A View From Here - February 2023

Courage taught me no matter how bad a crisis gets ... any sound investment will eventually pay off." **- Carlos Slim**

WOW!

In a career that spans decades, it is difficult to remember many months where we achieved the kind of double-digit returns we saw in January. This went a long way in eradicating most of last year's consolidation, as most accounts are within a coin's-toss of all-time highs.

Two of our investments did the heavy lifting, however, pretty much the entire portfolio participated. It is another reminder of the importance of remaining invested when share prices do not reflect potential during market headwinds. It is also a challenge to hold positions even if they become very profitable, especially when the investment thesis is still very much intact.

Some might argue that we should sell for gains in some sort of 'you don't go broke taking a profit', diatribe, we are not trading fads, sardines, or tulips, but rather constantly looking at the fundamentals, the valuation of peers and a whole host of other factors including experience to help make the best decision.

Taking profit for profit's sake makes sense if you are at a casino but does not necessarily apply when investing. Most of our holdings have been off the market's radar for so long that we might be in the early innings of recognizing value. In more than a few cases, despite increased share prices on improving fundamentals, valuations are lower than when we first purchased it. This suggests

that we give each investment the time to see if continued fundamental improvements through quarterly earnings releases creates further value.

The returns we've witnessed over the long term have been stellar. When markets are challenging, it seems that we should change course, sell, and wait in the weeds for the coast to clear. But the coast is never clear. I have learned that we are best to stay invested because you never know when value is going to be recognized. Who would have thought markets would increase during 2020 when the economy was put into a self-induced coma? Logic would have put most in the 'sell and wait it out' camp. I am very aware that our long-term returns are the kind that few have been able to achieve. This has occurred because we have been invested in a concentrated portfolio of disparate companies based on ongoing research in an effort to achieve our utmost goal: Return.

It has to be the fundamental backstop of every person's view when investing money whether it be to protect or grow. We are proud of what we've been able to achieve to date and believe that our best days are still ahead.

If you know of like-minded friends or colleagues who have never received this level of return and service, please feel free to let them know. You must - most investors' returns over the long-term are anemic.

All Indicators Suggest A Better Year for Markets in 2023

The first five trading days of January 2023 gave us our first stock market indicator for the balance of the year. According to the Trader's Almanac, a well-respected and data heavy circular, as the first five trading days goes for markets, so does the year.

It's been right for 85% of the time. Happy to say that after retreating 2.3% in 2022, the indicator was up for 2023 so we focus on the next indicator of interest

that states, how January goes, so does the rest of the year.

January produced positive returns so we'll have to rely on the fabricated but still followed Super Bowl indicator that states that if the NFC wins, the markets will be higher. Lastly, the rise in markets has taken most major indices above their 200-day moving averages (a technical term that I watch) and most investment professionals are still negative.

The funny thing about these indicators is that while we always wish for rising markets, it doesn't necessarily mean that we will perform. But up is always better than down and a lot of indicators remain in favor of stronger markets ahead. Hey, I'll take sideways markets as well. We tend to do best in that environment.

RRSP, RESP & TFSA

The holy trio of investment accounts are again in focus as a new year ushers in opportunity to make contributions to registered accounts. For the TFSA, we are allowed to invest up to $6,500 for each person over 18 years old, we have until March 1st to make our RRSP contribution and RESPs allow for $2,500 contribution per child for post-secondary education with the government proving an additional $500 per maximum contribution. RRSPs allow for $18% of earned income in the previous year, up to $29,210 maximum for 2022.

Below, I'll highlight the features of each:

RRSP (Registered Retirement Savings Plan)

Concerned that the Canada Pension Plan (CPP) would not be enough to secure Canadians in retirement, the Government created the RRSP in 1957 that allowed individuals to make deposits into a personal savings plan for future retirement income. Further, as an incentive to do so, Canadians receive a deduction for contributions of up to 18% of reported income to a maximum which for 2022 is $29,210. Further, all gains or income received into the plan are sheltered from tax

until funds are withdrawn.

The Plan turns into a RRIF (Registered Retirement Income Fund) in your 71st year where you are forced to take out at least 5% annually. The basis for this is that individuals receive a deduction from income during your higher income earning years, but when you withdraw in retirement (or beforehand if you choose), in theory, you are in a lower tax bracket. Unused contributions accumulate and can be a very powerful tax shelter if triggered properly. Think of your RRSP as the best insurance annuity you can obtain. We have found that when clients turn from RRSP to RRIF, they continue to invest and grow the account as the account still grows tax-free and only withdrawals are taxable as income. Our goal is to over-fund your retirement and we have many 7-figure RRSPs.

TFSA (Tax Free Savings Account)

In 2009, the government created an investment plan whereby Canadians can contribute (now up to) $6,500 per annum into an account that is sheltered from any taxation from interest to capital gain, even if you withdraw any or all funds. One of its best features is that you can take funds out without tax consequence any time you want and repatriate any part of them the next calendar year.

Contributions accrue so if you haven't ever participated in this account, you can allocate up to $88,000 to date (if you were 18 or older in 2009). Although small in terms of overall contributions, we have substantial amount of 6-figure amounts. Unlike the RRSP, there is no tax deduction for contributions. Simply put, it is an excellent investment account, especially for young adults.

RESP (Registered Education Savings Plans)

Created in 1998, RESPs allow Canadians to save and invest for post-secondary education with a maximum contribution of $2,500 per child.

While contributors receive no tax credit for contributions, the plan receives the Canada Education Savings Grant (CESG) up to $500 paid directly into the plan, so it is essentially like receiving $3,000 for each $2,500 contribution. Similar to TFSA and RRSP, gains by way of interest, dividends or profits are sheltered from tax until funds are withdrawn, and when they are, taxation is applied to the child who is using the funds for education. The theory is that students are typically in the lowest tax bracket, so it isn't too onerous.

We are big fans of these accounts, and especially given that I still have two children in graduate school. An important investment vehicle for young families as post-secondary (especially if your children attend school out of town) costs over $20,000 annually and it is easy to access funds.

2023 is off to an amazing start for us. We have been reviewing and augmenting some of our investments as well as adding a new name. We are excited to see how this next stage of evolution for our account's manifests.

Thanks for taking a look, and as always,

All Good Things

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