

# MARKET UPDATE

Q3 | January 1 to September 30, 2022

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The best way for investors to deal with what's happening in the stock and bond markets is to consider the four phases of the economic cycle.

### *Stages of the Economic Cycle*

The economic cycle usually goes through four stages:

1. Expansion
2. Peak
3. Contraction
4. Trough

**The expansion phase** exhibits strong growth. Interest rates are generally lower, making it easier for companies to expand because their costs are lower and their operating margins are higher. Businesses generate profits and hire more employees, who, in turn, have more disposable income to spend.

**The peak phase** is reached when an economy reaches a plateau. The peak is characterized by higher inflation

and, thus, higher interest rates. Companies reach their maximum earnings power and stock prices rise because of higher profits.

An overheated economy is one that has experienced a long period of strong economic growth and often has reached higher levels of inflation. Inflation that is too high leads to inefficiency within a market-based economy.

**The contraction phase** occurs when the economy slows, unemployment rates rise, and inflation tapers off. Input costs strain corporate profits. Hiring freezes and job layoffs begin. The contraction phase, known also as a recession, continues until the cycle reaches a trough.

**The trough phase** is characterized as the lowest point in the economy. Workers lose their jobs, unemployment rates rise and spending is limited. Central banks often cut interest rates to spur economic growth, from which it can re-enter an expansionary phase.

The economic cycle is illustrated in the chart below.

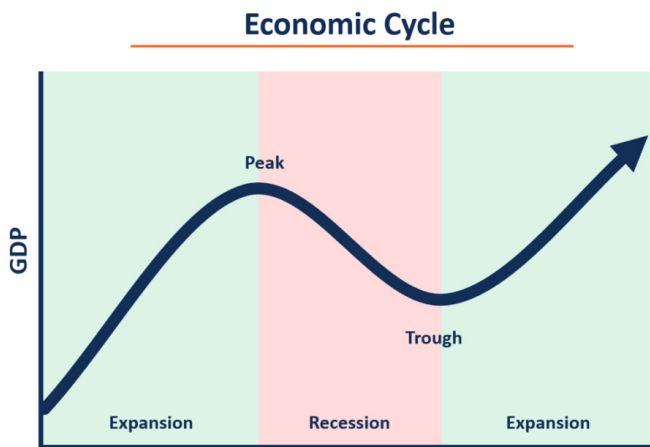
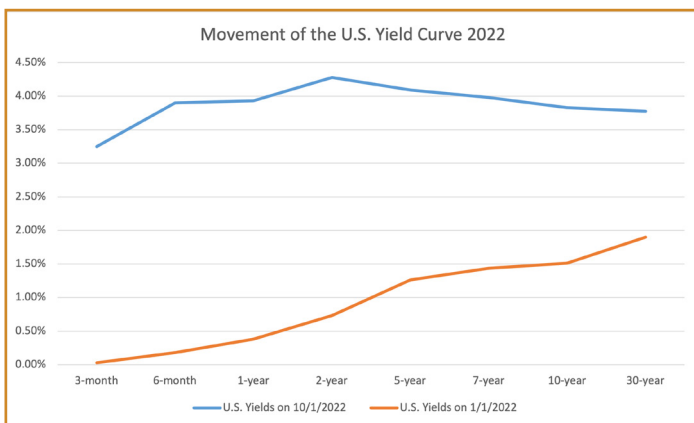


Chart courtesy of Investopedia

Currently, we believe we're at the peak phase of the cycle. Interest rates were close to zero in 2020, corporate profits rose and investors bought stocks with no thought of what was deemed to be good value.

The peak can also be shown by the shape of the yield curve. The graph below shows the U.S. yield curve at the beginning of the year (in orange) and where it stood at September 30th (the blue curve).



Data Courtesy of Bloomberg L.P.

At the start of 2022, the yield curve was upwardly sloping, meaning the economy was still in an expansionary phase. With short-term interest rates low and longer dated bonds higher, companies could borrow cheaply, hire staff, build new plants and reap

higher profits.

Since then, the yield curve has flattened and, in some cases, inverted. This is often a precursor to a recession. Short-term interest rates are higher than long-term rates. Companies have a higher cost of capital and the higher those rates go, the greater the odds that firms will begin laying off staff to reduce their expenses.

Recessions (the pink on the Economic Cycle graph) usually last 12-18 months. During that time, stock markets can drop anywhere from 10% to 30%. The severity of the correction is often determined by how high the stock markets moved above its historical norms. During this past expansion, Price / Earnings multiples on the S&P 500 Index reached a high of 30 times, about double the historical average of 15 times. If corporate earnings don't grow, this implies the stocks markets could fall by 50%, more than what we've seen in 2022.

That's why, for many clients, we're currently holding 20% in cash times the equity mix in the portfolio. We prefer to buy during the trough, not during the contraction phase.

### The Markets

Welcome to the world of volatility. In an Oct. 1, 2022 CNBC article by Hugh Son, "Markets entered a perilous new phase in the past week, one in which statistically unusual moves across asset classes are becoming commonplace."

Benjamin Dunn, a former hedge fund chief risk officer who now runs consultancy Alpha Theory Advisors, said "There's really nothing historical you can point to for what's going on in markets today; we are seeing multiple standard deviation moves in things like the Swedish krona, in U.S. Treasuries, in oil, in silver, like every other day. These aren't healthy moves."

Rising interest rates have always been a recipe for falling stock markets, leading to the axiom, "Don't fight the Fed." When rates rise, stock markets tend to

fall and the chart below illustrates the pain that equity investors have felt in 2022.

interest rates were low. When rates rise, growth stocks tend to take it on the chin. (See the chart showing Tech

Stock returns). The smaller companies have seen their access to capital disappear while their cost of capital continues to rise.

We are also concerned about the performance of small-cap stocks – the Russell 2000 Index is only down 25% year-to-date. It should be down more than it is,

leaving us convinced there's more pain to come.

During July, there was a perception that the Federal Reserve would ease its rate increases to provide a “soft landing” and keep the economy out of recession. This belief created a vicious bear market rally, especially in tech stocks. That’s why Q3 losses were lower than Q2.

Unfortunately, Jerome Powell, Chairman of the Federal Reserve, was having nothing of it. In August, he spoke at Jackson Hole and reiterated that fighting inflation was at the top of the Fed’s agenda and rate increases at 0.75% each month would continue.

This led to a severe stock market selloff in August and September. Given that interest rates are expected to rise through the end of the year, we don’t believe the rout is over. Remember, tech stocks and small-cap stocks had big returns in the past few years because

### Total Quarterly Equity Index Returns through the Third Quarter 2022 (in native currency)

QUARTERLY RETURNS	Q1 2022	Q2 2022	Q3 2022	YEAR-TO-DATE
STOCK INDEXES	TOTAL RETURN	TOTAL RETURN	TOTAL RETURN	TOTAL RETURN
TSX 300 Composite Index (Canada)	2.96%	-13.84%	-2.21%	-13.09%
Stoxx600 Index (Europe)	-5.07%	-10.67%	-4.75%	-20.49%
S&P 500 Index (United States)	-3.05%	-16.45%	-5.27%	-24.77%
Russell 2000 Index (U.S. Small-Caps)	-5.83%	-17.49%	-2.53%	-25.85%
MSCI Global Index (World)	-3.22%	-16.60%	-6.58%	-26.40%
MXEF Index (Emerging Markets)	-4.07%	-12.36%	-12.48%	-28.91%
Nasdaq Index (U.S. Technology)	-5.85%	-22.44%	-4.11%	-32.40%

Data Courtesy of Bloomberg L.P.

### Tech Stock Returns from July 1 to September 30

COMPANY	SYMBOL	JULY RETURN	AUG / SEPT. RETURN	YEAR-TO-DATE RETURN
Tesla Inc.	TSLA US	32%	-11%	-25%
Amazon.com	AMZN US	27%	-17%	-32%
Nvidia Inc.	NVDA US	20%	-36%	-59%
Apple Inc.	AAPL US	18%	-15%	-22%
ARK Innovation	ARKK US	13%	-17%	-60%
Google Inc.	GOOGL US	7%	-18%	-34%
Microsoft Corp.	MSFT US	9%	-18%	-30%
Meta Platforms	META US	-1%	-14%	-60%

Data Courtesy of Bloomberg L.P.

From the fixed income chart below, bond returns through September 30th in many cases are less bad than stocks. The reason is three-fold:

- Historically, bonds are half as risky as stocks.
- Bonds mature at their full value – stocks can fall to any price.



→ Bond yields are equal to, if not better, than equity earnings yields.

For example, the S&P 500 Index's earnings yield is 5.69%, based on the expectation that profits will grow 9% this year.

Bond yields are in the 5% to 7% range, meaning that stocks now have competition and leery investors are moving money out of equities and into bonds.

We still believe that a bond rally should occur before stocks recover and why we're currently bond buyers and not stock purchasers.

INDEX	DEC. 31, 2021	CURRENT	ESTIMATED FUTURE	IMPLIED	EARNINGS
	P/E MULTIPLE	P/E MULTIPLE	P/E MULTIPLE	EPS GROWTH	YIELD
Nasdaq (Technology)	131.4	34.0	23.8	43%	2.94%
Russell 2000 (Small-Cap)	120.0	133.3	21.8	512%	0.75%
S&P 500	26.0	17.6	16.0	9%	5.69%
MSCI Global	23.0	15.4	14.3	7%	6.51%
STOXX 600 EUROPE	20.5	13.5	10.8	25%	7.41%
Dow Jones	20.1	15.8	15.4	2%	6.31%
TSX Composite 300	19.2	12.5	11.4	9%	8.02%
MXEF (Emerging Markets)	13.9	9.8	10.6	-7%	10.20%

Data Courtesy of Bloomberg L.P.

As stock markets weakened in 2022, the Price (P) of the P/E ratio came down, creating a lower P/E multiple. However, current P/E multiples are still above historical norms, meaning if profits don't rise (the implied growth rate), the stock market could continue to fall. This is known as P/E multiple contraction. The first P/E multiple contraction was caused by rising interest rates to stem inflation.

Total Quarterly Returns for various Fixed Income indexes (in native currency)				
QUARTERLY RETURNS	Q1 2022	Q2 2022	Q3 2022	YEAR-TO-DATE
BOND INDEXES	TOTAL RETURN	TOTAL RETURN	TOTAL RETURN	TOTAL RETURN
Canadian 6-10 Year Bond Index (ZCM)	-7.53%	-5.92%	-0.89%	-14.34%
Canadian 30+ Year Bond Index (ZLC)	-10.17%	-12.69%	+0.75%	-22.11%
U.S. 30+ Year Bond Index (VCLT)	-7.69%	-13.41%	-9.70%	-30.80%
Canadian Real Return Bond Index (ZRR)	-9.44%	-10.51%	-1.15%	-21.10%
PREFERRED SHARE INDEXES				
Canadian Rate Reset Index (ZPR)	-2.35%	-7.91%	-7.18%	-17.44%
U.S. Perpetual Index (ZUP)	-7.84%	-5.09%	+2.29%	-10.64%

Data Courtesy of Bloomberg L.P.

### Price / Earnings Multiple Contractions

Based on expected analyst earnings for 2022, we get the following table:

A second P/E multiple contraction could occur if the Earnings (E) fall off. A drop in earnings would raise the P/E multiple and force it to contract again.

For example, the current P/E multiple on the S&P 500 Index is 17.6. The S&P trades at 3,585.62 and the underlying earnings are \$203.95. Another way to think about it is that investors are willing to pay \$17.60 for \$1 of profits.

If profits sink 10% to \$183.55, the P/E multiple would be 19.5 times earnings. To get back to the 17.6 ratio,

the stock market would have to fall 10%. If it fell to the historical norm of 16 times earnings, the S&P would have to drop 18%. That would be a “double whammy” for investors who bought the market dips in July.

If the market drops another 20%, our interest in buying stocks would increase and we’d likely dip our toes back into the market. Again, it will depend on the severity of further rate increases and company profitability.

## FUN WITH MATH: WHY YOU MUST ALWAYS STAY INVESTED IN THE STOCK MARKET

By David Driscoll

When investing in the stock market, one must be disciplined, put a plan in place and stick to it. Selling at or near the bottom of the market may provide you with some emotional relief by locking in your profits (or losses), but it’s a recipe for long-term disaster.

If you hear someone say they can go all to cash and then get back in at the market bottom, call their bluff. Nobody in the history of mankind has ever been able to sell at the top and buy back at the bottom. To prove the point, we’ll look at 8 stock market collapses for the S&P 500 Index that cover 70 years of investing. The first collapse occurred in late 1949 with the market hitting a low on January 6, 1950.

If you were lucky enough to buy stocks on that date, one year later, on January 6, 1951, you’d be up 23%. If, like most investment professionals, you got in 6 months after the market bottom, you’d only be up 17%. And if you were a do-it-yourself investor, chances are you never got in during the first year (see our last newsletter regarding the *Dalbar* study), so you’d be up nothing.

Buying at the bottom		
IF YOU BOUGHT ON:	S&P 500 INDEX	RETURN ON JANUARY 6, 1951
January 6, 1950	16.98	23%
July 6, 1950	17.91	17%
January 6, 1951	20.87	0%

*Data Courtesy of Bloomberg L.P.*

The chart above is just one example of the returns after a market bottom. In the next chart, here’s a history of stock returns after reaching a bottom for each decade since the 1950s.

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Nobody in the history of mankind has ever been able to sell at the top and buy back at the bottom.

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## The History of Buying at the Bottom vs. 6 months later

MARKET BOTTOM	RETURN 1 YEAR LATER	RETURN 6 MONTHS AFTER THE MARKET BOTTOM
January 6, 1950	23%	17%
October 28, 1960	31%	5%
October 4, 1974	38%	6%
March 28, 1980	34%	9%
October 12, 1990	27%	1%
October 11, 2002	24%	20%
March 6, 2009	67%	12%
March 27, 2020	56%	21%

Data Courtesy of Bloomberg L.P.

If you sell all your stocks, hiding in Guaranteed Investment Certificates (GICs) may give you peace of mind, but if you're locked in until maturity, you could be stuck in that investment while the stock market takes off. Cashable GICs are an alternative but they

pay much lower interest rates than locked-in GICs so they're not a good place to bide your time.

The moral of the story is this: If you want to grow your portfolio and your net worth, you have to always be invested in the stock market. Let time and compounding be your friend – enjoy the higher dividend growth and re-investment of that cash. Going all to cash during recessions accomplishes nothing and hurts your long-term compounding.

Another way to think about it is a recent commentary from David Booth, DFA:

Twenty-five years ago, your crystal ball reveals a Russian debt default, Long-Term Capital Management's failure, the dot.com implosion, Sept. 11, 2001 terrorist attacks, the 2008 financial crisis and great recession, the Covid pandemic and three market crashes.

Would you put your money into stocks? No? Then you missed a 10X return on your investments.

## INVESTING FOR MILLENNIALS: THE BENEFITS OF MAKING A BUDGET

By Farai Murove

Making a regular budget is a great financial planning tool that can empower you to be in control of your money and meet your financial goals. A survey of Canadian millennials showed that 55% of them find personal financial management stressful and frightening. That is understandable because we face some of the most uncertain economic futures compared to any generation since the Great Depression.

A survey from Yahoo Canada found that 60% of Canadians have been forced to cut down on expenses

due to rising inflation. While a budget will not help you beat inflation, creating a budget will certainly help you balance your income vs expenses, align your spending with your financial goals, develop savings and improve your debt repayment strategy.

### Things to do before starting a budget

- *Track your monthly expenses and spending:* Your budget success will rely on starting with realistic figures and not estimates. Track your spending by reviewing your monthly statements, bills, and receipts.

- *Set your financial goals:* List your short-, medium- and long-term financial goals. Short-term goals can take between 1-3 years to achieve. These can include starting an emergency fund or paying down credit card debt. Your medium-term goals usually take between 3-10 years to achieve, namely saving for a down payment for a house or saving to start a business. Long-term goals can take decades to achieve. These may include saving for retirement or your children's education. Your goals can change but identifying them can give you the motivation to stick to your budget.
- *Establish your needs and wants.* Your needs are the basics required to live a comfortable life such as shelter, utilities, and food. Wants are non-essentials that can be avoided. Wants are a good area to cut or adjust when you are struggling to stay within target.

### **Simple steps to create a budget that works:**

- *Record your net income:* This is the money you have available to spend. Make note of your total salary or wages and miscellaneous income after deductions for taxes, pensions, CPP, EI, and OAS. Also include income such as investment income, child support, and rental income. You can also factor in variable income, such as commissions and tips in your budget as bonus income; but do not rely on this income to pay your regular expenses.
- *Outline your expenses:* Analyzing monthly expenses for the past six months to a year are a good place to start. List your fixed and variable costs. **Fixed costs** include housing, home services, utilities, credit cards, loans, and lines of credit. Prioritize paying more than your minimum payments to become debt free faster. Your **variable costs** are costs that may change from month to month. These include expenses such as groceries, entertainment, transportation

and vacation costs. This is a good area to find opportunities to cut back. **Infrequent expenses** are sometimes overlooked but should be noted. These include vehicle registration fees, annual fees for belonging to a professional association, car expenses, or household repairs.

- *Analyze your budget:* Subtract your total expenses (fixed, variable, and infrequent) from your income. A positive figure equals your discretionary income. A negative result indicates that your expenses are higher than your income. This is an opportunity to review your expenses and spending habits. Money left over can be placed towards savings, investments, and debt repayment.
- *Allocate funds for savings and investments:* Depending on your financial situation, aim to put 10% to 20% of your budget towards your savings. Building an emergency fund will help you when unexpected events occur, such as losing your job. Consider setting aside enough to cover your expenses for three to six months. Cash not tied up in an emergency or spending account may be invested. The vehicle depends on your risk tolerance and time horizon.
- *Monitor your budget:* Getting into the habit of reviewing your budget regularly will help you stay on track. It is ideal to do this at the end of each month. This can be done through a simple spreadsheet or an app. Keep fine-tuning your budget by following the steps above.

### **Three budgeting strategies that can help you save money**

There are several budget types to choose from. Here are some of the most common:

- *Zero-Based Budget:* This budgeting method is ideal for a fixed income or where income can be estimated. Expenses and savings are subtracted from income and should be zero. The goal is to ensure that no money is wasted or left over.

- *50-20-30 Budget*: Expenses are broken down into three categories: Necessary expenses or living essentials such as rent and utilities (50%), Discretionary expenses such as dining out and shopping (30%), and Savings and debt payments (20%). This is a great option for those that are new to budgeting. You can change the percentages to suit your goals.
- *Pay-Yourself-First Budget*: This budget is best when your priority is on debt repayment and savings. A specific amount of income is placed towards savings and debt payments while the rest of the money is spent as you see fit.

### **Best practices for creating a successful budget**

- Set realistic and achievable goals and expectations.
- Create a budget and tracking system that is easy to use and maintain. You can use paper or budgeting software.
- Experiment with various budgeting methods to find one that suits your situation.
- Take advantage of free financial tools provided by most of the financial institutions you use.
- Reward yourself for achieving your budget goals!

## SAVING FOR YOUR FIRST HOME

By Scott Kerkhof CPA, CA and Brett Girard CPA, CA, CFA

Announced in the 2022 Federal budget was a new account called the Tax-Free First Home Savings Account (FHSA). This account, which is to be available in 2023, attempts to combine the best parts of both the Tax-Free Savings Account (TFSA) and a registered retirement savings plan (RRSP) account.

### **What is it?**

The purpose of this account is to provide individuals to save up for a down-payment on their first house.

### **How does it work?**

It's an account where you can contribute \$8,000 a year (contribution room does not carry forward) to a maximum of \$40,000.

Like an RRSP, contributions are tax deductible. Similar to a TFSA, withdrawals are tax free.

The purchase of a home must take place within 15 years of opening the account. Otherwise you may transfer any unused savings into a RRSP.

### **Who is eligible?**

Canadian Residents, aged 18 and over, qualify for the program. A person who has never lived in a home they owned at any time in the year they open the account or the previous four calendar years are also eligible.

### **The Pros to enrolment:**

Since the contribution is always \$8,000 per year, it is not dependent on an individual's income or RRSP room to save in this account. This ironically favours lower income earners but begs the question where the \$8,000 is coming from.

The maximum of \$40,000 is higher than the maximum withdrawal amount of \$35,000 from an RRSP account under the Home Buyers Plan (HBP).

When you use the money to purchase your first home, there is no requirement to repay the amount over 15 years as it is when you withdraw from your RRSP under the Home Buyers Plan.



### **The Cons to Enrolment**

If you want to purchase a home before 2028 (5 years after 2023), or if you have less than 5 years to save, then you will not have sufficient time to contribute \$40,000. Whereas under the RRSP Home Buyers Plan, if you have RRSP room, you can contribute the full \$35,000 at least 90 days before you buy a home.

If you are not in a high tax bracket, the benefit of the contribution being tax deductible will not be significant.

You cannot use the FHSA and the RRSP HBP together to purchase a property.

### **Conclusion:**

This is a helpful account if you are young, have money to save, and are at least 5 years from purchasing your first house. Otherwise, you may be better off saving in your RRSP account or your regular TFSA account.

Note that we have yet to receive word from our custodian, National Bank, when these accounts will be available. It's our understanding that January 1, 2023 will be the soonest date.

## CLIENT QUESTIONS

### ***What can we expect from stocks during a recession?***

A recession usually lasts 18-24 months and stocks may fall anywhere from 10% to 30% in value – tech stocks and small-cap stocks can drop even more. That's because they burn through cash quicker than a more mature firm (think large-cap stocks) and, with interest rates up, access to capital will be harder to come by and more expensive.

That's why our biggest focus when rating a stock is on the company's ability to generate free cash flow (FCF). In your own life, if you have money left over after all your bills have been paid, you have financial flexibility. You can save it, spend it, or invest it.

It's the same with a corporation. They can pay down debt, buy back shares, raise the dividend each year, put more money into research and development (R&D) to stay modern and relevant and make tuck-in acquisitions to improve its pricing power and market share.

It's the latter option that's important when the economy is in recession and stock prices fall. Firms that generate free cash flow can go on the warpath. While some companies struggle to keep the lights on, the FCF firms look to build their business by acquiring the competition.

The competitive environment for deals has changed as higher interest rates limit the ability of some buyers to access capital, and that will benefit many of the Liberty stocks, including Alimentation Couche-Tard.

Its CEO, Brian Hannasch, noted during Couche-Tard's latest quarter that, "When you look at who's been competing with us over the last four or five years, it's been people that are using the high yield markets and private equity partnerships. And those companies (sic) are largely sidelined today."

Couche-Tard analyzed several takeover opportunities in recent years but "just couldn't get our head around

the prices they were selling for,” Mr. Hannasch said. “The company has made some of its best acquisitions in times of economic distress where capital markets weren’t available to all buyers and people were uncertain about the future”, he said. The deal for

CST, as well as the takeovers of Statoil ASA’s retail network and U.S. convenience operator Pantry Inc., are examples.

**As the British Pound plummets, why do we own British stocks? Won’t their returns be worse off, given both the stock price and the currency is going down?**

The short answer is no. The long answer is that it’s not where the company is domiciled but where their revenues are derived.

For example, Intertek Group plc is a British company. It’s revenue stream, however, is broken down as 30% from North American sales, 6% from Europe, 20% from Asia and 43% from emerging market countries (multiple currencies).

If 30% of revenues are paid in U.S. dollars, a 15% drop in the Pound Sterling adds to Intertek’s profits when expressed in Pounds.

Contrarily, for many U.S. multinational companies, the rise in the U.S. dollar will do the exact opposite. Their profit growth will slow as they’re being paid in currencies that lost ground against the U.S. dollar.

The table below shows the Liberty stocks’ breakdown by global region.

Our North American companies, especially the Canadian ones, do little business outside of North America. That’s why we’re global portfolio managers.

If the North American population is 550 million (Canada / USA / Mexico) and the rest of the world’s population is 7.5 billion, one may assume there’s more opportunity outside the continent. Academic evidence backs this up. Over a 10–20-year time horizon, global stocks have outperformed North American firms by 1% to 2% compounded annually.

And despite owning European stocks, our European revenue exposure is only 24%, a small number in our opinion.

That’s why we pay attention to where the revenues come from. It’s an easier and cheaper way to hedge global currencies by investing directly in world stocks than buying currency options or forward contracts.

**Liberty 2021 company revenues by economic region**

COMPANY DOMICILE	NORTH AMERICA	LATIN AMERICA	EUROPE	ASIA	AFRICA, MIDDLE EAST, AND OTHER
<b>North American Stocks</b>	65%	4%	9%	1%	20%
<b>European Stocks</b>	33%	1%	24%	14%	29%
<b>Asian Stocks</b>	0%	0%	0%	100%	0%
<b>Overall</b>	55%	2%	15%	10%	18%

Data Courtesy of Bloomberg L.P.

### ***How are you protecting portfolios against inflation?***

About 85% of our portfolios are protected against inflation. That's because:

- Between 5% and 10% of clients' portfolios who have fixed income as part of their asset mix are invested in inflation-protected bonds.
- The average dividend growth in 2022 for the Liberty stocks was 12%. This is about double what the average publicly-listed stock in the world pays out.

### ***What's the importance of a laddered bond portfolio?***

If you think of the rungs of a ladder, each bond we buy has a maturity date in successive years. For example, we may buy a bond maturing in 2024, 2025, 2026 and so on for at least the next 10 years. When a bond matures in 2024, we roll it out 10 years to something that matures in 2034.

This bond ladder works like an insurance policy against the movement of interest rates. In 2020, with interest rates at zero, maturing bonds that had 4% coupons were re-invested at 1% to 2% rates. Fortunately, not all

### ***What makes you happy when investing?***

A client who's 100% invested in stocks recently said, "When I look at my transactions, all I see are dividend payments but no buys or sells of stocks. Are you even working?"

The answer is yes. I'm patiently waiting for stocks to fall to levels where we may find discounts to their fair market values, combined with higher dividend yields.

Other things that have me smiling these days are that savers are now getting paid more with higher interest rates on cash holdings and bigger bond yields. And, as written above, a 12% increase in dividends helps offset inflation and provides more annual income from stock investments than the average index fund pays.

- We benefit from the rise in coupons of rate-reset preferred shares.
- Only vanilla bonds and cash are exposed to current inflation rates but new bond purchases are capturing yields between 5% and 7%. If inflation can be tamed with higher interest rates, our real returns (the yield after tax, inflation and fees), should turn positive. This means that our clients' spending power should continue to rise.

the bonds in the portfolio matured in 2020, so clients didn't fear an excessive drop in income.

On the flipside, in 2022, maturing bonds with 4% coupons can now be rolled over into bonds with yields of 5% to 7%.

That's why we don't actively buy and sell bonds. We just let them mature and re-invest the proceeds. While we may pay broker commissions to buy the bonds, there are no costs involved when they mature.

Finally, U.S. Congress passed the IRA act whereby they will place a 1% tax on corporations that buy back shares. This will be good for shareholders and bad for executives. To avoid the tax, companies may increase their dividend payouts more, while fewer share buybacks make it more difficult for the fat-cat executives to raise profits artificially that help them achieve a higher stock price and, therefore, greater bonuses.

And, naturally, because we're holding 20% cash times the equity weight, I get happier the more the market falls. Once a contrarian, always a contrarian.

## IN OTHER NEWS

We are pleased to announce that Raji Dhillon has joined Liberty as Vice-President of Operations. She has already helped us get up to speed on projects that needed an overhaul through automation of systems and staff cross-training.

As a result, we'll have fewer back office bodies (a cost centre), leaving future staff additions to be portfolio managers (a profit centre) to help better service clients and increase our assets under management (AUM).

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If you have any questions, let us know.

**David Driscoll CIM**  
President & CEO

**Brett Girard CPA, CA, CFA**  
Portfolio Manager & CFO

**Annie Bertrand CIM**  
Portfolio Manager

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