More Bottom Line

... An Investment Update from the Retire First TM Team

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World Index Report

Annual Compounded Returns as of 14/07/2023

1 year... 16.55% 3 year...8.40%
5 year...7.11% 10 year... 9.79% YTD...10.67%

FX Report *All Prices as of 14/07/2023*

CDN/USD... 0.756 CDN/GBP... 0.577
CDN/EUR... 0.673 CDN/AUD... 1.106
CDN/MXN...12.67

CIPF Canadian Investor Protection Fund MEMBER

Top Picks

- GIC's
- Royal Bank
- Bank of Nova Scotia
- E Split Preferred
- Brompton Split Bank Preferred
- Parkland
- Fiera Capital
- Alaris
- Wajax
- Province of Alberta
- Superior Plus
- Gibson's

IIROC Investment Industry Regulatory Organization of Canada

Quantitative Tightening By Doug Allan

With last year's big tech losers becoming this year's winners, narrow leadership is causing the stock market averages to lift. Last year, the S&P500 and the TSX declined 25% by mid-October. While the US market has lifted nicely, practically recovering most of its losses, the Canadian stock market, which banks and resources dominate, is still struggling. So far, the TSX has only regained about half of its losses.

Recent headway on the inflation fight has many investors believing the worst is over for the interest rate increases. Just like when the central banks were slow to begin the inflation fight, now, as inflation numbers are subsiding, they press on and continue their push higher. It should be evident to everyone by now that the central banks want a recession, and they won't be happy until they get one. Quantitative tightening appears in many forms. Higher interest rates are not their only tool to fight the inflation war. Money supply creation, partially caused by the covid stimulation packages, is the cause of this problem. The opposite is now occurring, evidenced by the contraction of the money supply at record levels. In addition, we are experiencing a tightening bank reserve ratio, similar to what happened in 2008, making it more restrictive for banks to lend money. What is the result of all this? Office buildings are struggling with their debt loads and low occupancy levels, consumers are feeling the pinch, and bankruptcies are generally increasing. All this means we are likely to see more US or European banking troubles before this is over.

Long-term interest rates are key to understanding equity valuations. 10-year US government bond rates hit a low of around 0.5% in the summer of 2020 as stocks began their bull market. By the summer 2021, they climbed to 1.5%, and stocks peaked. By the summer of 2022, long-term bonds rapidly doubled to 3% before finally peaking at just over 4% in October 2022. The stock market suffered severely. Long-term interest rates since then came down to around 3.5% as investors gained confidence, the worst was over for a while, and stocks enjoyed a rally. In early July, Jerome Powell, the US Federal Reserve chairman, went on record saying he felt long-term bond rates should be higher than inflation. Since then, long-term US interest rates have moved back to 4%. No one really knows what will happen next, but it doesn't help when practically every government around the world is demanding money to fund their ever-increasing debt levels. 10-year US government bonds haven't been over 4% since 2007. Yes, they might go higher, but as investors, we should be taking advantage of these long-term rates.

With all that said, the world keeps turning, and new inventions, such as Artificial Intelligence, continue to attract attention. Digital currencies are just around the corner, creating their opportunities. Global demand for metals like copper and nickel caused by the EV revolution may need help to keep up even with a recession, so while there are pockets of opportunities out there until long-term interest rates roll over, it is hard to get too committed to the overall bull market theme. Instead, it is an excellent time to consider how rising rates could turn out to be a benefit for your account, adding some stability and solid returns in a time of uncertainty.

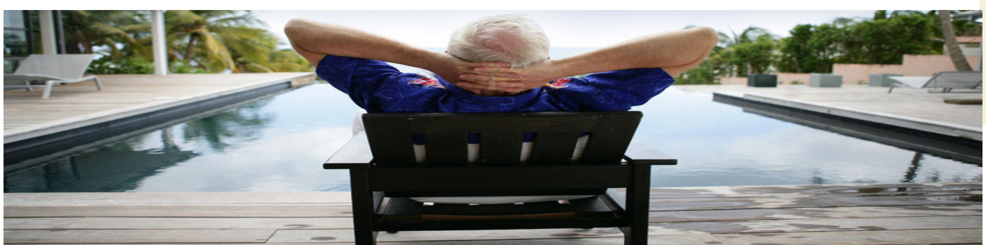
Reviewing your Objectives as We Age by Kate Allan

You may have noticed a general theme in this Edition of More Bottom-Line - Income Investing. Income investing is a timely topic as it is time again for us to repaper all our clients.

Over the next several months, the Retire First advisors will be calling/visiting all their clients to complete an account objective review. It may have been several years since you have had a conversation about your overall risk tolerance, and we want to ensure that your objectives reflect your current life stage. This is a massive project, so we ask for your assistance by helping us complete the paperwork in a timely manner. Our industry regulations continually change, and this year we are required to fill out a new investor questionnaire which contains 12 questions. Although no one enjoys doing paperwork, this is an opportunity for us to discuss how to serve your needs better. What worked when we were thirty may no longer be the best strategy in our sixties, seventies and beyond. This is because when we are younger, we have more time, and despite having more money in our later years, we have less time to recover from losses, and we should be thinking about reducing our portfolio risk. This questionnaire will give you and your advisor time to reflect on how your life has changed over the last couple of years and discuss how your investments should reflect that.

There are some incredible buying opportunities in the dividend/income space that we have not seen in years. That is why we dedicated a whole newsletter to this topic. As highlighted in our Top Picks section, 1-year GICs are paying 5.44% at the time of publishing. GIC rates have not been this high in 22 years. Some Canadian Banks are paying dividends of over 6%, and there are many other opportunities offering appealing returns that you may have yet to consider. By completing this exercise, we may find that a different asset allocation will better serve you while taking advantage of these great opportunities.

We look forward to connecting with each of you over the coming months.



Raining Dividends By Brad Lamash

Although the spike in interest rates will not, please everyone, retirees, income seekers and conservative growth investors should be smiling. There are plenty of attractive investment opportunities available which we have not seen in years. Two examples would be a 1-year GIC paying 5.44% (as of July 13/23) and Canadian bank stocks like Bank of Nova Scotia yielding 6.56%. These are great rates.

For the past several decades, the yields on Canadian Equities account for 30%-40% of total returns. Since the end of 2019, members of S&P/TSX have increased dividends by 33%. With that being said, diversification is always important so let take a look at stocks within five sectors in the TSX Communication, Energy, Real Estate, Financials and Utilities. Looking within these sectors, as an example, Telus's dividend is 5.7%, Enbridge is 7.3%, CR Real Estate Trust pays 5.7%), Bank of Nova Scotia 6.56% and Capital Power 5.7%. The above companies highlight how we add some consistent growth to your portfolio through dividend investing.

Wealth creation takes time and patience. If you purchase quality companies that have a track record of raising dividend, capital appreciation will follow in time. While there is always a wall of worry to climb with investing, a dividend/income strategy allows you to get paid while you wait for the market to increase. Please reach out to your advisor to discuss if dividends can play a part in your portfolio strategy. For a detailed presentation on dividend investing please visit our website.

The stock market is a device for transferring money from the impatient to the patient– Warren Buffet

Pitfalls of Corporate Bond Mutual Funds and ETF's By Scott Loucks

The safety of principal and low risk nature, along with an above average regular cash flow is what attracts most fixed income investors to corporate bonds. Corporate bonds are of course safer than the underlying equity as there is a promise to pay feature on the individual bond at the maturity date by the corporation. This feature is what attracts most retail investors as safety of principle along with predictable income is a desirable place for many retired individuals or those with lower risk tolerance.

So, if the individual corporate bonds have these same features individually, it makes sense that a corporate bond mutual fund or ETF would be the same just a diversified collection of these different corporations. However, investing in these funds is not the same as investing in individual bonds. No ETF or Mutual Fund can make the decision for an individual. As an individual you plan to hold your bonds to maturity so that you receive your principal payments. But a bond fund services a large group of individuals. They are going to want to sell or withdraw some of their money along the way and this will result in the fund manager having to make redemptions.

The fact that the fund manager cannot control redemptions will be more evident during difficult financial times. As more redemptions come in, the fund managers have to sell more and more of the individual bonds and the fund will inevitably sell their best, most liquid bonds first that have sold off the least to raise the required cash quickly. This now leaves the fund with a higher weighting in bonds whose prices have fallen more and those left holding the fund suffer the losses.

The solution is to buy the individual bonds yourself and then you or your personal portfolio manager get to make those decisions and you are not at the mercy of the herd. This is why we recommend a more individual approach to managing your money so that we can avoid potential pitfalls that can some times come up in even what many think are safe investments.

Income Ideas

TOP PICKS

Yield at a Reasonable Price (YARP) All Prices as of 2023-07-14

For more ideas visit our Top 20 at www.retirefirst.com

Provincials and Bank Guarantees

GIC's Retire First offers a variety of GIC's providers covered by either CDIC or provincial deposit insurance. A 1 year non-cashable GIC is currently 5.45%, 2 year GIC is 5.37%, 3 year is 5.35%, 4 year 5.09% and 5 year 5.11%.

RBC Bank of Canada (26 July 2027 price at $97.35 YTM 5.35%) Royal Bank is a diversified financial services company. The company provides personal and commercial banking, wealth management, transaction processing as well as insurance, corporate and investment banking. Royal Bank has more than 17 million customers in Canada, the US and 30 other countries.

Province of Alberta (1 June 2026 Compounded Coupon $87.88 4.53%) The Province of Alberta is a major hub for several resources including petroleum , agriculture and technology. At the current price this bond yield is 4.53%. This type of product would be best suited for a registered account due to its compounding coupon.

Bank of Nova Scotia (2.16% 3 Feb 2025 $94.75 YTM 5.72%) Bank of Nova Scotia serves over 25 million customers around the world and places fourth amongst Canada's big banks in terms of deposits and market capitalization.

Split Preferred Shares

Brompton Split Banc Corp. (SBC.PR.A 29 Nov 2027 $9.79) Brompton is a split share corporation that acquired a portfolio of common shares of the six largest Canadian banks by issuing preferred shares and Class A shares. The preferred share holders get the bank dividends, while the common share holder invest for growth. The preferred shares rank in priority to the Class A shares with respect to the payment of dividends and the repayment of capital upon the termination of the corporation. At the current price the dividend is 6.45%.

E Split (30 June 2028 $9.83) E Split invests in the common shares of Enbridge. Enbridge is a leading North American oil and gas pipeline, gas processing and natural gas distribution company. This preferred share provides investors with a stable stream of a tax efficient income paid quarterly. At the current price the yield to maturity on this preferred share is 7.5% split between dividends and capital gains.

High Yielding Common Shares

Superior Plus (SPB $9.58) Superior Plus is a leading North American distributor and marketer of propane and distillates and related products and services. They service more than 890,000 customer locations across the US and Canada. A the current price the dividend yield is 7.46%.

Gibson Energy (GEI $20.91) Head quartered in Calgary, Alberta, Gibson is a midstream oilfield service company in the oil and gas industry. They operate facilities and infrastructure such as injection stations, terminals, pipelines, tank storage and a fleet of truck transportation units. They also provide retail propane service. At the current price, the dividend is 7.54%.

High Yielding Corporates

Parkland Corp (23 June 2026 $97 for a YTM 6.72%) Parkland is a supplier and marketer of fuel and petroleum products and a leading convenience store operator. The Company manages gas stations, as well as provides commercial diesel cardlocks and fuel, propane, and lubricant products. The company operates across Canada, the US and the Caribbean region.

Alaris Equity Partners (AD.DB 30 June 2024 $98 YTM 7.5%) Alaris has their head office in Calgary. They provide royalty financing options to a wide variety of industries, such as healthcare, fitness, steel, mining, home retailing and aerospace. Alaris successfully managed their affairs through the covid downturn with few losses in their portfolio, proving the success of their low risk business model. At the current price, the yield to maturity is 7.5%

Fiera Capital Corp (31 Dec 2026 $100 8.25%) With $164.7 billion in assets under management, Fiera Capital, is on of Canada's leading investment managers. They deliver innovative multi-asset investment solutions to institutional, financial intermediary and private wealth clients across North America, Europe and parts of Asia.

Wajax (WJX.DB 1 Jan 2024 $99 YTM 7.5%). Wajax sells, rents, and services new and used equipment for construction, mining, forestry energy and material handling with their roots tracing back to 1858! They are also involved in the sale and services of power systems and industrial components. Currently trading at par.

Final thoughts..

How Does the Price of the Bond Change Over Time? By Scott Allan

While in general, bonds tend to be more stable over time than stocks, as with most publicly traded investments, bonds fluctuate in value and become worth more or, sometimes, less over time. This can be hard to understand, as bonds are a contract in which one party agrees to pay a fixed interest rate over a set period in exchange for buying the bond. That bond will mature at the end of the fixed period, and the buyer will get the $1000 face value (called par) back.

The market value, which differs from the face value during the bond's lifetime, can fluctuate. The market value is what another party is willing to pay you, the current holder of the bond, to buy it from them. The market value is affected by several factors, but today's article will focus on interest rates.

The market value of a bond moves inversely with the direction of prevailing rates. If rates move higher, as they have been over the past year, the bond price will lower. If rates drop, the price of the bond will increase. If you continue to hold your bond until maturity, the market price will not affect you, as your contract says that you will get the face value of the bond paid to you at maturity- not the market rate.

Let's consider a hypothetical company issuing a bond at 4% for three years. The bond price will stay at par if the 4% interest rate is the same as the prevailing rate. However, if prevailing rates increase, as we experienced over the last year, investing in a bond offering a 4% coupon becomes less attractive. This means that the bond price must drop, trading at what is called below par, until the capital gain on the bond and the interest rate together makes an attractive return for a new investor to consider purchasing the bond. As we get closer to maturity, the bond price will converge with its par value when the hypothetical company must pay back the bondholder. This effect is called "pull to par." Today's bonds are attractive because many are trading below par; therefore, a bond investor's total return comprises both the annual coupon payments and the capital appreciation, a more tax-efficient way to invest in fixed-income products.

If you would like to learn more about taking advantage of the current high-interest environment, make sure to call your Retire First advisor!

Retire First Updates!

Retire First was happy to be out in the community in June supporting the Crohn's and Colitis Gutsy Walk on June 4th. Both Todd and Kate's family had fun representing Retire First! We hope to see you there next year.

Summer Hours

Retire First loves summer and we want our hard working staff to enjoy it too! Until September, our office will close at 3pm on Fridays!

Artificial Intelligence By Todd Thiessen

Let us start by defining what AI really is. Artificial Intelligence is intelligence demonstrated by computers as opposed to human or animal intelligence. It is the "ability to learn and to reason, to generalize, and to infer meaning." AI applications include advanced web search engines i.e., Google, recommendations systems such as YouTube, AMZN and Netflix, understanding human speech such as SIRI and Alexa. It can also be self driving cars, generative or creative tools like ChatGPT as well as strategic gaming systems to name a few. AI goes back to1956 but has grown immensely since 2015 when governments and government agencies such as the Pentagon started to provide major funding.

I hear people asking if AI is safe? Well, that depends on the use and the user. Software programs like ChatGPT merely scour the internet for information and splice essays together calling it their own. Its basically a form of plagiarism using other people's writings and it also does not discern right from wrong There is no fact checker with chatbots – they only regurgitate. Other AI processes are meant to drive business outcomes. Generative AI has set off an "arms race" within the technology sector as Chip manufacturers such as Nvidia, Taiwan Semiconductor and Intel look to meet growing computing requirements. Cloud computing companies such as Amazon also benefit as AI takes immense amounts of storage. AI promises to make misinformation more abundant and it could soon account for the bulk of "information" on the internet. Is AI an existential threat? Again, garbage in and garbage out – it depends on the user and their intent. What we do know is that AI has advanced so much in recent years that it is no longer pursuing the original goal of creating versatile, fully intelligent machines. It sure looks like it is here to stay.

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