

November 2023 Financial Planning Email Update

On October 12, 2023 I had the opportunity to meet a few of our highly recommended portfolio managers from Dynamic Funds.

Oscar Belaiche, who manages our Dynamic Equity Income Fund and works with 22 portfolio managers and analysts in a collaborative and cooperative environment, gave an overview of his current thinking. As Oscar is one year younger than I, he outlined his succession plan. But, like myself, Oscar enjoys his career and has no immediate plans to retire. Oscar's look at equity income investing involves searching out quality investments that are reasonably priced, with free cash flow, great potential, and a reliable income while protecting capital.

Oscar discussed current mortgages in Canada which were obtained at 2% and are now renewing at 7% and will therefore require a principle repayment to maintain the original amortization schedule. In the US, 70% of mortgages are under 4.0% and locked-in for 30 years. In Canada, the mortgage structure is inferior as the majority of maturities are from 3 to 5 years.

Baby Boomers today are between the ages of 58 and 77 and are living longer, with science prolonging life, suggesting that more return will be required. On the other hand, the retirement income rule of thumb has been revised down. In 1994, market studies showed that you could withdraw 4% annually. In 2022, a Morningstar study showed the level was modestly reduced to 3.8% and, in the same year, Arizona University released a study suggesting the withdrawal rate should be 2.26%, in order to preserve long-term capital. So the struggle is becoming whether to retire later or to retire on time and take the risk to generate a higher income.

Also, most Canadians have difficulty moving from the accumulation stage while working to create a cash flow/ pay cheque/ decumulation portfolio in retirement.

For interest a Scotiabank economics study showed that most Canadians are underestimating both their life expectancy and the cost of care they will require in older age. The Dynamic Income Equity Fund is a \$3.7 Billion, North American, high quality, dividend paying, predictable cash flow fund with a current yield of 4.7% and has returned 10.2%, compounded annually, since it's inception in 2002. The fund is currently weighted 69% Canadian and 27% US.

Oscar sees opportunities in Canada as the TSX is currently undervalued with a 13% Price Earnings Ratio. This year, positive-growth companies in the US have been limited to what is known as the "magnificent seven" with all others down in value for the year. These companies are Apple, Microsoft, Alphabet (Google's parent company), Amazon, Tesla, Meta platforms, and Nvidia.

In Canada, growth this year has been limited to the 'super six': Shopify, Canadian Natural Resources, Constellation Software, Alimentation Couche-Tard, Cameco, and Fairfax Financial. Otherwise, the average stock price is down for the year.

With attractive yields available today, the likes of which have not been seen since the introduction of the Dynamic Equity Income Fund (2002), and as interest rates stabilize and potentially decline with an economic slowdown then this will significantly benefit equity income investing. Oscar highly recommends staying invested to take advantage of the upside to come.

Dana Love, who manages the Dynamic Blue Chip Balanced Fund, has six principles of investing:

1. Investing not Renting – not trading a piece of paper but investing in a fraction of a business for the long-term.
2. Think Independently – question conventional wisdom.
3. Maintain a tempered temperament.

4. Be pragmatically patient.
5. Blend the art with the science of investing.
6. Minimize mistake and maximize returns.

Dana's investment philosophy is to ask three questions before and while investing:

1. Is it a good business? Does it have a higher return of capital - great prospects, in a good industry?
2. Is it a good company? Are there special aspects, competitive advantage, free cash flow and shareholder return is significant?
3. Does it have good value? Is the stock price reasonable?

With this, Dana has provided a 13.34% average annual compound rate of return in the past year and an 8.55% average annual compound rate of return over the past 10 years for the Dynamic Blue Chip Balanced Fund.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



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Financial Services Inc.

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Gary H. Attack, BBA, CFP®, RFP, RRC®
CERTIFIED FINANCIAL PLANNER®
Investia Financial Services Inc.
203-1601 River Rd. E, Kitchener, ON N2A 3Y4
T: 519-894-2661
TF: 1-800-716-5538
Fax: 519-894-6656
gary@ghafinancial.com
www.ghafinancial.com

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