Royds Report

September 2026

It's been a while since the last newsletter, so this one is a bit of a catch up. Sorry it's so long. Hopefully you will find a lot of the topics of interest.

Topics

- **Investing Wisdom from a Retiring Canadian Notable**
- **Thought Provoking Observations/Ideas of Franklin Templeton**
- **Market Review**
- **Market Appetite Changes Frequently**
- **Asymmetrical Loss Aversion**
- **Currency Impact on Returns**
- **Possible Explanation of Slow House Price Growth**
- **Is Your Common Law Spouse a Dependant?**
- **Increasing Security Threats**

Investing Wisdom from a Retiring Canadian Notable

Tye Bousada, a long-time, successful, Canadian fund manager, who started at Trimark in its heyday and is a co-founder of Edgepoint, documented on, in an elegant way, some of what he's learned over his decades managing billions. Below are some excerpts which provide valuable perspective for investors.

"Imagine that everything you own in life is taken away from you and, in return, you are given a large sum of money. Let's call it $1 million and that is all the money you have to feed, shelter and clothe your family for the next 50 years. You must buy a business with that money to protect them from the impact of inflation. Now imagine, I show up on your doorstep and tell you that I have a business for sale and the price that I put on that business is $1 million. As it turns out, you have $1 million, so you ask me to tell you about the business I'm trying to sell. The only thing I'm willing to tell you is that the share price of my business has risen by more than most other share prices in the stock market over the last 10 months. I won't tell you what the company does, if it's going to grow, if it's profitable today, or anything about the management. All that I'm willing to tell you is that it's had good price momentum recently. Would you give me your money? My guess is you wouldn't. But it may surprise you to know that **hundreds of billions of dollars in the stock market are invested in this strategy. It's called price momentum.**

Let's not just pick on the price momentum strategy. Imagine I appear on your doorstep and show you a chart with two lines crossing on it. I tell you that, historically, when those two lines cross, it's a good time for you to give me your money and for me to sell you my business. I won't tell you what the business does, or about its outlook for growth, profitability or management. All that matters is these two lines on my chart just crossed. Give me the money that is there to feed, shelter and clothe your family for the next 50 years. Would you do it? Of course not. You may be surprised to know however, that **hundreds of billions of dollars follow this strategy. It's called technical analysis.**

I could keep going with different strategies like this, but you get the point. You wouldn't give me your money for my business based solely on a price momentum or a technical analysis strategy, but untold billions of dollars of people's money follow such strategies in the stock market and it's somehow different. Someone investing like this in the stock market is taking on the risk they can't see, a risk they don't have to think about, or are just willfully ignoring the risk. That behaviour has a way of leading to permanent losses of capital or, said differently, leads the average investor to run out of money before they die."

"*"Compounding is not about earning the highest returns. It's about earning pretty good returns for the longest period of time possible." — Morgan Housel* **A number of things can interrupt compounding. The most common cause I've noticed in my career has been lack of diversification**. A well-constructed portfolio is diversified by business idea. It's diversified away from obvious and non-obvious correlations. **If you look at some of the most popular indexes in the world today, between 40% and 50% of their exposures are to businesses related to artificial intelligence (AI). If you own one of those indexes, that means approximately half your money is invested in one idea.** You are making a big bet.

It's impossible to predict the future. But market valuations and index exposures reveal other people's forecasts – where the "herd's" money is. Investing with the herd can be very dangerous, especially during times of extremes. Herd mentality leads investors to become too exposed to a given idea. Overexposure to consensus thinking leads to permanent losses of capital. This statement is very easy to prove. Here's a list covering 55 years of herd mentality that led to material wealth destruction:

Event	**Popular belief**	**10-year outcome (real terms)**
Nifty fifty - 1970s	You can't overpay for a great business	Wealth destruction
Energy boom - 1970s	We're running out of oil and prices will keep rising	Wealth destruction
Japan bubble - 1980s	The rest of the world should learn how to do business from Japan	Wealth destruction
Emerging markets - 1990s	Emerging markets will always grow faster than developed markets	Wealth destruction
Tech bubble - 1999/2000	Internet stocks are all you need to own to make money	Wealth destruction
Housing bubble - 2000s	U.S. real estate prices never go down	Wealth destruction
Emerging markets - 2010	Buy the BRICs - emerging markets will keep outgrowing developed markets	Wealth destruction
Lower for longer - 2020	Interest rates will never rise materially again	Wealth destruction

Investing in line with consensus is unhealthy for your financial future. Today's most popular indexes are conduits of consensus views. They aggregate correlated beliefs and package them for sale. History has shown that this becomes a problem when too much of a given index is an investment in a single correlated belief (refer to the table above).

[We heard one estimate, that $27 Trillion is invested worldwide passively in indices. Whatever the actual number is, it's big dollars following consensus views. Imagine how a change in consensus views among the remaining active investors could whipsaw a company's valuation.] …

It's not about being wrong or right. It's about being wrong when too much of your money is invested in one idea. **Nothing destroys compounding like overexposure to a single idea that doesn't play out as hoped**. Everyone knew that the internet was going to change the world in the late 1990s, just like everyone knows today that AI is going to change the world in the next couple of decades. It was tempting to buy the Nasdaq Index in late 1999. At the time, it had better long-term performance numbers than most active managers, and came with lower fees. However, from March of 2000 to September of 2002, the Nasdaq declined by approximately 74%. It took almost 14 years for that index to recover to its former peak. Would you have held on for 14 years or would you have locked in those losses along the way? The S&P 500 Index was almost cut in half over the same timeframe given its overexposure to the internet. It took almost seven years to make your money back, only for the Great Financial Crisis to follow shortly after with another 50% decline. Would you have held on or would you have locked in your losses along the way? …

There are roughly 1,300 companies in the MSCI World Index. In Canadian-dollar terms, its weighted average market cap is about $1.6 trillion. Yet fewer than 15 companies in the world are actually that large. So how can the weighted average be so high? The answer is that the index is heavily weighted toward a small group of very large companies. …

"Good investing is a minority sport, which means that in order to earn returns better than everyone else, we need to be doing things different from the crowd." — Nick Sleep

We don't believe in looking different for difference's sake. However, we do believe that when the majority of the market is chasing a single idea, it can pay to look elsewhere.
The surge of capital into AI trades has resulted in capital being pulled out of many other corners of the global stock market. As capital leaves these other areas, opportunities to buy future growth for free are created. **The market has become quite polarized between the AI ideas and the "everything else bucket." The great thing about today's "everything else bucket" is that it contains a bunch of high-quality companies being offered at prices that allow us to buy their future growth for free.** Our experience has taught us that opportunities to buy future growth for free in these compounders are few and far between. We are excited by what we're seeing. …

"If making money in the stock market were easy, the world would be rich, and it isn't rich for a reason." — Me [Tye Bousada]. I'm sure of very few things, but I have my suspicions about a lot of things. I suspect that too many people think making money is easy. I suspect that they are using investment strategies in the stock market that they wouldn't use if they had to invest their family's future in one business. I suspect that they are not paying attention to the hidden risks in index funds and will likely see compounding setbacks because of it. I suspect that too many active managers are hugging the index to increase their personal job security, which in turn increases exposure to the same concentration risks that exist in the indexes. I suspect that true active managers have a great opportunity to earn pleasing returns while protecting their clients from the many risks lurking today." Source: Bousada, Ty (2026, Aug 23). A letter from Tye Bousada, EdgePoint Wealth.

We think the investment wisdom, shared by Tye Bousada above, supports how we like to invest. **Besides diversification, our favoured strategies look at companies' fundamentals to determine their financial health, profitability, future growth, competitive advantages, management strength, etc. and then assess what the future income stream of each of those companies is likely to be and what a fair price to pay for that income stream would be. Very importantly, we then want to buy the companies at a substantially lower price than their estimated fair value. Buying a basket of growing companies at**

a discount and holding them as they grow, and until their true value is realized, is an investment strategy Warren Buffett practiced over decades, achieving staggering growth without permanent losses.

Our favoured strategy hasn't been changed by AI, but **AI is sure assisting as a tool to help speed up the research process** to find suitable investable companies. Some fund companies are using AI to search the internet for new information on up to 20,000 companies/stocks daily, and a fund may get rebalanced based on new information learned daily. That's hard for an armchair investor to compete with. One fund company even sent AI out to read or listen to every interview on expected future profits, that company directors of thousands of companies had given in the last several decades and then to check future changes to the companies' dividend payouts, in order to determine how often a dividend cut occurred after a company director gave a vague answer about a company's earnings expectations. It would have taken thousands of human researchers to be able to do an investigation of that magnitude in any reasonable amount of time. AI's answer, by the way, was 80% of the time. That answer helped fund management do risk assessment on income generation for companies they wanted to invest in going forward. That's how sophisticated research requirements are becoming to find extra-profitable investments. Is it any wonder that Jordan and Elaine don't try to find individual stock winners themselves? How can we do better research than fund managers are doing with all their analysts and tools like AI?

People talk a great bit about beating the market. People don't talk much about making sure they don't lose their principal, but we think about that a lot. Surely not having permanent losses should be a first priority and investing in a diversified basket of quality companies for which one was careful not to overpay goes a long way to that end.

Thought Provoking Observations/Ideas of Franklin Templeton

"The US-centric system is collapsing, and the world is facing an uncertain and unstable future."

"A new paradigm is emerging for investors: Traditional economic logic is giving way to GEOECONOMIC LOGIC."

The new waves shaping investment returns are the demographic wave of the aging population, the technology wave of AI rolling out, the wave of increasing out-of-control debt, the geopolitical wave and the climate change wave.

"Today, the "middle powers" have more power than ever before."

The processing of metals critical for clean technology is done in only a few countries in the world, but particularly one. This near monopoly of supply could hamstring the industry if trade with that country were restricted by either the exporting or importing country. This could change which power generation businesses thrive most.

In parts of the world, transportation routes for critical resources are unreliable, and the uncertainty of supply is causing some countries to change the direction of their environmental and infrastructure projects. This can change which industries, like power generator manufacturers or tanker shipping companies, thrive most.

In general, infrastructure construction is blossoming around the world which is benefiting construction related companies.

Helium has become strategically important in the world and is a good example of how dependent crucial industries/technologies are on peaceful global trade.
Helium is essential for
"-Medical imaging (MRI): 30% of demand
–Semiconductor fabrication: 24% demand
–Space industry
–Consumer Electronics
–Quantum Computing
–Advanced Physics
•There are no substitutes
•There are no reserves"
-Helium comes almost exclusively from the US, Qatar, Algeria and Russia.

People in low income countries are most vulnerable to higher food prices, because those consumers "already spend a high proportion of their income on food and face significant food insecurity." Source: Catechis, Kim & Ciccone, Patrick (2026, Aug). Geopolitical Disruption Scoring Vulnerability Using the Country Risk Framework, Franklin Templeton.

Market Review

In the past 2 months, most of our clients have been surprised to see how well their portfolios have been doing. Based on the geopolitical negative news recently, they expected markets would be down. Geopolitics and markets are not necessarily correlated, but the emotions caused by geopolitics obviously colour people's expectations and concerns about markets.

We've had many months in the past couple of years of mega stocks or tech stocks being responsible for most of the stock market index gains. In the last 3 months, 75% of stocks in the S&P 500 index have risen in price. So, most of the market has been increasing. This usually indicates a stronger general economy. This time, Fidelity reports that the gains are supported by **strong 23% year over year profit growth expectations for the near and longer term**. Second quarter earnings quite exceeded expectations and estimate for future earnings continue to rise. Rising earnings are offsetting much of the increase in the cost of capital, caused by sticky inflation. And the non-AI (artificial intelligence) companies seem uncorrelated to most of the other stocks. So **when the prices of the AI stocks drop, the other companies pick up the slack and visa versa. This is making the market less volatile than in the past**. Source: Timmer, Jurrien (2026, Aug 17). Jurrien Timmer insights, Fidelity Investments.

One of our favourite market reporters reports that second quarter earnings are on track to be up 50% over last year with the whole year earnings expected to be up 32% over last year. This is twice as much as was expected when the year started. Some of this growth however is fuelled by Anthropic and Space X's which brings into question how long such atypical growth can be sustained. **The reassuring news is that the growth in stock prices is matched by earnings growth, rather than by blind optimism or unfounded momentum.**

The stock market, as of mid-Aug, had hit 27 new all-time highs so far this year, which brings **the total number of new all time highs in the last 13 ½ years to 470**. So who cares how many times the market dropped in that period? It's the cumulative, long-term results that matter, and holding long-term is the only way to get the magic and power of compounding.

Is it clear sailing on every front? **One concern is the US federal government's debt**. It was all over the news that the debt reached $40 Trillion. That is twice the level of debt of 10 years ago. In July, the Federal Government spent $432 Billion more than it took in in revenue. If the July rate of over-spending continued for 5 years, the debt would double and be twice the level of the county's annual GDP. Annual interest owed on the debt is now $1.37 Trillion. **If it grows much more (or interest rates rise much), it will soon be the biggest item in the Federal government's budget**. How does a country fund things their people and country need for the future, when so much of a government's budget is going spent on the interest for spending that supported their country in the past?

Based on the above and the potential for a debt crisis, you can see how important interest rates are, and by extension, inflation, since inflation and interest rates are intertwined. Inflation has now exceeded the US federal government's 2% goal for 66 consecutive months. In the last 5 ½ months alone, we have seen 14% inflation on wheat, 31% on cotton, 36% on rice, 45% on diesel fuel and 145% on sulphur. Maybe some of this is temporary, because of global shipping problems or other reasons, but if we look at longer term inflation on key items in our lives, we still see that **inflation is still a huge problem**. In 7 years (to the end of June), shelter costs are up 35%, electricity 43%, a dozen eggs 76% and a pound of coffee 123%. Is it any surprise then that **the US 30 year Treasury bill yield is now at the highest level in 19 years**, since the Great Financial Crisis? (That means the investors are demanding higher interest to hold US government debt, which usually means they feel there is more risk to holding US government debt.) In order for existing T-Bills to pay a higher percentage yield, since the payment in dollars is fixed, the re-sale price of the T-Bills has to drop. **In fact in less than 6 years, 30 year US Treasuries, paying 1.25% on the original issue price, dropped 55% in value**. T-Bills are supposed to be the safest investments in the world, so how does an investor who bought them on May 15, 2020 feel when they lose 55% by Mar 31, 2026? Why would people loan more money to the US government by buying more of government 30 year bonds, after losing so much on previous issues of Treasury Bills?

Another factor of risk for the US is how low the US' Strategic Petroleum Reserve is right now. It hasn't been this low since January 1983 and is roughly half the level it was in 2010. If there were a supply disruption, the US has less backup to tide the country over.

Another area of concern is US unemployment. The rate of measured unemployment has not been rising, but that's because **people are leaving the job market**. In fact, the percentage of people participating in the labour force is down to 61.4%, the lowest rate since early 2021. 2.4 million people have left the labour force since November. Part of that is surely that an increasing proportion of Americans are now 65 or older, but is part of that also that people are **giving up on trying to find jobs**?
Source: Bilello, Charlie (2026, Aug 18). The Week in Charts, Bilello Blog., Cymbria Day Videos (2026, May 15). Reflecting on the lessons the investments team has learned at the 18th annual Cymbria day, Cymbria.

<u>Market Appetite Changes Frequently</u>

Last year, growth investing was on fire, with high tech or Magnificent 7 stocks soaring, right until growth investing went stone cold around October. Then market appetite seemed to rotate to cheap "value" stocks. That didn't last very long.

Mackenzie Investments had a look at what style of investing produced the best results each month in the first half of 2026, and we found it very illuminating. The best returns from Jan – Mar were in Value stocks. Then Growth style investing zoomed back with huge returns in Apr. Market leadership switched back to Value in May. Meanwhile, quality had the worst performance by far in 2 of the first 6 months of the year, only to finally have good returns for the first time in 2026 in June. But even better performance in Jun came from stocks that benefited from an "Informed Investor" outlook. This was a new term to us. Mackenzie uses the term to describe stock selection based on how many investors have shorted a stock (bet against its future) or what kind of options are written against the stock, and also how macro factors like interest rate changes will affect the business. What can we learn from this information? First**, no one style of investing dominated or even worked at all consistently over the first 6 months of 2026, which made diversification pretty important.** Secondly, managers or companies, like GQG, who favour quality, had a huge headwind to get returns in the first half of 2026. You would think that the market would always appreciate quality in companies (reasonable debt levels, efficient use of capital, reliable earnings, durable competitive advantage and good management are some characteristics of the quality style of investing). We don't take this as a sign that Quality will always finish last, just that **Quality wasn't the market's focus in early 2026 (or in 2025), and one sometimes has to have patience till the market changes its focus**. Source: Nabil, Tasmim (2026, Aug 5). GQE Update Q2'26, Mackenzie Investments.

Asymmetrical Loss Aversion

Behavioural economics has put a fancy name, Asymmetrical Loss Aversion, on a human tendency. Put simply, it means that we hate to lose more than we love to win. Let's say for example that you step out your front door and the wind drops a $50 bill at your feet. What a nice way to start the day. You're happy about it, and maybe make plans to treat yourself to a lunch out with it, but your mind soon focuses on other things, and you are not still delighting in that windfall a day later. Your mind has moved on. On the other hand, let's say that you withdrew four $50 bills from an ATM and the next day you when open your wallet you find only three $50 bills. You search the pockets of yesterday's clothes. You go look in the car to see if the money slipped out of your pocket there. You re-check your wallet and any other place you think you might have lost the money. You stew about it, search repeatedly, finally give up looking and feel mad at yourself for losing it all day, maybe even searching your wallet again a couple of times over the next few days. We have a really tough time accepting losses.

How does this relate to investing? **The market goes up <u>more</u> than it goes down over time (or at least it always has), but markets go down <u>almost as often</u> as they go up**. So, if you check your portfolio frequently, the stronger negative feelings will probably be more memorable and impactful than the slightly more frequent but less strong positive feelings. In fact, we have witnessed this. People often complain and worry about markets when they are volatile, even if the market is rising. **It pays off emotionally to only look at your portfolio once a month, or less frequently, and it prevents one from being tempted to move investments a lot or try to chase performance, which is not conducive to getting good long-term returns.**

Currency Impact on Returns

When we go out of Canada on vacation, we all love for the Canadian dollar to be high relative to other currencies. It makes the trip cheaper. But when our investments are mostly outside of Canada, it isn't helpful for the Canadian dollar (CAD) to be high, because when we convert our foreign holdings back to what they are worth in CAD terms, they convert to fewer Canadian dollars. A rising CAD is a headwind pushing down our returns. Last year when the CAD fell to under $0.69 USD, it helped boost our returns,

but earlier this year **the Canadian dollar rose about 5%** (over $0.73) and that **hurt our returns by about 5%**. So, US and international markets have actually been stronger than the results might have indicated on your statements. (Currently the CAD is about $0.71, so some of the downward pressure on our US returns reversed.) No one knows which direction the currencies will go next. (In 2011 our CAD was worth $1.06 USD. – What a difference!)

The impact of currency movement should always be considered when comparing returns. It's possible to get investments which hedge against currency fluctuations, but one pays for the cost of hedging. Over the long-term currency movements often offset each other.

Possible Explanation of Slow House Price Growth

The Chief Economist at First Trust thinks we'll have low housing price growth for quite awhile. Currently **house prices are rising lower than the rate of inflation**. He says that **lower immigration has resulted in less demand for rental housing**, which, in turn, for the last decade has resulted in **rent increases being lower than the rate of inflatio**n. Also, legislation limiting rent increases has resulted in rent often being cheap relative to the cost of ownership. This has **disincentivized renters from becoming homeowners** [and disincentivized people from being landlords]. It's simply so much cheaper to rent. The lower demand for houses by new immigrants or renters should indeed be making it easier for new homebuyers to afford to get into the housing market. Of course, this doesn't make current homeowners happy about their own house price trend. Source: Wesbury, Brian & Stein, Robert, (2026, June 1). More Slow Home Price Growth Ahead, First Trust Portfolios Canada.

And, if by 2030, 25% of the population in Canada will be 65 or older, the long-term trend may be an increased demand for retirement homes or low maintenance rentals compared to home ownership. The movement of the heavy senior population out of single family homes should surely increase home supply which usually keeps prices down.

Is Your Common Law Spouse a Dependant?

In Ontario, common law spouses don't have property rights, but they still have the right to income support payments, where appropriate. So, where a long-time married couple, upon breakdown of the marriage, would probably have to have to split the value of the matrimonial home and any assets accumulated during the marriage (exclusive of any inheritance which was kept segregated), a common law couple who separated would not have to split assets. Both common law and legal spouses might be eligible for income support, commonly referred to as alimony. (And if there were children, even from a partner's previous relationship who essentially became dependants of and were being supported by the non-legal parent, even child support might be payable.)

This year, an Ontario court ruling added a new wrinkle. A court case arose when one common law partner passed on and left all her property, including the house she and her partner had lived in, to her adult child. The court didn't argue about the deceased's right to dispose of her property the way she wanted. However, the court ruled that the estate would first have to make provision for the surviving partner's support, since that partner had been financially dependent on the deceased. Apparently, there is legislation that permits courts to order an estate to provide support for dependents (usually children), if the will did not make adequate provision for them. **It is because of legal wrinkles like this, that it makes sense to get legal counsel when making a will. It avoids surprises and court litigation. If you have a common law spouse who is dependent on you for support, does your will make provision for**

continued support on your passing? Source: Langton, James (2026, Aug 20). Leave the condo, take the cheque, Advisor.ca.

Increasing Security Threats

Fraud and scams are increasing and are increasingly sophisticated as they are often being powered by Artificial Intelligence (AI) or organized masses of professional scammers, often working out of a single site. For example, there are sophisticated compounds of people operating on an industrial scale to promulgate cyber scams, account takeovers, fraudulent investment clubs meeting over social media, etc. It used to be that you could often spot scams because of poor grammar and spelling that would indicate it was a non-native English speaker communicating with you and pretending to be someone they are not. Now, anyone who is directing these frauds can use AI from anywhere in the world to make their communication seem like they are coming from a native English speaker in Canada. There have even been cases of advisor likenesses and voices being co-opted by AI to create deepfake communications. One has to be more careful than ever and especially avoid being tricked into resetting your account passwords. A good practice, when someone calls you purporting to be from a reputable organization, is to always call back to the institution to discuss whatever issue the caller wanted to talk about. Look up the organization's contact info yourself, rather than calling any phone number the person who called you gives, and then you know you have reached a legitimate agent of the organization and you can see if there is really any issue they need to bring to your attention or need you to take care of. One of the most common scams are calls supposedly from your credit card issuer, alerting you to unusual activity on your account. They tell you your card, perhaps bank account too, may have been compromised and that they need to confirm certain information with you to ensure your security. Elaine doesn't even know her landline telephone number, and so has ever given it out to anyone. (It came free as part of an internet package.) Still, she gets a call every week from "Visa" on that line to ask her to confirm whether certain recent transactions were initiated by her. Obviously a scammer! That's how common and persistent scams can be.

Society has trended away from person to person communication or interface to conduct business (think of how banking used to be done with a teller instead of online or through an ATM), but now we see there can be a real security benefit of dealing with real people you know and can see in person. If you get a call that just doesn't seem normal in any way, trust your gut and don't give out ANY information. Offer to call the company or person back to continue the discussion, but you look up what the real number is to reach them. You can't be too careful these days. Source: Langdon, James (2026, May 19). Fraud, scams increasingly powered by AI, tech, Investment Executive., Posadzki, Alexandra, Alini, Erica, & Postelnyak, Mariya (2026, June 6). Fraudsters are conning more and more Canadians. What you need to know to fight back, The Globe and Mail.

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