Royds Report

February 2025

Topics in this Newsletter

IA versus AI

IA Private Wealth is a subsidiary of Industrial Alliance (IA). AI stands for Artificial Intelligence. IA or AI? Confusing? Not so much when you know what each stands for.

Tax Slips – a little trickier this year

An easy, but not foolproof way, of checking if you have all your tax slips, or of getting duplicate receipts if needed, is to log into your "My Account" with CRA, where you can see and download all the duplicate tax slips that CRA has received for you so far from slip issuers. If you haven't registered with CRA yet, we really recommend it. It can speed up tax preparation and help to make sure you don't miss reporting any tax slips. Don't wait till the last minute to register however, if you haven't already, because your first password is mailed to you and Canada Post isn't instantaneous.

You may well have tax slips from both Manulife Securities and IA Private wealth for 2024. Any capital gains, interest, dividend or RRSP/RRIF/LIF income you incurred since moving your account(s) to IA Private Wealth will be reported on tax slips issued by IA Private Wealth or by the companies you are invested in. These tax slips will be mailed to you or be available on IA Private Wealth's client portal, depending on which option you chose. You can change your option (for tax slips going forward) on the client portal anytime. If you do have tax slips sent to the client portal, they can never get lost.

Any taxable income incurred while your investments were at Manulife Securities will be reported on tax slips issued by Manulife or by the companies you were invested in. If you are missing a tax slip or have misplaced one and need a duplicate from your investment period at Manulife, first check that you can't print the receipt from your Manulife online client portal or from CRA's "My Account". You should still have access to the Manulife online client portal to get tax slips or tax receipts. **Failing those options, call Brittany Wolff at 905-713-3765 or Toll Free: 1-888-367-7450 to get a duplicate**. Brittany is the temporary Manulife advisor assigned to oversee your account before it was transferred out. Since Jordan and Elaine are no longer working with Manulife, we cannot access receipts on Manulife's website for you.

Increasing Geopolitical Tensions

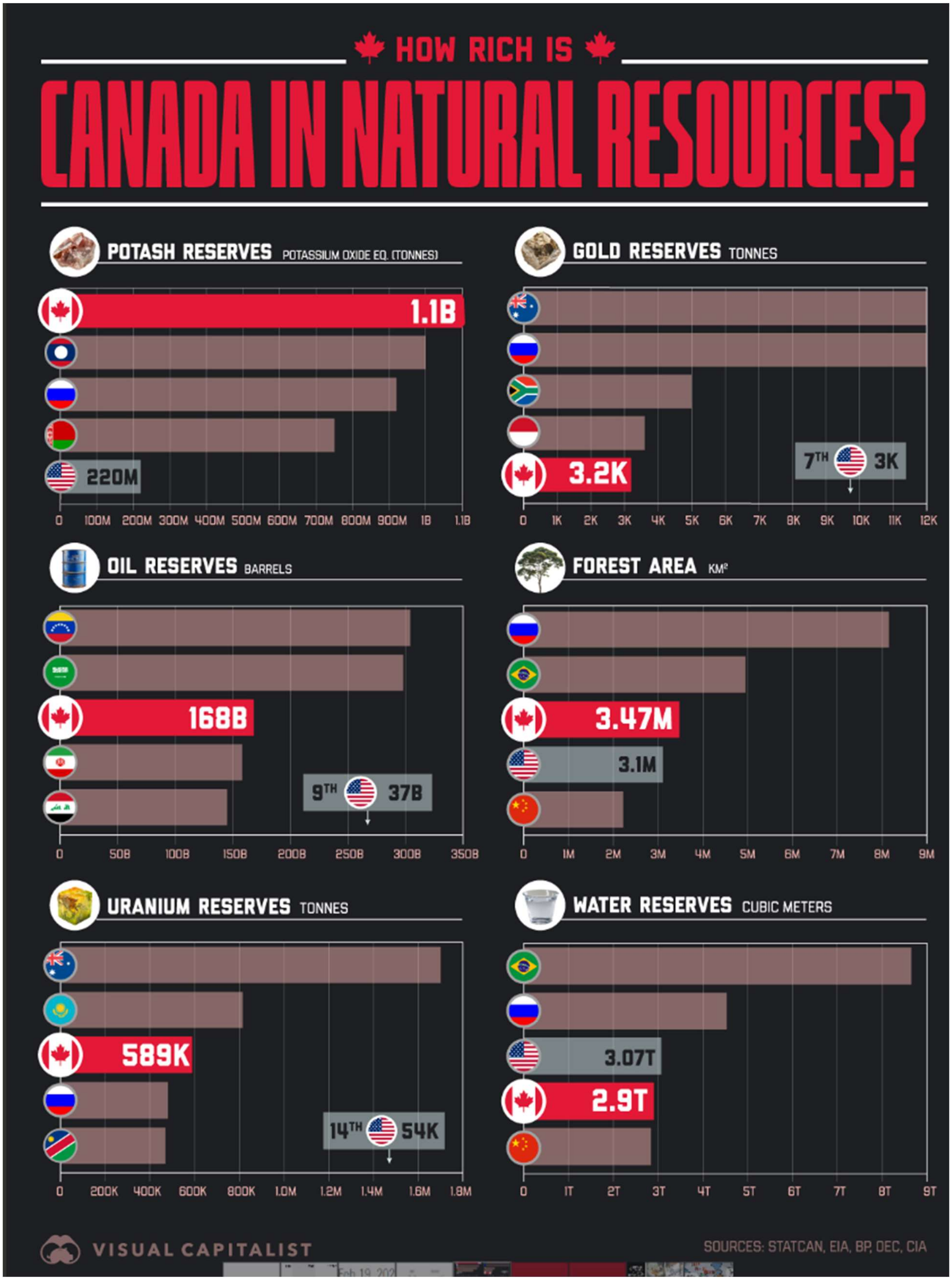
Our phones have been ringing slightly more than normal from people concerned about their investments, because of **heightened geopolitical risk in the world**, at the same time as markets have hit many more new all-time highs. For those of you who haven't called us about this yet, here's some of the big topics what's worrying the world and a few analyst and business journalist views on it.

Economist Magazine published an article that summarized some of the situation (and this was even before Trump's tariff threats against Canada and others). "**Since 1945 the American-led, rules-based global order has provided the conditions for peace and prosperity**. Multilateral institutions have, albeit imperfectly, safeguarded stability and spread shared values. But **this order has come under increasing strain. Great-power hostility between the US and the autocracies of China and Russia has grown. At the same time, the golden age of globalisation, characterised by ever-closer trading relationships and institutional co-operation, has receded**. Now, **Donald Trump's return to the White House threatens to accelerate these trends**. For the 47th president, **putting America first supersedes protecting diplomatic norms**—an approach that could lock the **world in a new era of might-is-right assertiveness**." CBS News reported, "**A lack of international leadership, President-elect Donald Trump's second term and AI all made the list of the biggest risks the world faces in 2025**, according to the Eurasia Group, which is a leading geopolitical risk and consulting firm." And Amundi, which manages over $3 Trillion and is one of the 10 largest global asset managers, sums it up numerically saying, "Our simulations indicate that **tariffs could negatively impact economic growth by 0.2-0.3% and increase inflation by approximately 0.3% in both imposing and affected countries**." According to Natixis, the impact forecast by the World Trade Organization is larger. "**The measures announced by Donald Trump focus on three main positions: massive people deportation; tariffs on trade; deregulation and fiscal stimulus, with an increase in public spending**. He has just confirmed applying 25% tariffs on his two main trading partners, Canada and Mexico, and is starting with 10% for China. He has not yet positioned himself on Europe. **These measures will be inflationary, which will prove, in the long term, negative for growth. A fall in immigration, and as a result in the labor force, will weight on wages and consumption**. The tariffs will weigh on the trade balance. If we add other parameters, such as consumer and market confidence, and a declining savings rate, we have raised our forecasts for the Fed's landing rate from 3% to 3.5%. … What are the consequences for the rest of the world? **The IMF has announced a 0.8% reduction in global growth in 2025, and -1.3% in 2026 if all of Trump's tariffs are implemented**." Sources: Economic Education, (2025, Jan 19), Trump, geopolitics and the future of globalisation. Hoffman, Kelsie, (2025, Jan 7). International leadership, Trump's presidency and AI named as geopolitical risks for 2025, group says, CBS News. Amundi Investment Solutions, (2025, Feb 6), What Trump 2.0 means for the global economy. Natixis Corporate and Investment Banking, (2024, Nov 27), Global Outlook 2025: Between Normalization and Geopolitical Risk.

In summary, we are monitoring the situation, but we aren't recommending any changes at this point. As unsettling as all of the above is, we believe (and we're hearing this from the analysts and economist we listen to) the economic and political pain to the world will be felt least in the US. So, while we may all try to Buy Canadian to support businesses in our country, we have to realize that Canadian businesses may not make much money for their owners/investors, given the headwinds the businesses face with tariffs and given how dependent Canadian businesses are on exports. **We believe that we need to continue to overweight investments in American companies**. (Buying shares in American companies or in mutual funds that own American company shares is the same as buying part ownership in those companies from someone else who already has part ownership. It is not helping those companies by providing them with new capital. It does allow us as part owners to share in some of the American companies' profits and allows us or our fund managers to vote on those companies' corporate matters.) And we need to stay invested through all this turmoil. Further on we talk more on staying invested.

Why Does the US Want a 51st State?

This **chart of Canada's natural resources shows why any country would want to own us**. The value of Canada's significant share of the earth's gold, water, uranium, oil and lumber are obvious. You may not be so familiar with potash. Potash is a major component in fertilizer to increase crop production and it reduces water requirements for crops and has some other uses, like in ceramics and detergents.


HOW RICH IS
CANADA IN NATURAL RESOURCES?
POTASH RESERVES POTASSIUM OXIDE EQ. (TONNES)
1.1B
220M
0 100M 200M 300M 400M 500M 600M 700M 800M 900M 1B 1.1B
GOLD RESERVES TONNES
3.2K
7TH 3K
0 1K 2K 3K 4K 5K 6K 7K 8K 9K 10K 11K 12K
OIL RESERVES BARRELS
168B
9TH 37B
0 50B 100B 150B 200B 250B 300B 350B
FOREST AREA KM²
3.47M
3.1M
0 1M 2M 3M 4M 5M 6M 7M 8M 9M
URANIUM RESERVES TONNES
589K
14TH 54K
0 200K 400K 600K 800K 1.0M 1.2M 1.4M 1.6M 1.8M
WATER RESERVES CUBIC METERS
3.07T
2.9T
0 1T 2T 3T 4T 5T 6T 7T 8T 9T
VISUAL CAPITALIST
SOURCES: STATCAN, EIA, BP, DEC, CIA

Trade War Impact

I don't always agree with Globe and Mail columnist, Rob Carrick, but I thought his Feb 20 article was a good and fairly concise outlook at what may be ahead. The final comment on home sales may be news to some of you thinking about selling. Here's a portion of the article: ***"if a trade war erupts, we can expect a noxious combination of a worse economy and higher inflation****. U.S. tariffs would likely* ***push our dollar lower, which makes imports from the U.S. more expensive****. And if we slap* ***tariffs on those imports, they become even pricier for consumers****.*
You could be paying more for groceries at a time when your leverage in the workplace is weakening. ***Raises and bonuses would be jeopardized, and jobs lost to layoffs or companies relocating****.*
One of the multiple rationales U.S. President Donald Trump has used for his tariff threats against Canada and other countries is ***coercing companies to move operations to the U.S.*** *Recent comments from the chief executive officer of auto parts maker Magna International Inc. suggest some companies in the automotive sector are discussing moving production to avoid tariffs.* ***A KPMG survey has found that almost half of Canadian businesses plan to shift more investment and operations to the U.S.***
A trade war would make life more expensive and financially unpredictable for Americans as well, but we'll feel it more in Canada. ***Home sales data for January*** *provide a clear example. Sales [volume]of resale homes nationally were up 2.9 per cent on a year-over-year basis, but slowed at the end of the month as the tariff threat emerged.* ***Prices increased 1.1 per cent, which is to say they lost 0.8 per cent on an after-inflation basis****.*
The most interesting aspect of the January numbers was an 11-per-cent jump compared with December in the number of newly listed homes. ***More people were trying to unload their homes at a time when fewer people were interested in buying****."* Source: Carrick, Rob (2025, Feb 20). Can we handle Trump's Make Canada Poorer plan?, The Globe and Mail.

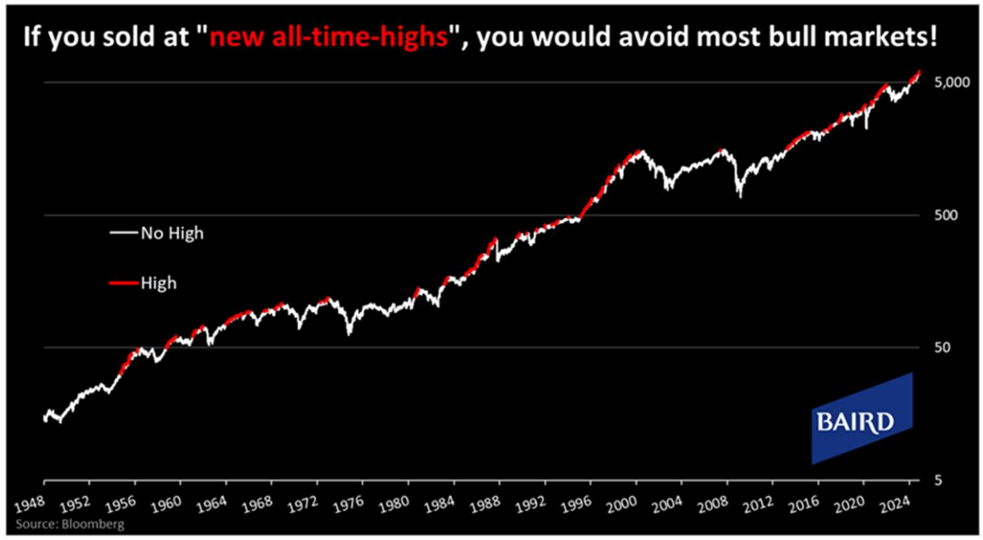
Market Timing

People often think it's time to get out of the market when the market is high or when they see turmoil on the horizon. As we have said in many, many newsletters over the last 27+ years, market timing rarely works for most people. We sure don't know how to make it work. Here is some information on how market timing can go wrong.

The following chart shows the growth of the S&P500 since 1948. As you can see, **what often follows a market high, is further market highs**. Look what an investor would have missed, if they had sold out at the first market "all-time high". It is obvious that investing at a low would give better gains than investing at a high, but selling at a high to have cash available to reinvest at a low could have meant losing out on even more gains. **So, market highs are not good indicators of times to get out of the market**.

Waiting for the Pullback?

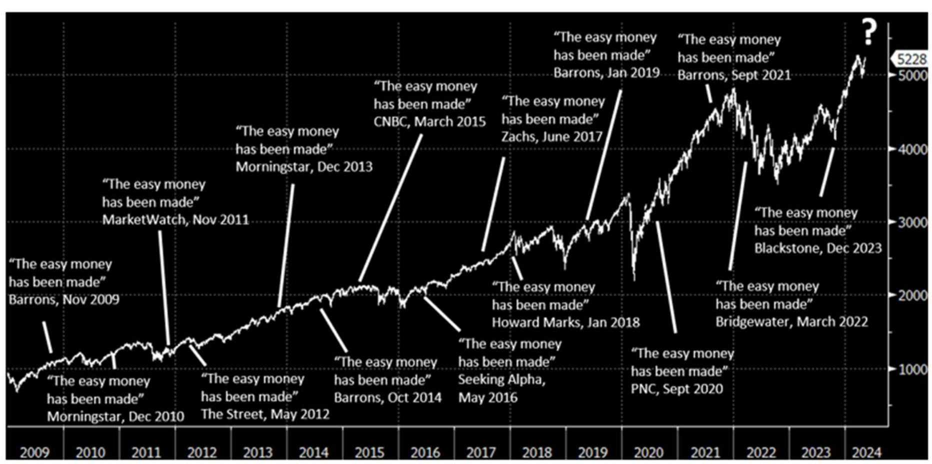
All-time highs have made a terrible 'sell signal' historically! The chart shows new all-time highs in red on the S&P 500.



Media headlines about full valuations or upcoming turmoil is also not a reliable indicator of when to get out of the market. On **the chart below are marked all the occasions when the headline was, "The easy money has been made".** As you can see, **there was much more upside left in the market after each of these headlines**. Source: Starlight Capital Focused Investing, Waiting for the Pullback? (Feb 7, 2025).

"The easy money has been made"

(…they said)



Rational Investing

In the book "Dear Shareholder: The Best Executive Letters from Warren Buffett, Prem Watsa & Other Great CEOs" by Lawrence Cunningham, (who also wrote "The Essays of Warren Buffett", a copy of which

Elaine got Warren Buffett to autograph the second time she met Mr. Buffett), there is a quote from the 2006 Letter to Shareholders written by Tom Gayner, the CEO of Market Group. The quote has a lot of wisdom, so we're copying it here for you.
"In 1986, it would have been impossible to forecast the real estate troubles of the early 1990s and the collapse of the savings and loan system in our country. It would have been impossible to foresee the rise of the internet, the weakening and strengthening and weakening again of the dollar. It would have been impossible to foresee the swings in energy prices. It would have been impossible to foresee the nature of the geopolitical struggles we've seen in the Middle East. It would have been impossible to foresee the terrorist attacks of September 11, 2001. All of these things affected the world's economies temporarily, but no one could have forecast them, or their effects, with any consistency. At Markel, we didn't forecast them, and we didn't need to, in order to create excellent long-term returns for our shareholders. We simply took the capital we had and used it to the best of our abilities in the insurance and investment arenas following sound and proven business disciplines."

Lawrence Cunningham adds, "**Just because forecasting is a prevalent (and unfortunate) tradition on Wall Street does not make it valuable. Simply buying the great companies of the world and never selling them would result in much better outcomes for most investors.** History stands in complete support of this idea." It worked for Warren Buffett! Source: Daniels, Ashby (2025, Jan 25). Rational Investor #054: Four Big Announcements & Tom Gayner on Forecasting, Money Visuals.

Opportunities and Risk Today

Dynamic Mutual Funds shared their views on what today's opportunities and risks are for 2025. The **opportunities are strong earnings growth, inflation remaining under control [for now], cheap valuations internationally, lower interest rates that help markets, and growth fuelled by AI. The risks this year come from consumers spending less and Canadians being so worried about the future, investment concentration in the Magnificent 7,and businesses not knowing how to proceed with so much geopolitical uncertainly**. Source: Dynamic Funds, The 2025 opportunities to be aware of and The 2025 risks to be aware of, (2025, Jan 24).

So, everything is not rosy, but then, is it ever? **We have confidence that good companies will see their way through this**, as they did during the Great Financial Crisis of 2007-2009 and WWII and many other crises. The fund managers we use don't have huge concentration in the Magnificent 7 and some do have exposure to more cheaply valued international companies. Many are seeking investments that are relatively safe from today's geopolitics and the managers are being very strategic about investing in AI only where its development or use can actually create profits. Here are a few of the ideas we think are resistant to geopolitical troubles.

- Although AI usage is on the rise, not everyone using it has figured out how to make money on it. Regardless, AI depends on massive data centres. So, data centres are proliferating. One manager has found a specific chipmaker that is essential for data centre operation and which isn't trading at lofty prices.
- Businesses love to cut costs, and certain office tower building controls can really help with reducing heating and electricity costs and as such are increasingly in demand. The company making the leading product in this field has a relatively recession-proof, politics-proof product business with rising sales.
- If oil and gas usage is not diminishing and drilling may increase, then the valves used for flowing oil and gas will be in increasing demand. A leading company making these valves also makes

parts essential for small nuclear plants, which seem to be in increasing demand, because they provide more consistent energy than windmills or solar panels. Growth in oil drilling and nuclear plant installation will increase this demand for this valve company's products. This should bring increasing profitability for the company.

- Obesity drugs have been expensive and so far have only been accessible a tiny fraction of people for whom they might be beneficial. Insurance companies are increasingly realizing that these drugs can prolong life for people with certain health conditions, so insurance coverage is increasing. There is a long growth runway for the leading makers of such drugs and any imitators are probably years behind in the development of their product. The obesity drug makers have been getting a lot of press, so investing in them only at reasonable prices requires unemotional rational analysis.
- Defence spending in Europe is increasing dramatically in light of Ukraine and decreasing confidence in European countries being able to rely of US military support. Certain defence companies are experiencing huge sales increases.

A Picture is Worth a Thousand Words

Here's a depiction of market movement

Thanks to David Culig of Dynamic Funds for sharing the above cartoon in his Feb 21 2025 newsletter.

Historical Bear Markets

None of us like bear markets, that is markets where average stock prices (as measured by indices) have fallen at least 20%. For anyone with spare cash, bear markets can bring buying opportunities. For anyone with investments, bear markets are times to be endured and outwaited. We never know when bear markets will come, and they're not worth waiting on the sidelines for, because one would miss out on all the gains that come between bear markets. The good news is markets have always gone back up after they've fallen. And, **markets have been in bear market territory less in recent decades, possibly because of the creation of central banks, like the Bank of Canada and the Federal Reserve, which have**

utilized monetary and fiscal tools to try to curtail economic overheating and to try to stimulate weak economies. They attempt to smooth out economic growth. In the first half of the 20th century, markets were in bear market territory a whopping 36% of the time, mostly because in the 1910s and 1930s (the Great Depression) the market was down about 50% of the time. From 1950 to 2019, markets were only down 12.7% of the time. We got spoiled in the 1990s and 2010s, when markets were down almost 0% of the time. Many lost their tolerance for market volatility in those periods. **So far in the 2020s, the market has only been down about 14%, despite the Covid market crash and the 2022-2023 market pullback**. Source: Ritholtz Wealth Management, data via YCharts and Bloomberg Finance L.P.

We can expect more downturns and crashes in the future, and more recoveries. And if history repeats, and Warren Buffett's formula for making money continues to work, we can expect that profitable, quality companies with competitive advantage in growing industries bought at cheap prices will make us money in the long-term. Source: https://onlinemba.wsu.edu/blog/category/infographics.

Naming Beneficiaries May Not Be Straightforward

Some families fight over money after a relative dies and that's surely the last thing the deceased would have wanted. This can happen when relatives don't feel they were treated equitably or are surprised by the deceased's wishes or heirs suspect money has gone missing because they think there should have been a bigger estate. Sometimes relatives protest beneficiary designations by applying to the courts for the designations to be overturned. If courts think there was undue influence at play in the beneficiary designation, then the courts might rule that a beneficiary designation was invalid.

To avoid problems with your own estate, you might want to make sure your beneficiaries know in advance what your wishes are and why. Perhaps you are leaving more to one relative than others because they were a significant caregiver to you, or because you felt you had already helped other heirs and this was a way to equalize, or maybe you were estranged from some. You could explain this to your heirs in advance or leave a letter of explanation with your will or even leave $10 to the heirs you want to exclude just so the courts and your heirs would know you hadn't forgotten about the others but had consciously chosen to essentially cut them out of your will. If you are depleting your capital significantly in retirement, perhaps to cover health costs or just because you need a high percentage of savings to cover living expenses, you might even want to give your heirs a heads up, so your executor isn't accused of mismanaging or absconding with funds.

Before you have a lawyer draft a will for you, you want to discuss how taxes might affect your assignment of assets, so that you don't have unintended consequences. For example, you may think you're treating 2 heirs equally, if you gift one an RRIF and the other a property of equal value. However, the RRIF transfers to named beneficiaries – untaxed - without forming part of the estate that goes through the will. The RRIF is fully taxable on death, but it's the estate that pays the taxes. The property, on the other hand, is part of the estate and must pass through the will. However, any taxes the deceased or their estate owes, including tax on the RRIF liquidation, must be paid out of the estate first. So, one heir gets the RRIF in pre-tax dollars and the other heir gets the property net of taxes owed on the RRIF. Pre-death and pre-tax values of each inherited asset might be the same, but the values received by each heir wouldn't be. Source: Cestnick, Tim (2025, Feb 13). Why you should review your beneficiaries this RRSP season, The Globe and Mail.

This was a longer than usual newsletter, but then there's a lot of headline news out there that some clients have called us about. We hope we've addressed some of the main the issues that you may be thinking about.

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