RICHARDSON Wealth | PARTINGTON WEALTH MANAGEMENT

Market Update

June 2024 Q2

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Market Returns

June 2024

Q2- 2024 (June 30th, 2024) Returns

S&P/TSX Total Return	**-0.50%**
S&P 500 Total Return (USD)	**4.30%**
NASDAQ Comp (US Tech)	**8.30%**
FTSE All-World Index	**5.90%**
FTSE TMX Universe Bond	**0.86%**
Canadian Spot FX Rate	**1.03%**

YTD-Total Returns

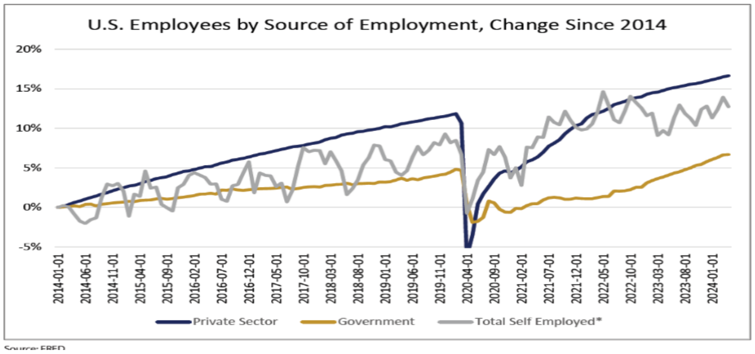
S&P/TSX Total Return	**6.10%**
S&P 500 Total Return (USD)	**15.30%**
NASDAQ Comp (US Tech)	**18.10%**
FTSE All-World Index	**10.00%**
FTSE TMX Universe Bond	**-0.37%**
Canadian Spot FX Rate	**3.29%**

Canadian economy gets a cut!

Stock markets remain resilient despite a slowing economy. Canada was the first in North America to cut interest rates, which isn't surprising given our more fragile economy compared to the US. Furthermore, US mortgage holders can lock in their rates for 30 years, while Canadians typically reset every 3-5 years.

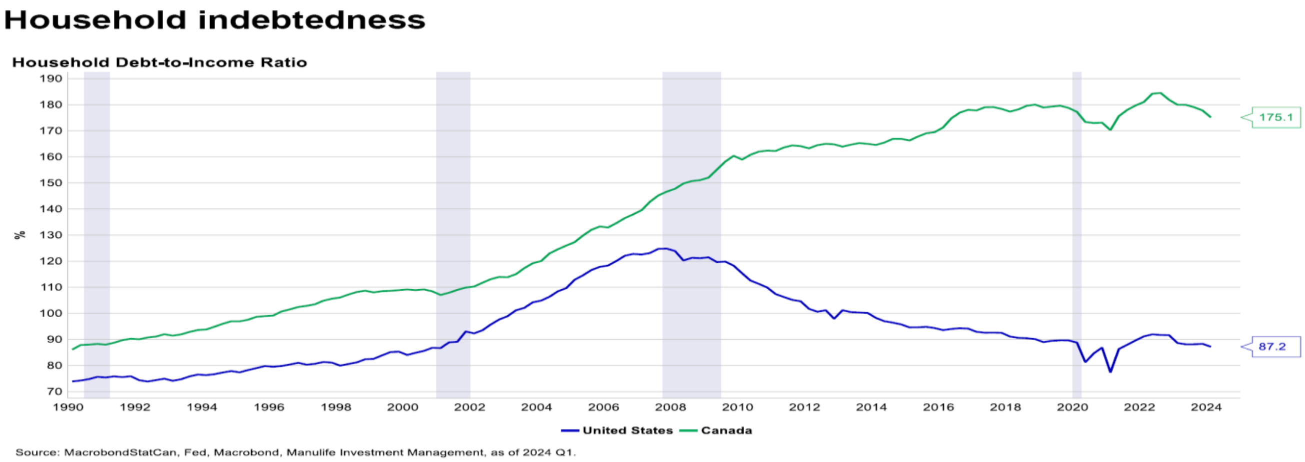
Let's start this newsletter with two striking charts highlighting a pressing issue for Canada. Post-COVID, we've witnessed a significant loss of entrepreneurs, a void increasingly filled by an influx of government workers.

Compared to the US, Public, Private, and Self-Employed have come back in line with trends before covid.



How does Trudeau plan to compensate for lost taxes as more government workers are paid? Is taxing the wealthy on money that has already been taxed the answer? This becomes increasingly difficult as more Canadians work in the public sector. The issue is that when companies and entrepreneurs finally succeed, people often forget the risks they took – no pension, no union, and no fallback job if their business fails. Many see these high earners as lucky and believe they should be taxed more, but we often overlook the risks they took to get there.

The last graphic I will show speaks to the indebtedness of Canadians vs Americans. Something needs to be done in Canada to get us back on a sustainable path because this will not end well if we don't.



Capital Gains Increases

Understanding the proposed increase in capital gains taxes is crucial for making informed financial decisions. There are two significant distinctions that clients should understand.

1) For personal investments, all Canadians have a $250,000 exemption before the tax rate increases from 50% to 66%. We will monitor this threshold for all your accounts, and as always, we will look to create tax-loss selling opportunities to reduce your account's gains.
2) For corporate accounts, the capital gains tax increases from 50% to 66%, starting from the first dollar of gains. We looked at triggering gains before the tax increase, but this only made sense if you needed more cash from your portfolio over the next three years. After four years, the portfolio returns can offset the higher taxes.

If you sell stocks today and trigger more than $250,000 in capital gains at the 50% rate, you must pay the tax by April next year. This means that money will no longer earn investment returns as it will go to the government. If you let your investments grow for roughly four to five years depending on returns and pay the 66% tax rate, the net amount in your pocket will be similar. Therefore, it generally didn't make sense for most clients to sell before the deadline.

Additionally, capital gains apply not only to the sale of securities with us but also to the sale of property outside your principal residence and employee stock options. We are happy to collaborate with your accountants to help you navigate any questions or concerns you may have

Stock markets are doing well, but are they?

Nvidia holds a roughly 6.6% weight in the S&P 500 and has returned 164.52% this year. With the S&P 500 up over 15.3%, Nvidia alone accounts for over 1/3 of that return. Microsoft, Apple, Alphabet, Amazon, and Meta contributed another large percentage. This means the remaining 494 stocks in the S&P 500 averaged flat to little return when combining their totals in the first six months of the year. This indicates that the market's strength is heavily concentrated in the tech sector, more specifically, the few stocks mentioned above.

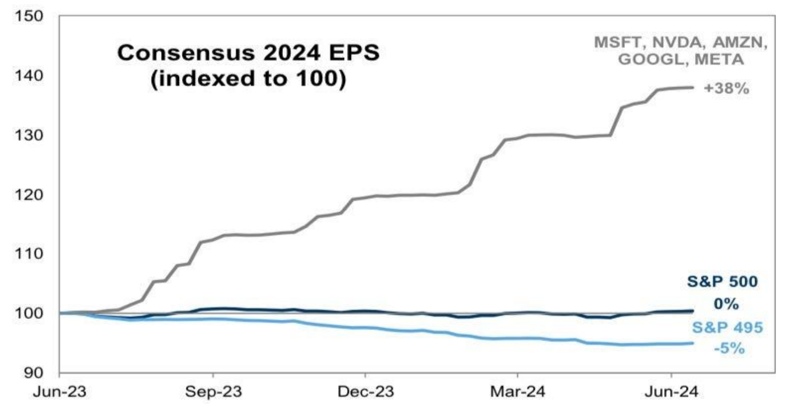
S&P 500's Largest Stocks: Current

Ticker	Company Name	Sector	Market Cap (bn USD)	% of S&P 500	Total Return (%) Five Year	One Year	Year to Date
MSFT	Microsoft	Technology	3,332.42	6.83	253.95	31.99	19.66
AAPL	Apple	Technology	3,322.44	6.81	363.16	17.79	12.84
NVDA	NVIDIA	Technology	3,222.11	6.61	3,533.30	206.89	164.52
GOOGL	Alphabet	Comm. Svcs.	2,199.65	4.51	224.42	43.64	27.03
AMZN	Amazon.com	Cons. Discret.	1,915.44	3.93	95.18	46.67	21.14
META	Meta Platforms	Comm. Svcs.	1,285.24	2.64	168.60	80.67	43.43
BRK/B	Berkshire Hathaway	Financials	879.47	1.80	100.18	20.40	14.20
AVGO	Broadcom	Technology	851.32	1.75	708.04	114.85	64.51
LLY	Eli Lilly	Health Care	841.12	1.72	739.74	99.13	52.34
TSLA	Tesla	Cons. Discret.	597.78	1.23	1,149.43	-28.06	-24.57

When you compare the earnings of these top companies, it's clear that their returns are justified as they continue to grow revenues and profits. Below is a chart showing earnings increasing by 38% for these top companies compared to the rest of the S&P 500, which saw a 5% decline in earnings.

However, in July, we have seen the small-cap and equal-weighted S&P 500 indexes outperforming. This is an excellent signal that the market could be more resilient. The market is broadening out and could become more sustainable at these levels and higher. In previous newsletters, we have discussed trimming investments in large-cap stocks and moving into small-caps, which has been working out well so far this year.

Exhibit 2: Positive EPS revisions for mega cap tech vs. cuts to S&P 495 EPS
as of June 13, 2024

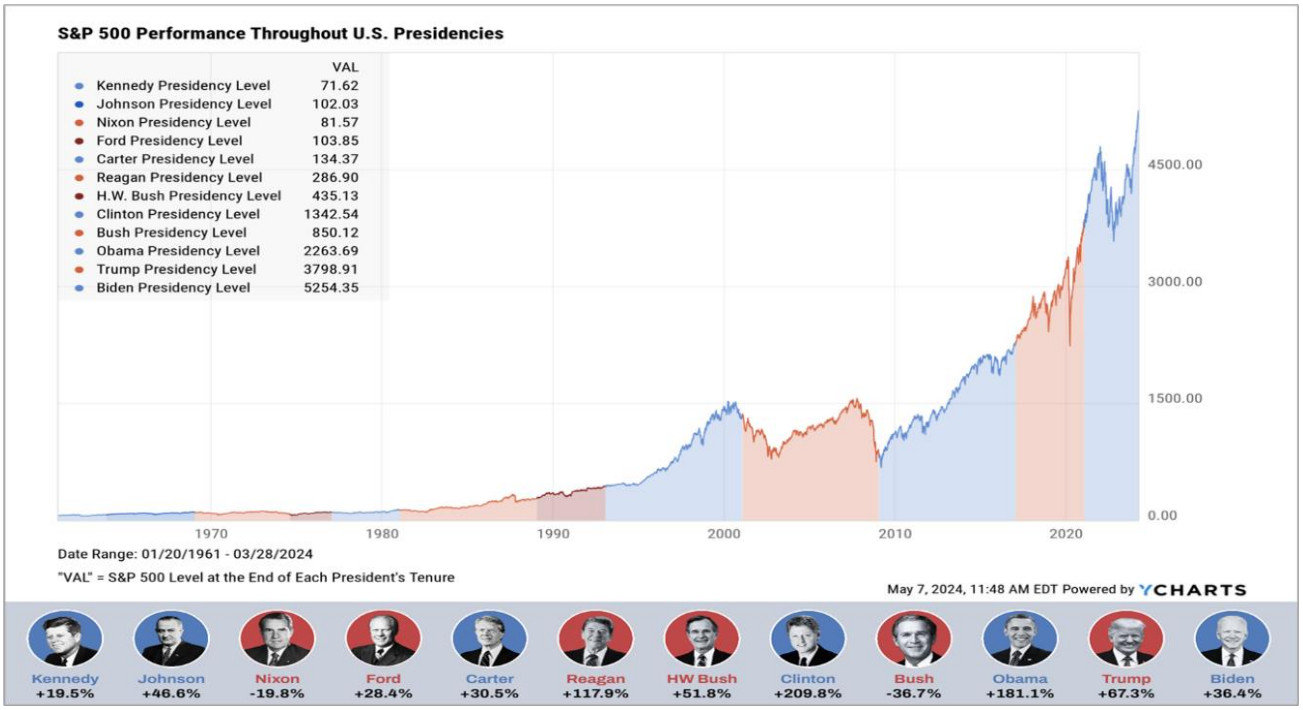


Source: FactSet, Goldman Sachs Global Investment Research

US Election

Below is an interesting graph showing how the stock market has performed under US presidents over the past 60 years. My comparison of returns under Republican and Democratic administrations reveals no significant advantage for either party. Despite concerns when Trump took office in 2017, the markets proved resilient and continued to rise.

Currently, there is substantial political division in both Canada and the US, with left-wing and right-wing politics creating a rift. I hope this divide can be bridged rather than widened, but only time will tell. It is crucial for the leadership of all parties to come together for the greater good of our nations and economic prosperity. Both sides of the border need to focus on the rising debt burden and the resulting interest payments affecting our countries



Special Investments

Over the last 3 to 4 years, we have been studying crypto investments. We have invested money in crypto assets for our growth investors, which has added value to their returns. With the approval of Bitcoin and Ethereum ETFs in the US and potentially Solana in the coming months, we are more comfortable bringing crypto to our balanced investors as a small percentage of their portfolio. We have invested 0.5% of assets into a bitcoin ETF, meaning clients will experience a price increase or decrease as bitcoin moves. Fidelity recently came out with price targets reaching over 1 million per bitcoin over the next ten years, with much higher targets going out two decades. In addition to this investment, we have also added 0.5% to DEFI Technologies. This company earns fees by creating crypto ETFs or ETPs and is currently the only provider of a Bitcoin ETF that pays dividends. They do this through staking their Bitcoin. Staking is a process of lending crypto coins to companies that build crypto companies, and they pay them a lending fee to use those coins. They also have a trading platform that has been a meaningful addition to their revenue source.

Please don’t hesitate to ask questions about these investments or anything else in your portfolio. We have been extremely happy with the performance year to date and will continue to look for investment opportunities.

Investment Highlights in the Second Quarter

For those who enjoy more investment details, please see Brenan's comments below. This commentary provides a more detailed evaluation of our best and worst-performing stocks within the models.

As of 06/30/2024	Standouts based on Q2 - 2024 returns	Stocks Under Pressure – Q2 2024
US Stocks (in USD)	Nvidia Corp (NVDA): 36.73% Apple Inc. (AAPL): 22.82%	Lululemon Athletica Inc (LULU): -23.54% Sherwin-Williams (SHW): -14.08%
Canadian Stocks (in CDN)	GoEasy Ltd (GSY): 23.67% Dollarama Inc (DOL): 21.05%	Open Text Inc (OTEX): -21.84% Bank of Nova Scotia (BNS): -10.69%
Mutual Funds	Dynamic Precious Metals Fund: 9.45% Fidelity Global Innovators: 8.15%	Turtle Creek Equity Fund: -10.49%

US Stocks

In Q2 2024, the US Asset Growth & Income Model was up 4.3% relative to the S&P 500 Total Return Index, which also rose 4.3%, resulting in a flat quarter relative to our benchmark. On a year-to-date basis, the US Asset Growth & Income Model is up 16.4%, outperforming the S&P 500 Total Return Index, which is up 15.3%—resulting in a 1.1% outperformance so far.

To start the quarter, volatility picked up, and the S&P 500 dropped approximately -4.2% in April after posting five straight months of positive returns. These temporary pullbacks, although challenging, are indeed healthy as the market tends to overheat and trade on speculation rather than fundamentals. Moreover, these pullbacks happen quite frequently—believe it or not, since 1980, there have been only three years without a 5%+ pullback, with most years experiencing 2-3 of these corrections.

In the past nine months, the S&P 500 is up approximately +28.8%, and the US Asset Growth & Income Model is slightly ahead, up +29%. This supports the case for sticking to the process and staying invested.

Over the quarter, we decided to sell Lowe's Companies Inc (LOW) and Johnson & Johnson (JNJ) and purchased positions in Brown & Brown Inc (BRO) and UnitedHealth Group (UNH). We sold LOW to decrease our exposure to the retail sector, anticipating that more consumers will delay larger discretionary purchases due to higher rates squeezing their budgets. JNJ was sold after posting a revenue miss in their Q1 financials, which hadn't happened since Q4 2022. We also aimed to reduce our healthcare exposure, particularly in drug development, given our recent purchases of Eli Lilly (LLY) and Amgen (AMGN), which have performed well. JNJ was our weakest holding in the healthcare sector, so we sold it and moved on.

BRO is an insurance brokerage company in the United States that markets and sells insurance products and services primarily in property, casualty, and employee benefits areas. BRO has a strong history of beating earnings estimates, increasing free cash flows, and has recently benefitted from several upwards revisions from analysts.

UNH is a multinational health insurance and services company with two business divisions: Optum and UnitedHealthcare. Optum provides technology services, pharma services, and various other direct healthcare services to the healthcare marketplace. UnitedHealthcare sells health insurance. Similar to BRO, UNH has a strong history of beating analysts' top and bottom-line expectations (their last revenue miss was in July 2020), positive quarterly earnings momentum, a healthy balance sheet, and pays an annual dividend of approximately 1.5%.

Given the year-to-date run in equities, most of our clients were overweight in the US Asset Growth & Income Model by late June 2024. In our typical fashion, we trimmed back the model weighting and added the proceeds to underinvested areas of client portfolios, primarily topping up allocations to fixed income and small-cap managers.

Canadian Stocks

The Canadian Dividend Growth Strategy was up +2.38% over the quarter relative to the S&P/TSX Total Return Index, which was down -0.53%, resulting in an outperformance of 2.91%. On a year-to-date basis, the Canadian Dividend Growth Strategy is up +7.9% vs. the S&P/TSX Total Return Index, which is up +6.1%, resulting in an outperformance of 1.8%. The outperformance was largely due to the muted Q2 performance in Energy (down -0.6%) and negative performance in Financials (-2.2%) and Industrials (-3.6%). Currently, we do not have any exposure to Oil & Gas producers, are significantly underweight in Industrials, and our financials exposure is in line with the TSX. On an aggregate level, our models' allocations to Industrials & Financials were all positive over the quarter. The top-performing sector in the TSX was Materials, up approximately +6.9%. As you may recall, we currently have no exposure to Materials, which is a large weighting for the TSX (approximately 12%). All in all, we're happy with how the model performed over the quarter.

In Q2, we sold out of Exchange Income Fund (EIF) and TD Bank (TD) and purchased positions in RB Global (RBA) and EQB Inc (EQB). Our decision to sell EIF was predominantly due to its lackluster financial performance since we purchased the position in May 2023. EIF has posted several back-to-back revenue or earnings misses and is facing headwinds. Their debt balances have increased, and higher borrowing costs are weighing on margins, thus we believe a significant turnaround is not imminent. RBA is an omnichannel marketplace that provides value-added insights, services, and transaction solutions for buyers and sellers of commercial assets and vehicles worldwide. RBA has been flagging on all the metrics we look for when making a buy – strong quarterly earnings momentum, analyst revisions upwards, a healthy balance sheet, etc. We also like RBA because they should benefit from a strong commodity and construction market seeing as they help facilitate transactions for customers in the construction, agriculture, energy, and natural resource sectors. The company should have less cyclicality compared to a typical commodity producer but should still reap the rewards when these companies upgrade their fleet (typically when they're generating lots of cash).

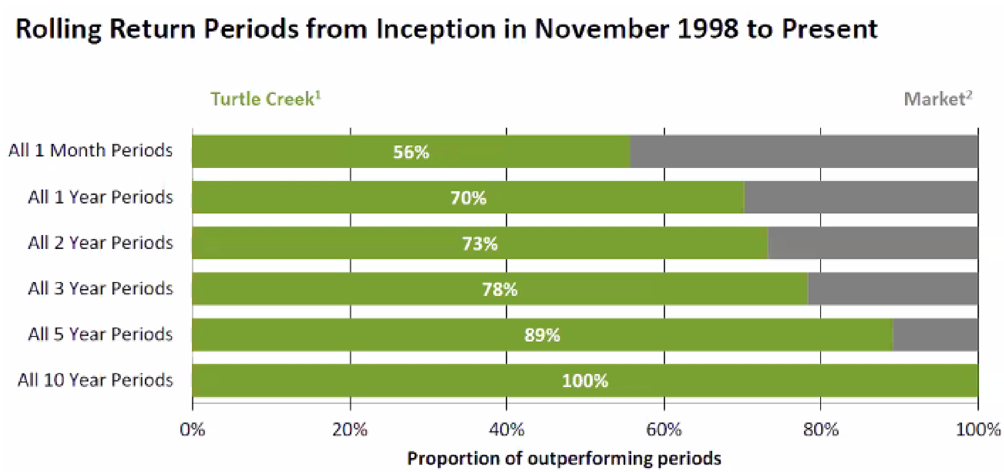
It's never easy selling one of the big 6 Canadian banks, but this quarter we decided to sell out of our position in TD. Our decision to move on from TD in the Canadian Model came from the fact that we believe there will likely be an overhang (i.e., limited upside) on TD in the near term resulting from negative press & potential lawsuits TD has received over the anti-money laundering (AML) claims (i.e., May 2nd press release - TD Bank Probe tied to laundering of illicit fentanyl profits). As these investigations take place, we have no clarity on the size of the potential fines (I have read it could be up to $2 billion, but who knows) and TD will likely have to spend a lot of capital improving procedures and processes around AML, which may weigh on earnings in the near term. With that said, we have purchased EQB with TD proceeds to maintain our financial services weighting. EQB is Canada's 7th largest bank by assets and provides personal/commercial banking to their customers and operates in all the same channels that the Big 6 do. Over the last 6 years, EQB has rapidly increased their market share by increasing their customer base by nearly 20x and their deposit base by 8x. This has helped them deliver a 15% return on equity, raise their dividend by 20%/annum, and nearly tripled their earnings.

Mutual Funds

In Q2, our top performing funds were Dynamic Precious Metals and Fidelity Global Innovators, which were up 9.45% & 8.15%, respectively. Dynamic Precious Metals has benefitted from the strong Gold & Silver market we've seen over the past 9 months and the fund is up approximately 18.35% year-to-date. Gold & Silver are cyclical in nature and therefore, they're highly volatile. For example, Gold's spot price is up approximately 30% since the October 2023 lows and finally broke through its August 2020 highs in March 2024. The point being, it would have taken you 3.5 years to break even if you had purchased Gold at the previous highs. Late in the quarter, we were taking advantage of Dynamic Precious Metals' strong performance by trimming our position and topping up or establishing a position in CI Galaxy Bitcoin ETF, which had pulled back roughly 20% in June. Fidelity Global Innovators was our 2nd best performer over the quarter and is now up 36.2% year-to-date. The fund manager continues to be invested in the AI trade and large-cap technology stocks, which have largely outperformed every sector and every index. Given the fund's performance and its exposure to the Mag 7 and AI trade, we're actively managing the position sizing in your portfolios and, when applicable, are redeploying proceeds into safe haven assets (fixed income) or underinvested areas of the portfolio (typically small cap).

The worst-performing fund over the quarter was the Turtle Creek Equity Fund which was down -10.49% and on the year, Turtle Creek is now down -4.9%. Unlike many of the large cap indices (S&P 500, NASDAQ, DJIA), which were all up during the quarter, the small/mid indices (i.e., Russell 2000) were down approximately -3.6%. As we've highlighted in previous newsletters, the valuation gap between small cap and large cap companies continues to widen, favoring large caps. This quarter was no different, and unfortunately, our small/mid-cap managers underperformed because of it.

As you may recall from our year-end 2023 note, Turtle Creek is a long-only, active manager with a focus on buying quality Canadian & US Mid-Cap companies. The fund is currently trading at a 64% discount in their internal intrinsic value calculations (i.e., fair value) and the average discount to intrinsic value since 1998 has been 37%. The only other times the discount has been this large was in the 2008 Credit Crisis (63% discount) and the COVID crash (67% discount). Given this discount, we've been actively topping up our positions in Turtle and firmly believe that the fund's holdings are increasing in quality and are currently just out of favor by the market. Furthermore, Turtle Creek is less concerned with "what the market is going to do" and is more concerned with increasing the quality of their portfolio, so when the market does turn, they are positioned to outperform (this happened in 2023). The chart below summarizes Turtle Creek's track record over the long term, and currently, the fund is underperforming in the 3-year and 5-year annualized return metrics. In short, it's arguably one of the best times to buy Turtle Creek in the past several years. We have also spoken to the manager this month and they have made back close to what they lost last quarter this month.



Process Management

Another point we wanted to highlight is regarding our internal investment process and the due diligence we conduct on fund managers we're evaluating whether to buy or to continue to hold. For all managers, our goal is to find the best managers that fit into a specific asset class we are looking to fill – these include but are not limited to capital appreciation (growth), volatility management (downside protection), cashflow (fixed income), etc. We follow a strict investment policy which looks for the best performing managers within each of these categories and we evaluate the correlations amongst our investments. We try to hedge market risk and volatility in client portfolios by using alternative assets (long/short managers, private debt funds, and private equity funds) which tend to be less correlated to traditional equity and fixed income managers. A major flag we have for removing a fund manager from client portfolio's is when they start to deviate from their original investment process and mandate. An example of this was our decision to sell out of the Lynwood Opportunities Fund in December of 2023. As you may recall, Lynwood was one of our top performing funds in 2020 through 2021 and arguably the best performing hedge fund in Canada from 2019 through 2021. Throughout 2022 and most of 2023, we had several meetings with the portfolio manager to review the weak performance – in 2022, most fund managers had negative performance, so we put the fund on our watchlist. Through the first 9 months of 2023, we noticed his decision making regarding certain buys/sells did not correspond to the fund's original strategy which was to trade Canadian small cap stocks. Instead, the fund was buying positions such as TD Bank, SPACs, and other private investments. In Q4 2023, the markets started to rally, and Lynwood still underperformed so we came to the decision to sell and reallocate. This turned out to be a great decision as the fund is down nearly -50% year to date as the fund manager has suffered severe losses and was forced to mark down several of their private investments. We highlight this to emphasize that not all returns are shown in accounts. This decision to move on saved returns vs making them but, in both scenarios, it shows the importance of having a strict investment process.

Looking Ahead

A reminder to review RESP contributions to ensure you are taking full advantage of the benefits. RESPs offer several significant benefits for saving for a child's education.

- Contributions to a RESP grow tax-deferred, meaning investment earnings are not taxed until withdrawn, potentially allowing for substantial growth over time.
- The Canadian government provides grants such as the Canada Education Savings Grant (CESG), which matches a percentage of annual contributions up to a certain limit, effectively boosting the savings
- When funds are withdrawn for educational purposes, the income is typically taxed at the student's lower tax rate, resulting in considerable tax savings.

To maximize your potential annual CESG grant of $500, it's recommended that you contribute up to $2,500 to your RESP per beneficiary per year. Should you have unused grant room, you can also contribute additional funds and receive a total of $1,000 per year. If you have any questions about your contribution room or would like to send in funds, please reach out to a team member. If you have any questions about your contribution room or would like to send in funds, please reach out to a team member.

As we head into the third quarter of the year, we're excited to keep talking with each of you during your annual review meetings. If you have any questions or concerns in the meantime, please reach out to schedule a meeting. These reviews are a great opportunity to look at your portfolio, talk about any changes in your financial situation, and make sure your investment strategy is still on track with your long-term goals.

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