RESEARCH CAPITAL CORPORATION

Quarterly Newsletter January 2025

Welcome to 2025!

January is the time to reflect on the past and to look forward to the future. In my January 2024 letter I stated that it would be a volatile year, swinging between pessimism and optimism due to the economic and geopolitical concerns. That is certainly what we got. The US and Toronto stock exchanges bounced up and down during the year reaching a peak point early December and then giving back. The end result for 2024 was still on a high note.

All the major North American indexes set new records, although they were backing off those highs at year-end. The S&P/TSX Composite gained 18 per cent, the Dow was ahead 12.9 per cent, the S&P 500 jumped 23.3 per cent, and Nasdaq added a mind-boggling 29.8 per cent. (*https://www.theglobeandmail.com/investing/markets/inside-the-market/article-a-scorecard-for-my-2024-market-predictions/*)

Markets like certainty and we got that, lower interest rates with declining inflation and no recession. Companies' earnings were stable if not rising. Politically, the clear majority win in the US meant a peaceful transfer of government, the potential for corporate tax and regulation reductions, but has created global concern.

When comparing the indices to your own returns, a reminder that Indices are an indicator of the direction of the market not of what is in your portfolio. The S&P 500 and the NASDAQ 100 were very overweight with the magnificent seven (Microsoft, Amazon, Meta Platforms, Apple, Alphabet, Nvidia, Tesla). In Canada the primary influence is still financial, energy companies, and Shopify. *Note Appendix A*.

The portfolios I manage are generally 75% invested in companies, not in an index or mutual fund, with 25% in fixed income/cash. The portfolios are designed to meet your financial goals and to be as tax efficient as possible. I do not buy indexes, unless it is the most cost-efficient way to give you geographic diversification; I cannot control what is in the index, income flow, or how it will affect your taxes. I research for companies with good business models and reliable cash flow who can, and have, withstood economic downturns. I do not bet on themes or what is hot in the press. I look to long-term trends, such as aging demographics, renewable energy, and infrastructure. I focus on the long term versus current political and economic situations. Speculating as to what will happen is just gambling as governments and policies can change; for example, the capital gains tax that is in limbo right now.

There are economic cycles, inflation to recession, and back again. Since 1970 there have been eight severe market declines* and there will be more in the years to come. Despite these periods of stock market volatility, the markets regroup and continue to move upwards. Companies continue to increase earnings and dividends. Early December the S&P/TSX, Dow Jones and S&P 500 reached all-time highs.

2024 also showed how volatile bonds can be. GICs yielding 5% appeared to be a safe haven until you factor in the average inflation rate to November of 2.8% resulting in a real return of 2.2% vs dividend income in portfolios growing by an average of 6.5% (*see Appendix C*). Thus, I remain convinced that in order to continue to build and maintain portfolios to meet future financial goals whether it be retirement, estate, or a steady income, it is best to have a strong representation of good companies in a portfolio.

**https://www.visualcapitalist.com/the-stock-market-declines-of-u-s-recessions-since-1970/*
**https://www.investopedia.com/timeline-of-stock-market-crashes-5217820*
**https://inflationcalculator.ca/2024-cpi-and-inflation-rates-for-canada/*

Risk is a difficult word to quantify. When investing, most people would say risk is the fear of losing money. I think the biggest risk is not having your money working to provide for retirement, an estate, or to have the income to pay beneficiaries if you are a charity. The reality as per above is we have to take some risk to achieve our goals. Selling out and trying to time buying back increases risk because by the time you stop worrying about the what ifs and buy backs, it is too late. Being overweight in bonds and GICs is risky. The risk of losing purchasing power with rising inflation, renewing at lower rates and taxes. The best way to reduce risk is by diversifying amongst the different sectors, utilities, infrastructure, energy financials, and telecommunications. Further diversification is achieved by owning companies that do business in the US or globally and/or ETFs (exchange traded funds) to achieve geographic diversification.

We are not trading or speculating in the choice of investments and thus can look past the noise and confusion of current events. I work to develop a portfolio for your future. What we all need to consider is what a realistic, sustainable expectation for returns on investments is. Over the long term, statistics indicate 4-6%, excluding dividend increases, is reasonable. There will be years such as 2000, 2008, 2015 and 2020 where markets will be in negative territory, and years like 2024 that are stellar, and over the long term it smooths out to an upward line.

This year there were two major disappointments whose decline in value affected portfolios. Toronto Dominion Bank has been put into the penalty box due to serious mismanagement in their US branches with regards to money laundering controls. They have been fined and growth in the US is now limited. I believe they are seriously at fault but have also been made a scapegoat to warn financial institutions in the US and Canada. Easier to target a foreign company vs one of your own. All financial institutions, including Research Capital, have upped their budgets and are reviewing and improving their money laundering and other compliance procedures. I will continue to hold Toronto Dominion Bank. It is a Canadian bank. It can grow in Canada. Additionally, they increased their dividend by 3% in December. It may take a bit, but they will recover.

The second disappointment was BCE. Due to rising rates, their debt level increased and their cash flow could not sustain the dividend. They sold the subsidiary Maple Leaf Sports & Entertainment. It is a sports event company and not a good fit for BCE's telecommunications business. It was expected that the funds were to be used to pay down the debt. Instead, BCE acquired a company in the US, Ziply Fiber, increasing their debt. They have declared that they will not increase the dividend in 2025 and there is commentary that they could actually cut their dividend. They have been in this position before and managed to work their way out of it without cutting the dividend. We will continue to monitor the situation. TELUS and Rogers have also declined in value along with BCE.

Looking Forward

I have read much over the last few weeks regarding the economy, geopolitics, inflation and recession in the outlook for 2025. The conclusion: the financial markets will continue to be volatile, swinging between pessimism and optimism just like 2024. The list of concerns is little changed.

- Will the Ukraine war end?
- Will China's leaders be able to turn their economy around?
- Will China carry out its threats regarding Taiwan?
- Will North Korea and Iran continue their drive to acquire nuclear weapons?
- Will Israel and Palestine be able to create peace? And what will happen to the millions that have been displaced?
- Will the unemployment numbers remain low?
- Will we have a recession and if so, how bad?

Added to the list

- What will Mr. Trump's first year of this term really be like?

This is the time of the year for predictions, but not here and not from me. As per the questions above, nobody has answers. In fact, several economic forecasts come with bull, neutral, and bear predictions. There is too much to sort out and find good sense in … thus, as always, I will stick to my philosophy and my touchstones below.

With regards to Mr. Trump. Charging worldwide tariffs on imports, shutting down various US departments, deporting immigrants… This time around he has named a slate of people who will be his advisors. They were all loyal to him and themselves with little experience of running the government. One plus is that some acts cannot be done by executive orders and must go before the House of Representatives. There is a very small margin of majority 220 vs 215. An example is the debt ceiling bill December 20 - the vote ran into overtime. The Republicans (Trump) did not get the add-ons they wanted, and it passed by a bare majority. There is also a mid-term vote coming up in a year. Republicans will not vote just because they are told to. There is already talk of lower or more sector specific tariffs. Inflation is still a factor, and tariffs will only make the situation worse.

As 2025 unfolds, we will continue to monitor the economic conditions, tax issues (capital gains tax proposed but not passed into law and may be a non-issue with Mr. Trudeau resigning), and your future needs to ensure that your portfolio continues to be diversified and the companies that we invested in will be able to ride through the forthcoming political and economic cycles. Stay fully invested (or close to it). Equities over the long term are the best place to be – they are tax-efficient and generally good for growth in capital and income.

A respected analyst gave this New Year's list:

▪ Avoid speculative investments – in risky times, stability beats rolling the dice and dancing to the social media hype.
▪ Look to solid companies with a history of providing essential goods and services profitably.
▪ Invest across the five major economic sectors: financial, utilities, manufacturing, consumer and resources. As per Appendix A, most sectors had a least one month in the top two rows.
▪ Trust your investments in bad times (the suggestions above will help you do that) and remember that selling out means losing out. As in the previous years, sit back and collect your dividends while you wait for the market to improve as it did at the end of 2023 and 2024.
▪ Take media reports with a grain of salt - even the "quality" press loves bad news and will always tell you that, "the market crashed by 1,175 points" rather than a less alarming "decline of 4.6%" * (*Wikipedia - List of largest daily changes in the Dow Jones Industrial average).*

The realities are:

1) We are living longer and thus must invest in securities that provide growth of income and capital.
2) We are staying physically and mentally healthier longer, thus need growing capital and income to support our lifestyle.
3) Cost of living in Canada was at 6.7%* in 2023 (*Source - Bank of Canada*); the average for 2024 was 2.8%. The battle is not over, and inflation could rise again.

4) Energy prices are still fluctuating due to world issues. Europe did manage to cut its ties with Russia but still needs oil as renewables are not reliable. No wind, no power.
5) The wildcards of last year are still with us and have been added to as stated earlier in this letter.

For myself and in my work for you, my primary focus is on the long term, not specific events, because we don't know when these will come.

Appendix A shows the S&P/TSX sectors and their ranking each month last year. As you can see, not one sector was consistently top ranked, thus we seek representation in all sectors.
Appendix B lists all the resources I review regularly.
Appendix C – A list of the key stocks and the dividends that increased in 2024.

2024 was a year of which many of us will have mixed memories. Given all that has transpired, I would like to thank you for your trust and confidence in my assistant Rosemary Valencia, in Research Capital Corporation, and in me. It is sometimes hard to stay focused on the long term – markets will go up and down – that is their nature and an inescapable fact of economic history. I cannot predict events – declines, or rallies, or periods of volatility in the market – but what I do know is the long-term trend is up and with a good portfolio, you will prosper.

I wish you a happy, healthy New Year.

Sincerely,

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Appendix A

S&P TSX Monthly Sector Performance Ranks, 2024

RANK	January	February	March	April	May	June	July	August	September	October	November	December
1	Tech	Health Care	Health Care	Materials	Materials	Materials	Real Estate	Tech	Real Estate	Energy	Tech	Con Staples
2	Telecom	Industrials	Energy	Energy	Utilities	Con Staples	Materials	Real Estate	Financials	Health Care	Financials	Financials
3	Industrials	Con Staples	Industrials	Con Staples	Con Staples	Energy	Con Staples	Financials	Utilities	Materials	Con Staples	Con Disc
4	Con Staples	Energy	Materials	Con Disc	Energy	Utilities	Utilities	Utilities	Health Care	Financials	Energy	Utilities
5	Energy	Financials	Financials	Telecom	Financials	Financials	Financials	Con Disc	Tech	Con Disc	Industrials	Energy
6	Con Disc	Con Disc	Tech	Financials	Telecom	Con Disc	Telecom	Telecom	Materials	Tech	Con Disc	Industrials
7	Real Estate	Real Estate	Con Disc	Utilities	Industrials	Industrials	Con Disc	Energy	Telecom	Industrials	Utilities	Tech
8	Financials	Tech	Con Staples	Health Care	Real Estate	Telecom	Health Care	Materials	Con Disc	Utilities	Real Estate	Health Care
9	Utilities	Materials	Real Estate	Tech	Con Disc	Tech	Energy	Industrials	Con Staples	Con Staples	Materials	Materials
10	Health Care	Utilities	Utilities	Industrials	Tech	Real Estate	Industrials	Health Care	Industrials	Telecom	Health Care	Real Estate
11	Materials	Telecom	Telecom	Real Estate	Health Care	Health Care	Tech	Con Staples	Energy	Real Estate	Telecom	Telecom

Source: Bloomberg and Research Capital Corporation

Appendix B

Resources used:

- Advisor’s Edge
- BCA Research
- DGI & R Dividend Growth
- Value Line
- TSI Wealth Network
- Globe and Mail
- The Guardian
- Various research notes and commentaries from mutual fund companies such as Fidelity, Mackenzie, Mawer, etc.; and from ETF companies such as BMO, RBC/iShares, Vanguard, etc.

Appendix C

Top Holdings in the Portofolios
Companies that increased their dividends in 2024

Company	Sector	% of increase	Notes
Alimentation Couche-Tard Inc	Consumer Defensive	11.4%	
Atrium Mortgage	Financial Services	0.3%	
Bank of Montreal	Financial Services	5.5%	
BCE Inc	Communication Services	3.1%	
Boyd		2.0%	
Brookfield Asset Management Inc	Real Estate	18.8%	reported in US $
Brookfield Infrastructure Partners LP	Utilities	5.9%	reported in US $
Brookfield Renewable		5.2%	reported in US $

Canadian Imperial Bank	Financial Services	5.2%	
Canadian National Railway	Industrials	7.0%	
Canadian Natural Resources	Energy	15.5%	
Canadian Pacific Kansas	Industrials	0.0%	
Canadian Tire Corp Ltd A Nvtg	Consumer Cyclical	1.4%	
CCL Industries Inc.	Consumer Cyclical	9.4%	
Constellation Software		0.0%	reported in US $
Dollarama Inc.	Consumer Defensive	29.5%	
Dream Industrial RIET	Real Estate	0.0%	
Emera Incorporated	Utilities	1.0%	
Enbridge Inc	Energy	3.1%	
Extendicare Inc	Health Care	0.0%	
Fortis Inc	Utilities	4.4%	
Gibson Energy Inc.	Energy	5.1%	
Granite REIT	Real Estate	3.1%	
Great-West Lifeco Inc.	Financial Services	6.7%	
Intact Financial	Financial Services	10.0%	
Keyera Corp	Energy	4.1%	
Loblaw Companies Limited	Consumer Defensive	15.0%	
Manulife Financial Corporation	Financial Services	9.6%	
Metro Inc	Consumer Defensive	10.7%	
Parkland Corporation	Energy	2.9%	
Pembina Pipeline	Energy	3.1%	
Power Corporation of Canada	Financial Services	7.1%	
Royal Bank of Canada	Financial Services	4.9%	
Russel Metals	Industrials	5.1%	
Savaria Corporation	Industrials	3.9%	
Stantec Inc	Industrials	7.7%	
Sun Life Financial Inc	Financial Services	8.0%	
Suncor	Energy	4.6%	
TC Energy Corporation	Energy	3.2%	
Telus Corporation	Communication Services	7.0%	
TFI International Inc.	Industrials	12.5%	reported in US $
The North West Co Inc	Consumer Defensive	2.6%	
Toromont Industries Ltd	Industrials	11.6%	
Toronto Dominion Bank	Financial Services	9.3%	
Average increase in dividends		**6.5%**	