RESEARCH CAPITAL
CORPORATION

Quarterly Newsletter July 2023

As 2023 began, so it continues with ongoing political and economic uncertainty.

- When will the Ukrainian war end?
- Will China's economy improve – thus helping the North American economy?
- Will U.S. /China relations improve?
- Will food scarcity recede – or loom larger over rich and poor?

Climate warming and the move away from fossil fuels is creating shortages in needed rare minerals. This in turn, is causing political problems as countries such as China, Costa Rica, and various African nations block exports of these minerals.

Countries like Canada, with our deposits of rare minerals, are caught in a double bind; we need to protect the environment while at the same time, we need to mine (a dirt process) the minerals and the wealth they represent.

Are we in a recession or not? There is consensus that there will be a global recession, but the projected date is being pushed out to sometime in 2024. If and when there is a recession, will there be a soft landing or not?

I do not have the answers to these questions and neither do the economists or the politicians. With every news article or research report that I read, there is one that says the glass is half full and another that says half empty. (Let's not forget the engineer types who say we are specifying the wrong type of glass…)

Inflation has declined from 5.6% in July 2022 to 3.8% in May 2023 …the right direction but not quickly enough. The Bank of Canada wants 2%. Of concern, despite the rate increases the unemployment rate remains at a stubbornly low 5.4% in June.* Good employment means people have money and the comfort of spending it on consumable products. This creates demand for products whose prices rise. As prices for food and products rise, there comes the demand for higher wages. This creates inflation and that, unfortunately, means that interest rates will continue to rise, ultimately causing mortgage and debt problems, and reduced savings as we enter a recessionary period.
**Bank of Canada statistics*

I have been asked, with market volatility and concern about the recession, why do I not sell everything and buy GICs (Guaranteed Investment Certificates), earning 5%. This would protect capital and provide good income. It is not that simple and there are many studies that show why it is not a sound investment policy.

Yes, a recession is inevitable. Central banks tend to use lagging data, and thus overreact when raising rates. Since 1920 to 2020 in the U.S. and Canada, there have been 20 recessions. Some of you will remember 1929,1973, 1981 and 2007. The average length of the recessions was 12.94 months. On the flipside, rallies after a recession have lasted an average of 54.44 months*. Guess who was envious of whom? Remember your history and hang on.
**NBER (National Bureau of Economic Research)*

According to CIBC, from 1950 to 2019 there have been 10 bull markets, with an average return of 259.40%. During the same period, bear markets had an average decline of 30.6%. Thus, the upside far outweighs the downside. As it is impossible to time the high and low points of an economic cycle, it is best to stay in the market, collect dividends and add to positions if funds are available.

Enough about numbers. How does all this affect you personally (and me because I invest for myself and my family as I do for you)? I do not have a pension and thus I am even more dependent on my investments to support my current and retirement lifestyle. I have been in the financial business since 1979, moving fully into the financial advisor/portfolio manager side of the business in 1985. I have lived through several downturns and have heard many stories from my predecessor, George Beck, and others who have lived through the Great Depression and World War. This experience and knowledge have made me well aware that markets will rise and fall, but over the long term, they generally move upwards.

It would all be simpler if we knew how long we will live and could spend our last penny on the day we expire – but we do not, and one of our time's greatest achievements adds a tremendous uncertainty to our financial planning. Thanks to the marvels of contemporary medicine, we have an ever-increasing knowledge of how to live a healthy lifestyle – and we are all living longer. Thus, I would rather stay 90% invested in the stock markets all the time. I do not buy GICs unless I know I need a certain amount of funds in 1 to 2 years for a car or renovation, etc.

Yes, GICs a few months ago were paying 5% for two years and there is the potential that rates will go higher, but by buying a GIC, you lose your liquidity and your flexibility, and funds are locked in until maturity. Moreover, when the GIC rate was 5% inflation was at 5.6%. The GIC safe money is in negative territory. That is why I would stay in my equity holdings, assuming the recession will last the average 12.94 months.

As per my January and April letters, corporate earnings are declining, and dividend increases may not happen or if they do at a lower percentage. In extreme cases there could be dividend cuts. In the last six months of the stocks I follow, 33 have increased their dividends. The increase ranges from 1 to 19%. These increases mean that the Corporation is confident that they can generate sufficient revenue to support the larger dividend payout. A GIC does not increase its rate at any time. There is still the second half of the year when many other companies may increase their dividends.

Why do I not just buy stocks that yield over 5% if I will not buy a GIC? Because like bonds, a stock may be a steady dividend payer, but this makes them interest-rate sensitive. Like bonds, to get a yield to provide 5% plus, the price of the security must decline. Thus, the current holdings in your portfolio may show a negative capital return while they are receiving a positive dividend return. This is OK because the dividend is paying us to wait until the market rally begins again. There is also a compounding effect as dividends, as they pay quarterly or monthly versus once a year.

Why buy a stock that is yielding less than 1%? Note appendix A, there are two charts, one with stocks that have low dividend yields and one with stocks with high dividend yields. Both groups are known for paying dividends and increasing them over the years. The time frame for the rate of return on the stocks is June 30, 2003, to June 30, 2023. This time period Includes two bear markets, 2007 and 2020. The highest dividends pay more income. The low-yielding stocks win by total return of income plus growth. Of note, as per the comments above about interest rate sensitivity, the higher-dividend stock returns have declined over the last year. Thus, the higher-yielding equities give you some growth and a regular income that can be used to fund your lifestyle while the lower-yielding securities give you potential for growth in capital, which can be used to provide funds for income or to add to the higher yielding securities. It pays to diversify.

What Is a Recession?

A recession is a significant, widespread, and prolonged downturn in economic activity. A popular rule of thumb is that two consecutive quarters of decline in gross domestic product (GDP) constitute a recession. Recessions typically produce declines in economic output, consumer demand, and employment.

Investopedia.com

Looking Forward

Whatever label you want to put on what is currently happening, as in 2008, we need to pause, take a breath and remember that we are living in a good and wealthy country with relatively stable politics.

As in 2008, my philosophy is still the same – build solid portfolios using equity which gives you ownership in well run companies that pay dividends. Companies with a record of growing earnings and dividends over the years are companies that have stood through many downturns. In 2008 and in 2020, very few companies reduced – and fewer stopped – their dividends. Many companies, as a prudent measure, quite rightly paused increases of dividends. The price of equities has dropped and may continue to drop for a while longer. The decline in price does not affect the actual dividend that is being paid out. The dividend payout is a set amount established by the Board based on earnings, current and projected.

If you were depending on income flow from your portfolio in 2007 to 2010 or in 2020, you should remember I did not have to stop your monthly draw. An increase in the draw may have meant dipping into capital, but that would only be considered after careful evaluation. Back then, like now, if you were planning to buy a new car or take an expensive trip that would require the use of principal, we should review your situation.

If you are new to investing and building a portfolio, this is a good time to accumulate funds to put into your portfolio. The best way to save is to contribute to your RCC (Research Capital Corporation) account on a monthly basis. Or if you have excess funds, transfer them from your bank to your RCC account. If the funds are not visible to me, I cannot invest them.

I do not time the markets. It is a proven fact that it is a loser's game to try. On the other hand, there are times when it is prudent to sit and wait. This is one of those times to accumulate cash through your dividend payments or savings and have it ready to add to the building of your portfolio. There is an expression "Don't fight the Fed." (The Central banks) and it is true. Rising rates mean lower equity and bond prices.

Thus, I am currently neutral on investments. I review positions as to diversification among the five main sectors financial, utilities, manufacturing, consumer and resources. I also look at geographical diversification using ETFs (Exchange Traded funds) or the new CDRs (Canadian Deposit Receipts), U.S. companies that are held on deposit with CIBC. A receipt representing a portion of the shares is sold on the Canadian exchange, hedged to Canadian dollars. I also consider Canadian companies that do business in other countries.

All that said (whew!), it is important to stay calm and carry on as we did in 2008, 2018 and 2020 – the sun will rise as it has in the past, and this too will pass.

Susan Howson, CIM
Director, Portfolio Manager
Research Capital Corporation
416 860 7605 or 1800 749 6663
showson@researchcapital.com http://susanhowson.com/

APPENDIX A

Total Return Advance June 30,2003 to June 30,2023

Results Low dividend yield stocks

Symbol (Currency)	TIH-T (CAD)	BYD-T (CAD)	CP-T (CAD)	ATD-T (CAD)	CTC'A-T (CAD)
Current Yield %	1.6	0.24	0.73	0.86	3.8
Totals					
Buy Price	7.34	8.09	6.06	1.18	32.5
Total Buy Amount	733.53	809	606.2	118.33	3250
Sell Price	108.83	252.75	107	67.93	181.12
Total Sell Amount	10883	25275	10700	6793	18112
Total Dividends	1478	968.35	710.3	251.96	4396.5
Reinvestment in Security					
Total Dividends	1952.98	1469.39	839.26	273.62	5401.58
Shares Purchased	58.72	101.02	28.41	12.36	46.33
Total Shares Owned	158.72	201.02	128.41	112.36	146.33
Capital Gain / Loss	14586.95	48529.64	12294.59	7240.61	17851.11
Total Gain / Loss	16539.92	49999.02	13133.86	7514.23	23252.69
Total Return (%)	**2254.85**	**6180.35**	**2166.59**	**6350.05**	**715.47**
Risk Free Reinvestment					
Total Dividends	1478	968.35	710.3	251.96	4396.5
Reinvestment Income	570.15	509.81	247.74	59.04	1352.19
Capital Gain / Loss	10149.47	24466	10093.8	6674.67	14862
Total Gain / Loss	12197.62	25944.17	11051.84	6985.66	20610.69
Total Return (%)	**1662.87**	**3206.94**	**1823.13**	**5903.38**	**634.18**
Period					
Last 30 Days (%)	1.38	-0.29	0.16	0.33	7.76
Last 90 Days (%)	4.26	13.46	1.76	-2.54	1.51
1 Year (%)	5.25	67.55	12.07	23.97	12.05
Year to Date (%)	12.07	16.87	3.43	10.16	31.18

Includes 2007-2010, 2020 bear markets

Source: Thomson One July 10,2023

Any rate of return is used for illustration purposes only. Past performance may not be repeated.

Total Return Advance June 30,2003 to June 30,2023

Results High Dividend yield stocks

Symbol (Currency)	BNS-T (CAD)	BCE-T (CAD)	ENB-T (CAD)	FTS-T (CAD)	REI.UN-T (CAD)
Current Yield %	6.68	6.57	7.37	4.11	5.67
Totals					
Buy Price	30.05	33.95	11.98	14.75	14.1
Total Buy Amount	3005	3394.54	1198.25	1475	1410
Sell Price	66.28	60.4	49.24	57.09	19.28
Total Sell Amount	6628	6040	4924	5709	1928
Total Dividends	4990	4624.61	3321.77	2630.25	2645.75
Reinvestment in Security					
Total Dividends	7298.49	7259.83	4965.61	3761.36	4306.23
Shares Purchased	131.17	170.68	133.29	106.11	235.62
Total Shares Owned	231.17	270.68	233.29	206.11	335.62
Capital Gain / Loss	5018.68	5694.69	5323.39	6530.36	754.55
Total Gain / Loss	12317.16	12954.52	10289	10291.73	5060.78
Total Return (%)	**409.89**	**381.63**	**858.67**	**697.74**	**358.92**
Risk Free Reinvestment					
Total Dividends	4990	4624.61	3321.77	2630.25	2645.75
Reinvestment Income	2161.98	1950.22	1137.91	1101.72	1425.55
Capital Gain / Loss	3623	2645.46	3725.75	4234	518
Total Gain / Loss	10774.98	9220.3	8185.43	7965.97	4589.3
Total Return (%)	**358.57**	**271.62**	**683.12**	**540.07**	**325.48**
Period					
Last 30 Days (%)	-1.99	-1.48	-5.19	-2.39	-6.17
Last 90 Days (%)	-3.69	-3.9	-6.4	-5.29	-7.11
1 Year (%)	-9.67	-0.78	-5.3	-3.24	-0.11
Year to Date (%)	1.03	3.35	-5.47	5.37	-7.39

Includes 2007-2010,2020 bear markets

Source:Thomson One July 10,2023

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APPENDIX B

Resources:
Advisor's Edge
Bank Credit Analyst
DGI & R Dividend Growth
Value Line
MPL Communications
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.