with interest credited monthly. The supplier is one of the Canadian Big Banks.

Stock markets have been positive this year. Toronto continues to lag the US markets, mostly because of the lack of Technology exposure. As you can see from Table 1, gold has been the big winner this year!

Portfolio Strategies Annual Conference

Port Strat held its annual conference in September. It brought together advisors from across Canada to hear a variety of speakers, offering a number of interesting investment ideas. The following is an overview of those ideas that I thought were most interesting and might be relevant to you:

- CHIP Reverse Mortgage – usually thought of as a way for a retiree to stay in the family home a few years longer. It might be a way of closing a small gap between income and expenditures. The capital appreciation of the house might offset the outstanding balance of the mortgage.
- Capital Direct – you've probably heard the radio jingle. Essentially a mortgage lender to those who have collateral but need cash. Investors place funds with Capital Direct I Income Trust which in turn provides the cash that is lent to borrowers. Inception in 2005; return to investors never below 7%; never denied a redemption request.
- BMO Strategic Equity Yield Fund – this one gets complicated, but essentially uses options/futures in the bond market to generate a target 8% annually to investors.

- Tract Farmland Partners Trust – invests in Canadian farmland. Owners but not operators; the land is rented to adjacent farmers. No annual return; return to investors depends upon appreciation of the land value.

Let me know if any of these ideas may be of interest to you, and we'll follow up.

GDP Per Capita

I recently came across an article – I don't remember where – that said that Canada was falling further and further behind the US in terms of our wealth per person. The article implied that Canada was now poorer than Mississippi, the poorest US state. The article blamed immigration for the situation. I felt I needed to do my own research.

Table 2 shows that the US, as a whole, had a per capita GDP of USD66,814 in 2023, with New York being the richest state on this basis, at USD90,731, and Mississippi the poorest, at USD39,103.

We need to take the USD/CAD exchange rate into account if we do a comparison to the US. I've used 2 exchange rates in Table 2. First, I did the computation using the current exchange rate of USD0.71 = CAD1.00. The 2nd computation assumes an exchange rate of USD0.90 = CAD1.00, which is what the looney traded for before the Liberal government passed its "no more pipelines" law in 2016. *(ed. note: prior to 2016, the best estimate for the exchange value of the looney vs US greenback was 0.005*(WTI)+0.575, where WTI is the West Texas Intermediate oil price. Using this equation, a WTI oil price of USD70.00 per barrel would imply an exchange rate of USD0.92.5 = CAD1.00. This equation had an R^2 value of 0.92 prior to 2016.)*

Table 2 shows that Canada's per capita GDP would be roughly comparable to the US ($65.9K vs $66.8K) if the exchange rate were 90c. And even with an exchange rate of 71c, the poorest Canadian province is slightly richer than Mississippi ($40.1K vs $39.1K).

The writer of the article seems to have used incorrect information when he or she wrote the article, presumably to malign the immigration policy of the federal Liberal government. I'm certainly no fan of the Liberals, and disagree with their immigration

Table 2
Per Capita GDP: Canada & USA

Table 2 — GDP Per Capita, 2023			
Data Sources:			
US:	statista.com		
Canada:	wikipedia.org; from statistics canada		
United States (Note 1)			
	USD		
US	$66,814		
New York	$90,731		
Mississippi	$39,103		
Canada (Note 2)			
	CAD	**USD @**	**USD @**
Exchange Rate (USD/CAD)		***$0.71***	***$0.90***
Canada	$73,192	$51,966	$65,873
Alberta	$96,576	$68,569	$86,918
New Brunswick	$56,520	$40,129	$50,868

Note 1: The District of Columbia has the highest GDP per capita in the US, but is not a state

Note 2: The 3 territories (Yukon, Northwest Territories, and Nunavut have the highest per capita GDP in Canada, but are not provinces.

The City Gate at Rhodes

policy, but I don't think that the article-writer used a valid argument with which to berate them.

Instead, I'd blame the weak-dollar policy of the Bank of Canada, probably made necessary by the misguided economic and social policies of the Liberals, for Canada's poor performance relative to the US. I still think that Sir Wilfred Laurier was correct when he said that "the twentieth century belongs to Canada". He was just a century or so early!

Where We're Heading

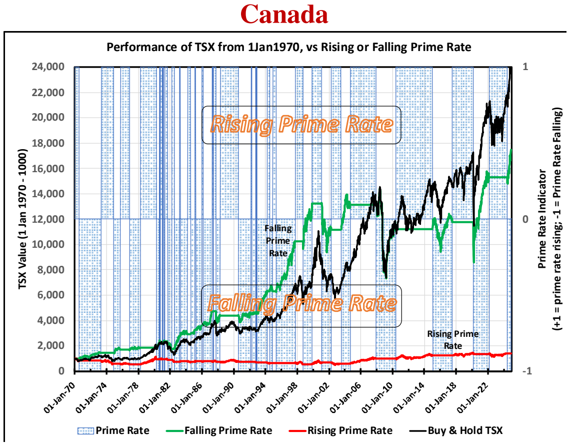
The US election is finally over. Whew! I'm more relieved than happy that President Trump won, with, I think, a strong mandate to pursue his agenda, whatever that might turn out to be.

Several people asked me why I tended to prefer Trump in the US election. I always replied that I don't want my kids and grandkids to die as cannon fodder in World War III, and in my opinion Trump was the better alternative for that aim than the warhawks currently in power. That usually ended the discussion.

There's a dangerous game of chicken going on right now. I guess we'll see how it all works out.

Now back to the more mundane world of stocks, bonds and interest rates.

Chart 1
Performance of the TSX Using Prime Rate as a Buy/Sell Indicator: 1970-2024
Source: Toronto Stock Exchange & Bank of Canada



Reminders

The 2024 contribution deadline for your TFSA is 31 December 2024. The maximum contribution for 2024 is $7000 and the lifetime contribution limit is $95,000 if you were 18 or older in 2009.

The 2024 contribution deadline for your RRSP is 3 March, 2025.

The stuff I just wrote about could upend everything, but right now I think that the main driver of markets over the next few months will be the decline in interest rates. As I wrote in the previous section, this is a global event.

Central banks tend to decrease interest rates when they are worried about recessions. Interest rate policy works on the economy with a huge lag, measured in months if not years. Central bankers are typically well behind the curve of the economic cycle.

This being the case, the fact that central banks have begun a rate-cutting cycle is a worrying sign of future distress. They are hoping for a soft landing, i.e. resumed economic prosperity without the pain of high unemployment. Unfortunately, a soft landing is a somewhat mythical beast, kind of like waiting to see a unicorn fly past the living room window.

It is a fair question to ask how the stock market does under rising or falling interest rates. To answer this question, I looked at the performance of the TSX when the Canada Prime Rate was rising, and when it was falling. It turns out that the answer is not definitive, but seems to depend more upon other factors.

Chart 1 covers the time period from Jan 1, 1970 to the present day, a span of almost 54 years. The blue shaded boxes in Chart 1 show whether the Canada Prime Rate was rising (top half) or falling (bottom half). The first decade of this period was a time of rising inflation and high commodity prices. The Canadian Prime Rate rose from 8.5% in 1970 to a peak of 22.75% in August 1981, before gradually declining over almost 40 years to March 2020, during

Covid, when the Prime Rate had a minimum value of 2.45%.

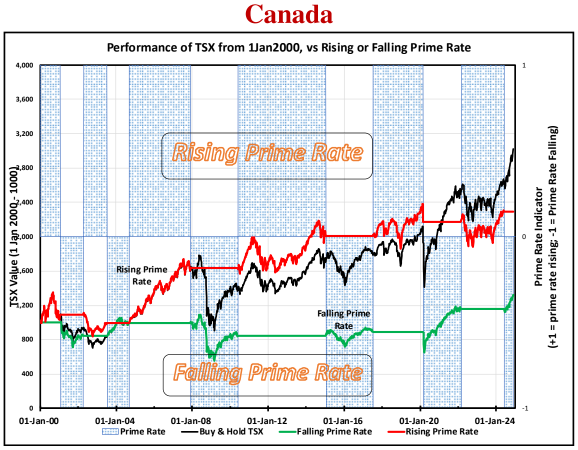
These mixed results indicate to me that we can't time the market by using interest rate policy as our primary decision-making tool. It is hard to beat a buy-and-hold strategy.

The black line in Chart 1 is the baseline case of holding the TSX Index continuously throughout the 54 years. The green line shows the performance of the TSX if you were in the market during times of falling interest rates, and on the sidelines whenever the prime rate was rising. The red line is the opposite: in the market when the prime rate is rising, and on the sidelines when the prime rate is falling.

Chart 1 indicates that being invested in the TSX during times of *falling* interest rates is a more successful strategy than investing only during times of rising rates, when presumably the economy would be booming. In fact, Chart 1 indicates that this strategy even beat the buy-and-hold strategy up to 2008, as it avoided market downturns. But buy-and-hold might be best if you have a 50-year time horizon!

I prepared Chart 2 to see what the result would be if we used a shorter time period that avoided the inflationary 70s and the subsequent huge decline in interest rates. Chart 2 starts on Jan 1, 2000. The presentation is the same as Chart 1: the blue boxes indicate whether the Canada Prime Rate is rising (top half) or falling (bottom half). The black line is the buy-and-hold scenario for the TSX; the green line is the case where we are in the market only during times of falling interest rates, and the red line is the case for times when you are in the stock market only in times of rising interest rates.

Chart 2
Performance of the TSX Using Prime Rate as a Buy/Sell Indicator: 2000-2024
Source: Toronto Stock Exchange & Bank of Canada



This time we end up with results opposite from the result shown in Chart 1! Chart 2 shows that only investing in times of *rising* rates is more successful than investing only when interest rates are falling. You'll notice that the Tech Wreck (and the 9/11 attack on New York City) and the Great Financial Crisis of 2008 both occurred during times of falling interest rates. The rising-rate strategy even beat buy-and-hold until the Covid crisis, when central bankers opened up the money spigot and the market went wild.

These mixed results indicate to me that we can't time the market by using interest rate policy as our primary decision-making tool. It is hard to beat a buy-and-hold strategy.

Carmen and Mike at SultanAhmet Square, Istanbul

Ephesus – The Library

Ephesus – the Amphitheater

Canada

In Canada, the Bank of Canada cut its policy rate by ½% a month ago. This was the 4th such cut this year, and brings the policy rate down to 3.75%. The Big Banks immediately cut their Prime Rate, offered to their best customers. The Prime Rate is now 5.95%. The Bank justified its move by saying that inflation in Canada is now back to the 2% target, and the Bank wants to keep it there. "Price pressures are no longer broad-based and our surveys find that business and consumer expectations of inflation have shifted downwards and are nearing normal.".

BoC Governor Tiff Macklem, in a presentation to the Senate Standing Committee on Banking on 30 October, said that:

"Looking ahead, we expect the economy to gradually strengthen in 2025 and 2026, supported by lower interest rates. Population growth will be slower, but we anticipate consumer spending per capita will be picking up. We also expect growth in residential investment to rise as strong demand for housing lifts sales and spending on renovations. We expect business investment to strengthen as demand picks up, and exports should remain strong, supported by robust demand from the United States.

"If the economy evolves broadly in line with our forecast, we anticipate cutting our policy rate further to support demand and keep inflation on target … With inflation back to target and interest rates continuing to come down, families, businesses and communities should feel some relief.

"The Bank is committed to maintaining price stability for Canadians by keeping inflation close to the 2% target."

Governor Macklem clearly believes that Canada has achieved the miraculous Soft Landing!

The Canadian stock market has consistently under-performed the US market by around 10% annually over the past decade. The last time that the TSX and the S&P500 indices were at parity (ignoring the exchange rate) was 23 Sept 2011. Table 1 shows that the YTD underperformance for 2024 is 4%.

A couple of the presenters at the Portfolio Strategies conference pointed out that this isn't unique to Canada. The US stock market outperformed every major market in the world over the past decade! While the US does have a very dynamic economy, I think it fair to say that the difference-maker is Technology, and particularly the Tech Megacaps.

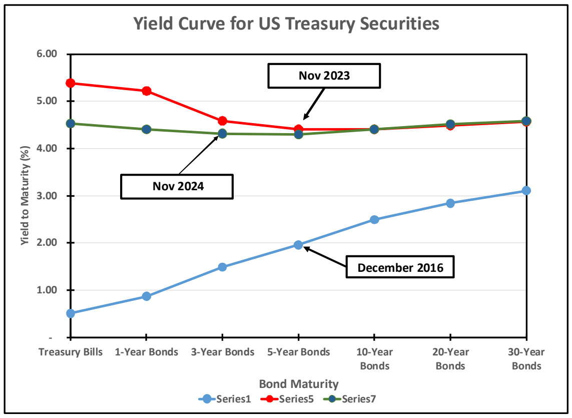
United States

I won't go into a lot of economic indicators in this newsletter. I described a bunch of the ones that I pay attention to in my September letter, just a couple of months ago. The US is such a big engine that things just don't turn around all that fast!

But let's look at a couple of things.

I've mentioned many times that the inverted yield curve is the single best forecaster for approaching recession. The delay between inversion and onset of recession is often 12-18 months. There are 2 curves that analysts use: the difference in rates between bonds that mature in 2 years vs those that mature in 10 years (the 2/10 curve) and the difference in rates between 3-month Treasury Bills, and 10-year bonds (the 3mo/10yr curve). Analysts seem to switch between the two, depending on the narrative they

Chart 3
Yield Curve for US Treasuries
Source: Federal Reserve Bank & Barrons



want to spin. The 2/10 curve went negative on 9 July 2022, and the 3mo/10yr curve went negative on 12 November 2022. A recession is overdue if we rely solely upon the inverted yield curve forecaster.

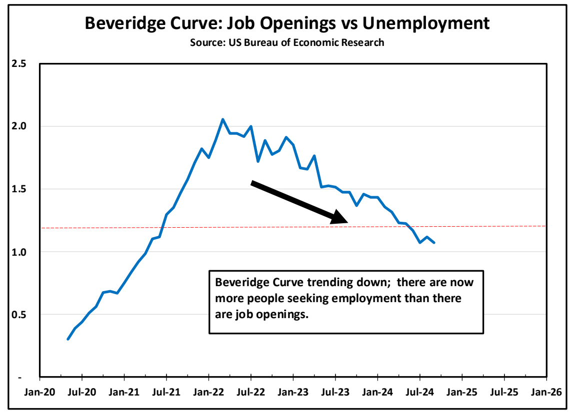
Chart 3 shows the yield curve for US Treasury bonds as of November 24. The curve is very flat across all bond maturities. The 2/10 curve is now slightly positive, while the 3mo/10yr curve remains negative, but only by 0.12%. It looks like the Fed doesn't need to be aggressive about cutting rates if all it wants to do is force down those 3-month T-bill rates!

The only labour-related chart that I'll show this time is for the Beveridge Curve. Chart 4 shows the Beveridge Curve, which is the ratio between Job Openings (the JOLT report) and the Unemployment Rate. The JOLT data comes from the US Bureau of Economic Research, while the unemployment data is from the Federal Reserve Bank of St Louis.

The labour market is considered to be in balance when the Beveridge number is at 1.2, meaning there are 1.2 potential jobs for every unemployed person (in the US, only those actively seeking work are considered to be unemployed; this is different from Canada). The Beveridge Curve is currently below 1.2, and the trend is decidedly downward. This is not good news for President-elect Trump!

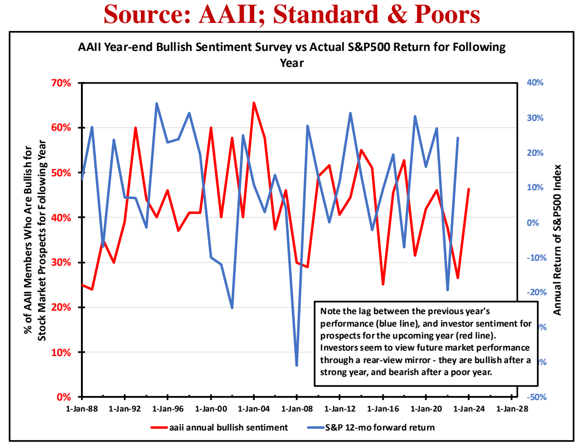
I'll wrap things up with an interesting chart from the American Association of Independent Investors (AAII). The AAII surveys its membership, who

Chart 4
Beveridge Curve
Source: US Bureau of Economic Research & Federal Reserve Bank of St Louis



presumably are well-informed and active in the US stock market, about whether they are bullish, bearish or neutral about the prospects for the US stock market over the next 12 months. They do this every week, and the results are published in Barron's magazine. I keep track of the "bullish" responses. I wanted to see how well these knowledgeable investors did in predicting future stock market returns. Chart 5 shows the bullish responses from AAII members at yearend, and compares how they did in comparison to the actual performance of the S&P500 over the following year. For example, I compared the bullish response made on Jan 1, 2023 (26.5% of respondents were bullish) to the actual market return for 2023 (24.2%).

Chart 5
AAII Membership Survey vs Subsequent Stock Market Performance
Source: AAII; Standard & Poors



It turns out that AAII members view the stock market through a rear-view mirror. The performance of the market the *prior* year colours their view of how the market will perform the *following* year. If you look at Chart 5, you'll see a very persistent 1-year lag between AAII responses, and stock market performance. That low number of bullish responses made on Jan 1 2023 seems to reflect the poor performance of the stock market in 2022!

I think that there's a lesson here for all of us who invest: beware of your emotions. We need to always have Sir John Templeton's rule of thumb in mind: "The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

Interior of the Blue Mosque, Istanbul

Changing of the Guard at Tomb of the Unknown Soldier, Athens

Santorini – *Celebrity Silouette* in the Background