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Dear Client,

According to BCA (Bank Credit Analyst), historically, September has since the 1950s been the worst month to invest; upsets and calamities of various kinds have defeated the best analyses and careful predictions of market stability. This September, however, has been an exception and despite geopolitical issues that might have been expected to incite turmoil, the month ended on a positive note for all stock exchanges in North America. In fact, while not a smooth ride, September's steady progress has been upward. Why is it such a surprise?

Closest to home is the ongoing clamour for: the will they, or won't they? And if they will, when will they cry for reduced interest rates that has dogged the central banks for months now? In September, the US federal bank dropped interest rates by a whopping 50 basis points. Nice, but long-term observers remind us that this is an indicator of smooth sailing to come, not a promise - historically, rate drops have often come too late to deliver the hoped-for benefits. Reassuringly, inflation has continued its downward trend and employment is holding stable. Thus, the term "soft landing" is now showing up more frequently than "recession" so the fears may be for naught, but we must remember that this is a complex field, with few hard-and-fast rules.

Canada and many countries in Europe had already been reducing their bank rates this year. The economies are still not improving as hoped and further rate reductions are forecast. Various factors such as consumer spending, unemployment, industrial production etc. are in play, so no guarantees.

In the day-to-day it may not have felt like it, but when one looks back to the beginning of 2024 to the end of September, the markets have been moving upward. The only sectors that did not do well in this quarter were energy, financial and healthcare.

Looking Forward

Given all the stress and volatility we have been experiencing in 2024, it is understandable to be concerned about protecting your assets against the real or imagined problems caused by:

- China and tariffs;
- the Ukrainian war;
- Israel, Gaza and now Iran's wars;
- US election and its potential for another recession - which despite forecasts starting in 2021 still has not happened.

The press and social media constantly bombard you with gratuitous comments /advice on how to reorganize your portfolio based on one side or the other doing something counter-productive. But basically, they are advising you to bet your financial future on an outcome that no one can guarantee – or even reasonably predict. That is not the way to build an investment portfolio. A portfolio should be designed to help you meet your financial goals. A portfolio that is designed to ultimately grow your capital and income over the long-term. To be strong and flexible, not rigid and winner-take-all.

Political issues and consequent market returns can be of great concern; they can have a short-term effect or depress the markets for an uncomfortable time. That is where the strength and flexibility qualities earn their keep. It is a sad thought, but historically markets tend to ignore disaster and tragedy. Of twenty-four seriously calamitous events between 1941 and 2023, the average number of days for the S&P 500 to recover from a downturn triggered by one of these events was just 41 days. This is on a global scope; political events can have a minor effect globally and a major impact locally that will last longer.

The solution to minimize the effect of such lamentable market declines is a diversified portfolio. Over the long term the stock markets continued to move up while the world at large recovered from these tragedies. *Note Appendix A*. When looking at your portfolio, you need to consider the nature and quality of your investments. Consider what your future life and financial goals are. Stock markets are volatile, but good companies that pay dividends or provide a needed service keep on producing.

The effect of a geopolitical event can last longer if the event happens when a recession is about to start. With interest rates coming down globally, the word recession is declining and soft-landing is increasing in use. If your portfolio had been revised to withstand a recession as per the pundits in 2021, it would have triggered unnecessary capital gains taxes, potential loss in dividend income and further stress because the bond markets did not do well in the last few years.

The economy is always a concern because federal banks tend to be slow to increase or decrease rates which often causes an overreaction in the economy, triggering an inflation or recession. The Israel crisis which now involves Iran could be inflationary if oil prices rise. Against that concern, the US can increase their oil production as they did when the Russian oil was cut off from Europe. Thus, alleviating the potential for a return of inflation. Again, we do not know how this new war will affect federal banks decisions to increase or decrease rates. I repeat, holding a solid diversified portfolio will help you ride through this uncertain period.

We all need to take a deep breath and remind ourselves of what we do know and what we can control to protect against geopolitical events and recessions. Historically it has been proven that the downturn in investment markets due to geopolitical events and recessions are generally short-lived. *Please refer to Appendix B*. Recessions, while painful to live through, are good for the markets and clean out the speculators. History is not a perfect predictor for the future, but it does help to give us a guideline as to how to manage our financial future. Trying to time the market and betting on the result of a geopolitical or economic event is the road to losses.

**For resources used, please refer to Appendix C.*

How do we manage diversification of investments and provide some stability?

- Diversify within the five main sectors: financial, utilities, consumer, resources and manufacturing. Regarding investment in sectors, Generative AI is not a sector. It is part of technology, and representation is in a portfolio by investing in Microsoft, Nasdaq 100 ETF (exchange traded fund) and even in Canadian banks and retail as they are researching and using AI to communicate with clients/customers. Your Google searches and customer calls are all AI. This letter is not.
- Diversify geographically by investing in companies that have a global footprint or a global/country index ETF.
- Be realistic about your expectations. Trying to beat the index (indices are only an indication of the direction of the market due to their components, many are skewed by one stock or sector) or chasing after hot stocks is not building a portfolio that will let you sleep at night.
- Review your investment goals – please contact me to set up a meeting to review.

I would like to thank you for your trust and confidence in my assistant Rosemary Valencia, in Research Capital Corporation, and in me. If your circumstances have changed in any way, contact me and let us have a meeting to review your future needs.

Sincerely,

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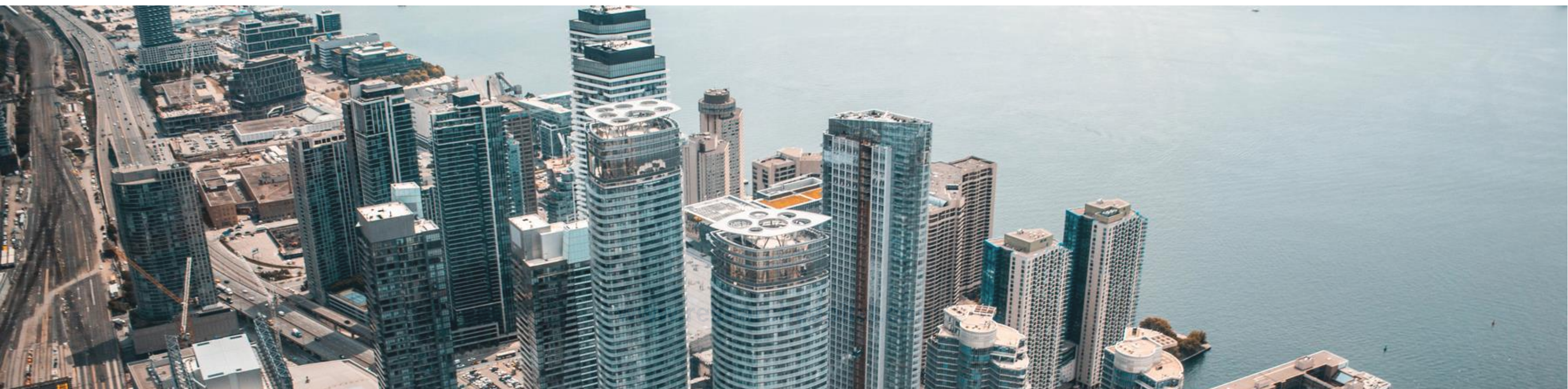


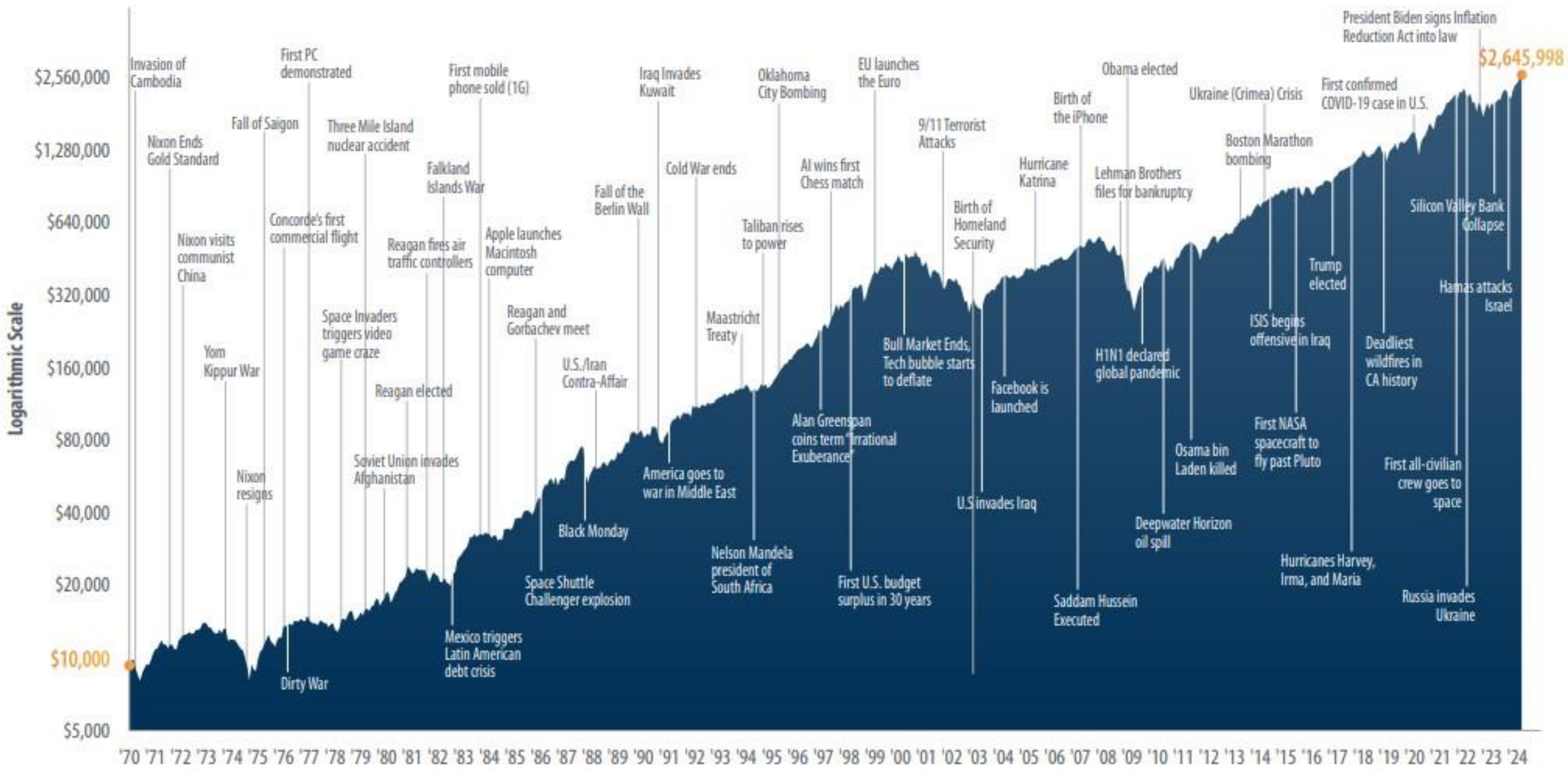
Appendix A

Crisis and Events

S&P 500 Index: Since 1970

This chart shows the growth of $10,000 based on S&P 500 Index performance over the last several decades. We believe looking at the market's overall resiliency through major crises and events helps to gain a fresh perspective on the benefits of investing for the long-term.

The average annual total return of the S&P 500 Index for the period shown below was 10.83%.



Source: Bloomberg, First Trust Advisors L.P., 12/31/1969 - 3/28/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future.

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Appendix B

History of U.S. Bear & Bull Markets

Daily Returns Since 1942

First Trust

This chart shows daily historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets since 1942. We believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average **Bull Market** period lasted 4.2 years with an average cumulative total return of 148.9%.
- The average **Bear Market** period lasted 11.1 months with an average cumulative loss of -31.7%.

BULL

From the lowest close reached after the market has fallen 20% or more, to the next market high.

BEAR

When the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.

Source: First Trust Advisors L.P., Bloomberg. Daily returns from 4/29/1942 - 3/28/2024. *No annualized return shown if duration is less than one year. **Past performance is no guarantee of future results.** These results are based on daily returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

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Appendix C

Sources:

- First Trust
  d02453ac-df4b-48b3-b0c0-1c82a41cdb1f.pdf (ftportfolios.com)
- BCA (Bank Credit Analyst)
- Globe and Mail
- J.P.Morgan
  How Do Geopolitical Shocks Impact Markets? | J.P. Morgan (jpmorgan.com)
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- Mawer
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