RESEARCH CAPITAL CORPORATION

Quarterly Newsletter January 2024

Welcome to 2024!

2023 was not as bad as expected – whew! Rising interest rates were a feature – thankfully not paired with recession – but we are glad to see it gone. The Ukrainian war still rages on, but the governments supporting Ukraine seem to be tiring. They've now been distracted with the Hamas attack on Israel and Israel's response to eradicate Hamas, and all of Gaza in the bargain. Iran is using this opportunity to encourage countries on Israel's borders to carry on its proxy war.
North Korea is increasing its saber-rattling, threatening the U.S. and the world with nuclear missiles. China seeks to control much of the world and particularly Taiwan despite having severe economic problems – whew again!

On the positive side, inflation appears to be backing down globally and in particular, in Canada. At the start of 2023, Canada 's consumer price index (CPI) was at 6.7%. By October it was down to 3.1%, getting closer to the Bank of Canada's target of 2%. This has meant that the Bank of Canada, while still in wait-and-see mode, has allowed the prime rate to remain unchanged at 7.2% for several months.
*Data - Bank of Canada

This high rate, of course, is not great for those who need to borrow for their mortgages or businesses. A steady rate provides some stability, but still shunts companies away from investing in their business because they are waiting for rates to come down. This does mean that GICs and Bond rates have declined from the summer highs. The good-news part is that the interest-rate sensitive securities in the financial, utility and telecom sectors has started to rise.

The S&P/TSX seemed to be on a roller coaster throughout 2023, causing stomachs to churn. Looking at the charts at the end of the year, though the market was rather stable until November, when it hit a low of 18,692. From that bottom, it rose to 20,954 –ending the year up 8% if you're keeping score,

Speaking of score-keeping – a reminder that you are not invested in the S&P TSX. Depending on your financial goals and needs, there will be a mixture of assets in your portfolio. Additionally, the S&P TSX index is often affected (skewed??) by one or two sectors, or a main stock such as Shopify or Nortel. Note in Appendix A that at some point in the year almost every sector made it into the top two levels. This is why all sectors generally have some representation in your portfolio. Diversification ensures that you are represented in the upswings at some time or another.

Nota bene: As stated in previous year-end letters:

"No guarantees, but the market has continued its historical growth. While October 1987's drop (508 points, -22.6%) was the sharpest one-day drop in history, it's now just a blip on the upward-climbing chart. And those whose portfolios were based on speculation, instead of sound principles, and those who bailed out of the market during the downturn, never recovered their losses. Meanwhile those who built and hung on to strong portfolios, grounded in companies with a steady flow of income to be reinvested or paid out – these people saw their paper losses recouped and more, as they rode the revival to new heights. A sound portfolio like this should help you achieve your financial goals. This perception guides my investing for you and for myself."

In other words, you can't win if you don't play – stay invested to ride a market that has historically always risen. If you have funds sitting in the bank, they are not working for you, and I can't make them work If I don't see them. The expression is true- you lose trying to time the market and win when you spend time in the market. I follow my own advice and like you, ultimately, I need my investments to support my retirement and leave an Estate for my children.

LOOKING FORWARD

I have read much over the last few weeks regarding the economy, geopolitics, inflation and recession regarding the outlook for 2024. The conclusion: the financial markets will continue to be volatile, swinging between pessimism and optimism.

- 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 Iran keep supporting the countries on Israel's border in its proxy war with the U.S.?
- Will Israel and Palestine be able to create peace? – And what will happen to the millions that have been displaced?
- Will central banks start to lower rates?
- Will the unemployment numbers remain low?
- Will we have a recession and if so, how bad?

This is the time of 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. Add to the wars concerns about various economies, the politics surrounding several elections (the U.S. being the #1 issue) – there is too much to sort out and find good sense in … thus as always, I will stick to my philosophy and my touchstones:

- 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 2023 and other years, sit back and collect your dividends while you wait for the market to improve as it did at the end of 2023.
- 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% declined to 3.1% by October. There is no longer a debate about inflation being temporary. The debate still is: "Have the interest rates gone high enough?"

   * Bank of Canada
4) The cost of borrowing has risen and is affecting personal and corporate balance sheets.
5) 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.
6) The wildcards of last year are still with us and have been added to as stated earlier in this letter. Added to that list there will be key elections in India, Mexico, Pakistan, Russia and the big one, the U.S. All of these elections could affect democracy.

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. Thus, I will continue to diversify in the economic sectors: financial, utilities, manufacturing, consumer, and resources. To repeat, Appendix A shows the S&P/TSX sectors and their ranking each month last year. As you can see, no one sector was consistently top-ranked, so I mix-&-match your holdings to cover the bases.

Appendix B - lists all the resources I review regularly.

Appendix C – A list of the key stocks and the dividends that increased 2023.

2023 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 – but 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.

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APPENDIX A

S&P TSX Monthly Sector Performance Ranks, 2023

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

Source: Bloomberg and Research Capital Corporation

APPENDIX B

Resources:
Advisor's Edge
Bank Credit Analyst
DGI & R Dividend Growth
Value Line
TSI Wealth Network
Globe and Mail
The Guardian
Various research and commentaries from mutual fund companies such as Fidelity, Mackenzie, Mawer etc.
Various research and commentaries from ETF companies such as BMO, RBC/IShares, Vanguard etc.

APPENDIX C

Top Holdings in the Portfolios
Companies that increased their dividends in 2023

Company	Sector	% of increase	Notes
Alimentation Couche-Tard Inc	Consumer Defensive	25.0%	
Atrium Mortgage	Financail Services	0.0%	
Bank of Montreal	Financial Services	5.8%	
Bank of Nova Scotia	Financial Services	2.9%	
BCE Inc	Communication Services	5.2%	
Boyd Group Services Inc.	Consumer Cyclical	2.0%	
Brookfield Asset Management Inc	Real Estate	**SPIN-OFF 2023**	reported in US $
Brookfield Infrastructure Partners LP	Utilities	6.3%	reported in US $
Brookfield Renewable Energy Partners LP	Utilities	5.5%	reported in US $
Canadian Imperial Bank of Commerce	Financial Services	5.9%	
Canadian National Railway	Industrials	7.8%	
Canadian Pacific Kansas	Industrials	0.0%	
Canadian Natural Resources	Energy	17.6%	
Canadian Tire Corp Ltd A Nvtg	Consumer Cyclical	6.2%	
Canadian Utilities	Utilities	1.0%	
Canadian Western Bank	Financial Services	6.3%	
CCL Industries Inc.	Consumer Cyclical	10.4%	
Dollarama Inc.	Consumer Defensive	28.0%	
dream Industrail RIET	Real Estate	0.0%	
Emera Incorporated	Utilities	4.0%	
Exetendicare Inc	Health Care	0.0%	
Enbridge Inc	Energy	3.2%	
Fortis Inc	Utilities	4.4%	
Gibson Energy Inc.	Energy	5.4%	
Granite REIT	Real Estate	3.1%	
Great-West Lifeco Inc.	Financial Services	6.1%	
Intact Financial	Financial Services	10.0%	
Keyera Corp	Energy	4.2%	changed from monthly to quarterly
Laurentian Bank	Financial Services	4.4%	
Loblaw Companies Limited	Consumer Defensive	10.1%	
Manulife Financial Corporation	Financial Services	10.6%	
Metro Inc	Consumer Defensive	10.0%	
Parkland Corporation	Energy	4.6%	
Pembina Pipeline	Energy	2.3%	changed from monthly to quarterly
Power Corporation of Canada	Financial Services	6.1%	
Royal Bank of Canada	Financial Services	5.5%	
Russel Metals	Industrials	5.3%	
Savaria Corporation	Industrials	0.0%	
Stantec Inc	Industrials	8.3%	
Suncor	Energy	4.8%	
Sun Life Financial Inc	Financial Services	8.3%	
TC Energy Corporation	Energy	3.3%	
Telus Corporation	Communication Services	7.1%	
TFI International Inc.	Industrials	14.3%	reported in US $
The North West Co Inc	Consumer Defensive	2.6%	
Toromont Industries Ltd	Industrials	10.3%	
Toronto Dominion Bank	Financial Services	7.9%	
Average increase in dividends		**6.6%**	

Securities mentioned above do not apply to all accounts
Data from Thomson One and Research Capital Corporation