RAYMOND JAMES | DOUGLAS DUNCAN wealth management

JUNE 2024 NEWSLETTER

MARKET REVIEW

The second quarter of 2024 was quiet for most investors. The Canadian market was down 1.3% for the quarter while the S&P 500 Index was up 3.9%. The leadership of the U.S. market was very narrow, with a handful of U.S. growth stocks such as Nvidia, Alphabet, Microsoft, and Amazon contributing the lion's share of the positive returns. The Invesco S&P 500 Equal Weighted ETF fell 3.14% for the quarter, indicating that the average U.S. stock pulled back somewhat. There are a lot of "moving parts" in the economy at this moment including large federal deficits in most G7 nations, the upcoming elections in the UK, France, and the U.S., and geopolitical conflicts more troublesome than usual. In this environment, it is not surprising that investors are not making large shifts in their asset allocations.

	June 30, 2023 Close	March 28, 2024 Close	June 28, 2024 Close	90-Day Change	1-Year Change
S&P 500*	**4,450**	**5,254**	**5,460**	**3.9%**	**22.7%**
S&P/TSX Composite	**20,155**	**22,167**	**21,876**	**-1.3%**	**8.5%**

**USD currency* — *Source: FactSet*

Published for the friends and clients of
Douglas Duncan Wealth Management
Raymond James Ltd.
#1-5767 Turner Road
Nanaimo, BC V9T-6L8
Toll free: 1-866-729-2830
www.douglasduncanwm.com

FIXED INCOME

While short-term interest rates have fallen slightly this quarter, longer-term rates (five year plus) remain little changed from the March 28, 2024 levels.

With recent Canadian CPI inflation at 2.9%, bond yields are discounting inflation continuing to fall.

While *cyclical* inflation such as commodities will likely fall with a slowing economy, we believe that *structural* inflation will be much more of a challenge to reduce. The big drivers of lower structural inflation are technological improvements and globalization. While we are expecting that technology will continue to reduce costs, there is a protectionist political trend in most of the world. The cost of each country becoming self-sufficient is higher prices to the consumer.

Due to our expectation of "sticky" inflation, we don't see compelling value in longer-term bonds. High-interest savings accounts and shorter-term bonds of 12 to 18 months look like a better risk/reward for the fixed income part of your portfolio.

Canadian T-Bills and Bond Yields

T-Bills & Bonds	June 30, 2023	March 28, 2024	June 28, 2024
3-Month	4.92%	5.01%	4.65%
6-Month	5.06%	4.92%	4.63%
1-Year	5.15%	4.70%	4.45%
2-Year	4.58%	4.17%	4.00%
5-Year	3.68%	3.52%	3.52%
10-Year	3.26%	3.47%	3.50%
30-Year	3.08%	3.37%	3.37%

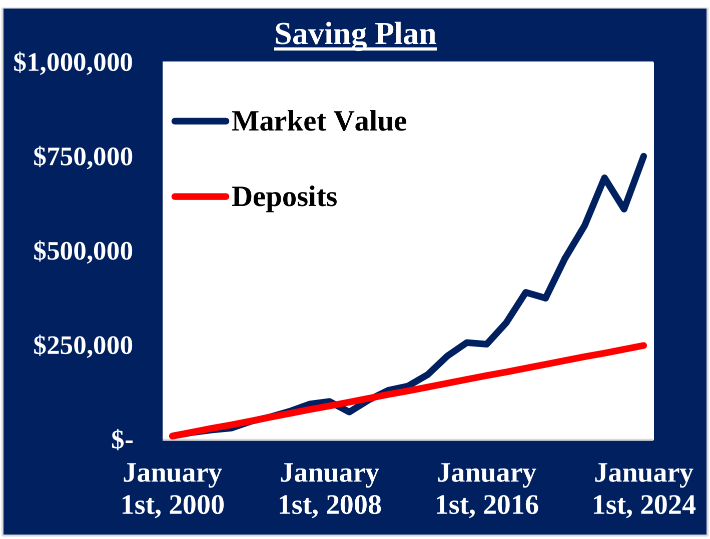
Source: FactSet

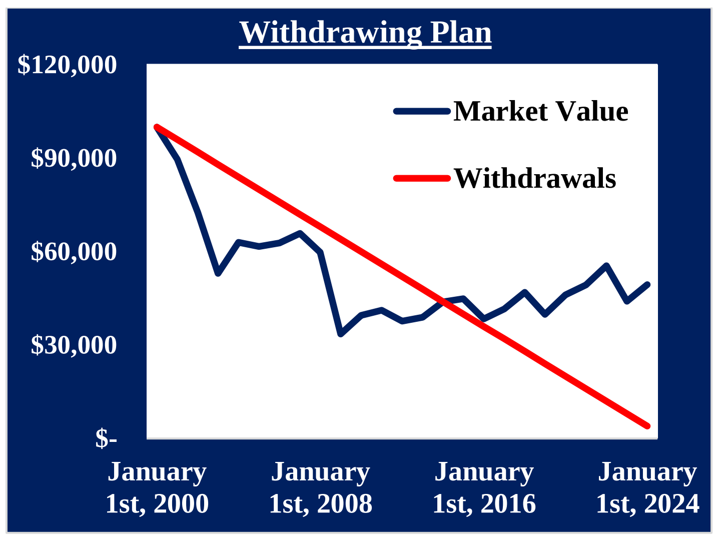
INDEX FUNDS

There has been commentary in financial publications recently stating that building investment portfolios is outdated, and all an investor has to do is buy a S&P 500 ETF and do nothing.

In order to test this thesis, we have put together historic scenarios of two fictitious investors. The first is a saver making $10,000 per year contributions to the ETF, while the second is a retiree living off their $100,000 nest egg and withdrawing 4% per year by selling units. For simplicity, we did not take into consideration the S&P 500 dividend yield (currently at 1.35%) or any fees or commissions. We also did not factor in any inflation increase for either the withdrawals or contributions. We used a long-time horizon, starting in January of 2000 and going to January of 2024. January 1 was used for all contributions and withdrawals.

The first chart is the diligent saver. January 1, 2000 was not a particularly good entry point for the S&P 500 and the saver took 12 years to break even. However, the saver stuck with the plan and after 25 years and $250,000 of contributions, the end value was $751,524. While this would have been a tough strategy to stick to, most of us would consider this a successful retirement result.





The second chart is the retiree with the 4% annual withdrawal. This investor was not nearly as successful, as the $100,000 nest egg dwindled down to $49,425, a reduction of over half the original capital. In addition, 25 years of inflation reduced the value of the $4,000 income. While this client did not lose money over the time period, we do not expect that many investors would be overjoyed with the outcome.

Both strategies had significant volatility, but the arithmetic of dollar cost averaging favours the saver and penalizes the investor living off the capital.

When possible, we recommend that individuals rely on pensions, bond interest, and dividend income from high quality common and preferred shares to provide cash flow for retirement. Once your spending needs have been met, index funds can be a useful part of the growth component of the portfolio.

HOW IS CANADA DOING?

Canadians are fortunate that we live in a "have" country, with a relatively high standard of living. However, most of us do not compare our lot to citizens of Egypt, Cambodia, or Nepal, but to other prosperous Western countries. In order to rate our economic situation to our peers, we used data from the International Monetary Fund and have included it below. We chose the U.S., the UK, Germany, and Australia as countries with similar opportunities and challenges. The factors we measured are real GDP growth, GDP per capita, GDP per capita adjusted to purchasing power parity, consumer inflation, unemployment rate, and central government gross debt.

The chart indicates that Canada is in the middle of the pack except for federal debt levels where we are 4th, and unemployment rate where we are 5th. The U.S. is #1 for GDP growth and GDP per capita but has the worst debt level.

Our conclusion is that while the Canadian economy certainly has room for improvement with the natural assets we have to work with, it is strong enough to be worthy of our investments.

IMF (International Monetary Fund): April, 2024

	Canada	USA	UK	Germany	Australia
Real GDP Growth	1.2%	2.7%	0.5%	0.2%	1.5%
GDP per Capita (US $)	$54,870	$85,370	$51,070	$54,290	$66,590
GDP per Capital (PPP*)	$60,500	$85,370	$58,880	$67,240	$66,830
Consumer Inflation	2.6%	2.9%	2.5%	2.4%	3.5%
Unemployment Rate	6.3%	4.0%	4.2%	3.3%	4.2%
Central Gov. Gross Debt	104.7%	123.3%	104.3%	63.7%	49.6%

**Purchase Power Parity*

Source: IMF Data mapper

COUNT OUR BLESSINGS

Nepal is a landlocked country but has an industrious population, agriculture, tourism, and huge hydroelectric potential. The private sector works fine; if you have money, you can enjoy most of what we have in Canada. However, the public sector is truly broken with out-of-control air pollution, appalling roads, and undrinkable water coming out of the tap. Ian took these photos this May in Kathmandu, after a Himalayan trek. The water mains on this street were likely broken in the 2015 earthquake and have not yet been repaired. The second photo is of a construction site in Kathmandu where the woman in traditional garb has a wicker basket on her back. Her job is to carry wet cement in the basket up three stories for $7 per day. The lack of mechanization and technology results in such a low level of productivity that there is not enough output for decent wages or the creation of a tax base. Count our blessings!

NEW CAPITAL GAINS TAX RULES

In the recent 2024 Federal Budget, the Canadian Government proposed changing the capital gains inclusion rate for individuals, and all capital gains for corporations and most types of trusts, from 50% to 66.7%. This applies to all capital gains in excess of $250,000, as of June 25, 2024.

This tax increase has been marketed as including only .13% of the population, but we believe that it will eventually include close to half of our clients. While very few taxpayers declare $250,000 of gains *every* year, gains are usually not declared evenly on an annual basis but are concentrated during one or two years of people's lives. For example, a business owner who sells their business built up over a lifetime, a real estate investor who sells a rental home that has been held for decades, or an individual who passes away with a portfolio of stocks.

Canada is expected to have a federal election by October 2025, so there is the possibility that this tax change could be reversed by a future Federal Government.

Clients with a short life expectancy and large capital gains can look at their potential exposure and we can do a cost/benefit analysis of spreading the gains over a few years to avoid the higher tax rate.

Clients in good health are likely better off not "letting the tax tail wag the investment dog" and keep the focus on owning good investments.

If you have any questions on how this may affect you, call Meaghan or Mark and they can calculate your potential tax exposure to see if any adjustments are appropriate.

DIVIDEND CHANGES

During this quarter, we had seven dividend increases among our top 30 positions, and no dividend decreases. We also saw Google (Alphabet) initiate a dividend for the first time ever.

Dividend Changes: Q2, 2024

Company	Previous	New	Increase
Alphabet (Google)	$0.00	$0.20	New
Costco	$1.02	$1.16	13.7%
JP Morgan Chase & Co.	$1.05	$1.15	8.7%
Johnson & Johnson	$1.19	$1.24	4.2%
Apple Inc.	$0.24	$0.25	4.2%
Royal Bank of Canada	$1.38	$1.42	2.9%
TELUS	$0.38	$0.39	2.6%
Bank of Montreal	$1.51	$1.55	2.6%

Source: FactSet

SUMMARY AND STRATEGY

We are currently experiencing elevated levels of uncertainty due to the upcoming French, UK, and U.S. elections, and heightened geopolitical risks. None of these are a secret, so trading in anticipation of an outcome is a coin toss at best. We continue to see value in some of the neglected areas of the market, including a number of Canadian dividend paying companies. Should we "catch a break" from central bank rate cuts, or less negative political outcomes than those currently anticipated, we may see some price appreciation in these sectors. If you have any changes in your life that will affect your finances, please call Meaghan or Mark.

CLIENT APPRECIATION EVENT- SAVE THE DATE

We are pleased to announce that we will be hosting our client appreciation event at the Nanaimo Golf Club on Thursday September 19th, 2024, from 4 PM to 8 PM. Please mark your calendars and look for your invitation in the mail.

Mark Duncan	**Meaghan Douglas**	**Ian Douglas**	**Lisa Cajolet**	**Heath Dean**	**Michelle Dieterich**
Senior Financial Advisor	Senior Financial Advisor	Consultant	Administrative Assistant	Investment Associate	Administrative Assistant

If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!