The Opportunity Update – Friday June 4, 2021

Table of Contents

Track #1: Introduction – The Skinny 1
Track #2: The Markets - Canada's Next Supercycle Is Underway 4
Track #3: Keep More Income – Float Your Canadian Boat 8
Track #4: The Wrap Up – Our GAME Compass Points North & Across The Pond 10
Track #5: Postscript I – Our Approach 11
Track #6: Postscript II – The Dividend Value Discipline™ Methodology 13

Track #1: Introduction – The Skinny

Hi, this is Chris Raper, Senior Wealth Advisor & Senior Portfolio Manager, Private Client Group of Raymond James Ltd. & co-founder of **The Dividend Value Discipline™**. Welcome to **The Opportunity Update**, which is being recorded for you in Victoria B.C. on Friday, June 4th, 2021. Here is what we are going to cover today.

You are now listening to **Track #1: The Introduction**, where I give you the skinny on what I am going to talk about.

On **Track #2: The Markets – Canada's Next Supercycle Is Now Underway** - I am going to spend some time giving you the evidence as to why I am convicted that that statement is true, why I believe the objections to the argument will be proven false and most importantly, why it is necessary for us to take a ten year forward view when considering the argument notwithstanding the volatility which will surely come.

On **Track #3: Keep More Income – Float Your Canadian Boat** – for second quarter in a row, I have opted to stray from our usual course of outlining new additions to **The Dividend Value Discipline™**, simply because I feel like it is more important that you hear about our all Canadian, all dividend paying, tax smart, income and growth strategy, that is rather timely in taking advantage of the secular growth story that we are going to cover on track # 2.

On **Track #4: The Wrap Up – Our GAME Compass Points North & Across The Pond**, I will give you the key takeaways from each track and wrap it up with one more piece of evidence in favour of Canada and then draw a parallel that I see coming with respect to the U.K.

On **Track #5: Postscript I – Our Approach** is for the benefit of prospective clients. It will give you some insight on the new client process that we walk interested parties through. Spoiler alert – it starts with you and your story - our approach is tailored to your "do, have, and legacy" ambitions. We need to understand your aspirations before we can help you achieve them.

On **Track #6: Postscript II** is where I walk you through the methodology and return objectives of our core program, **The Dividend Value Discipline™**. If you have an interest in the specifics of our core investment process, you will probably get a lot out of it – if that's not you, you may want give it a pass.

In terms of legal requirements, there are three things to note:

1. The opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd.

2. Raymond James Ltd. is a member of the Canadian Investor Protection Fund. That is a good thing. If you are interested in those details, please ask me or any one of our relationship managers the next time we speak.

3. The transcript of this recording provides links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd. endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd. adheres to.

I also want you to recognize that some of the things I am going to say today are going to be proven wrong. It is an inevitable part of this business. It is also important to recognize that you don't have to be right all the time to do well. You just have to be more right than most or, conversely, less wrong than most.

Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up. When I say I am bearish, it means I expect things to go down. Likewise, north means up and south means down. When I speak about rent cheques, I am speaking about income, primarily dividends. You may hear me using the term “disruptor”, which is our moniker for those companies that are disrupting or re-inventing the way business is done in their particular market and are thereby able to grow at rates far faster than those of the economy. Think of Wal-Mart twenty years ago and Amazon today. You may also hear me use the term “aggregator”, which is our moniker for those companies that have a systemized approach to acquiring smaller competitors as a means to fuel their growth. That growth is the path to increasing dividends or in our language, growing rent cheques. If you catch me using industry jargon beyond that, I invite you to call me out. Send an email to the office and the team will let me know, usually with considerable gusto!

That’s a wrap on the skinny, and off we go to Track #2.

Track #2: The Markets - Canada's Next Supercycle Is Underway

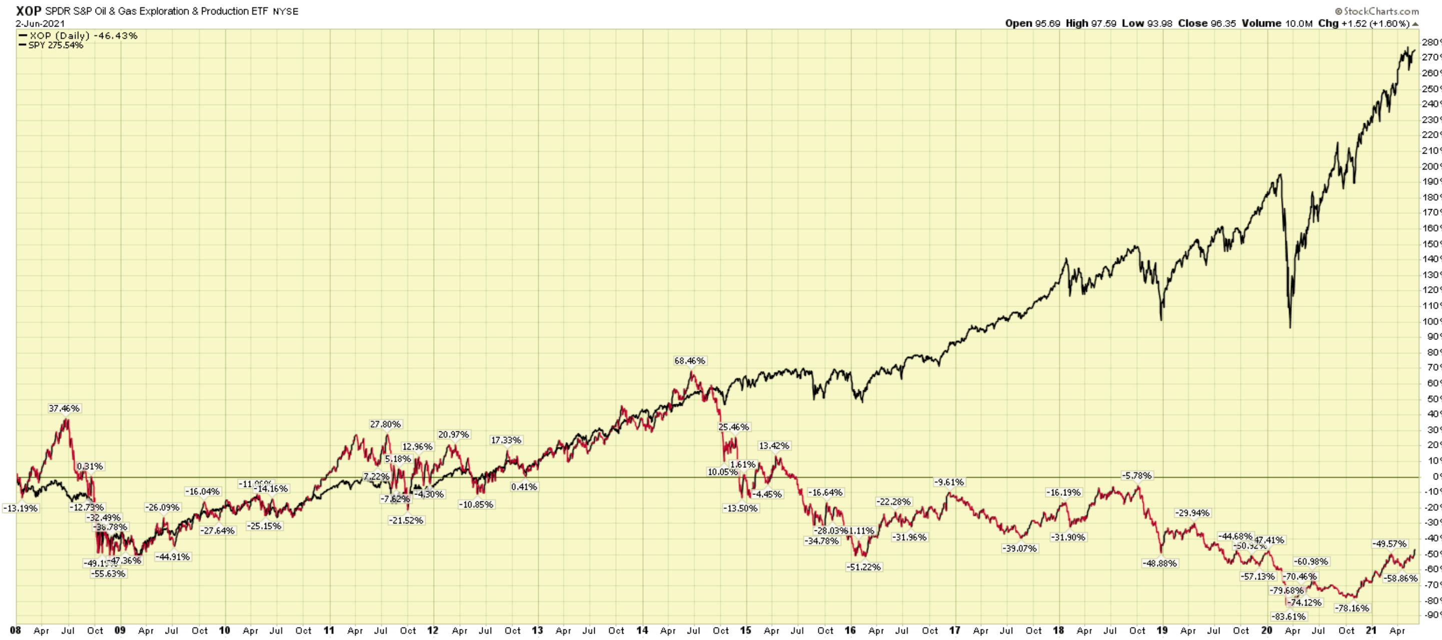
While that statement may seem like a bold claim, students of history will recognize that it is completely within the historical norm, and as the saying goes, "those that do not know their history are doomed to repeat its mistakes". If you are listening as opposed to reading this missive, I encourage you to go to our insights section at www.chrisraper.com to find the accompanying charts. What you will see is how Canada's stock market vastly outperformed the U.S. market as the dot.com bubble started to wane and finally burst in early 2000 and investors figured out they were much better off in oil stocks versus anything that ended in '.com'. That outperformance lasted from 1999 until early 2008, when we saw $150 oil and our loonie above par versus the U.S. greenback. Post the 2008/09 financial meltdown, Canada has been underperforming the U.S. pretty much uninterrupted – only in the early part of this year did fresh green shoots start appearing. The message is, it is early days - commodity prices are rising, shortages are already apparent, and Canada is a resource producing nation.

If you would like to dig deeper and longer on these historical patterns, I did a 100 year review on this recording back in September 2019 – see CYCLES.

Charts courtesy of StockCharts.com

The obvious question is what gives us the confidence that this relatively short term phenomena is not another head fake, like we have seen over much of the last decade. Here is the answer - the COVID induced recession put commodity producers on their knees – at one point oil prices went below zero last year – shippers had to pay people to take it away, copper dropped to $2.17 per pound and understandably new projects (supply) got shelved, most of them permanently. Furthermore, investors believed that oil would become obsolete and somehow copper would too – they threw the stocks into the dustbin.

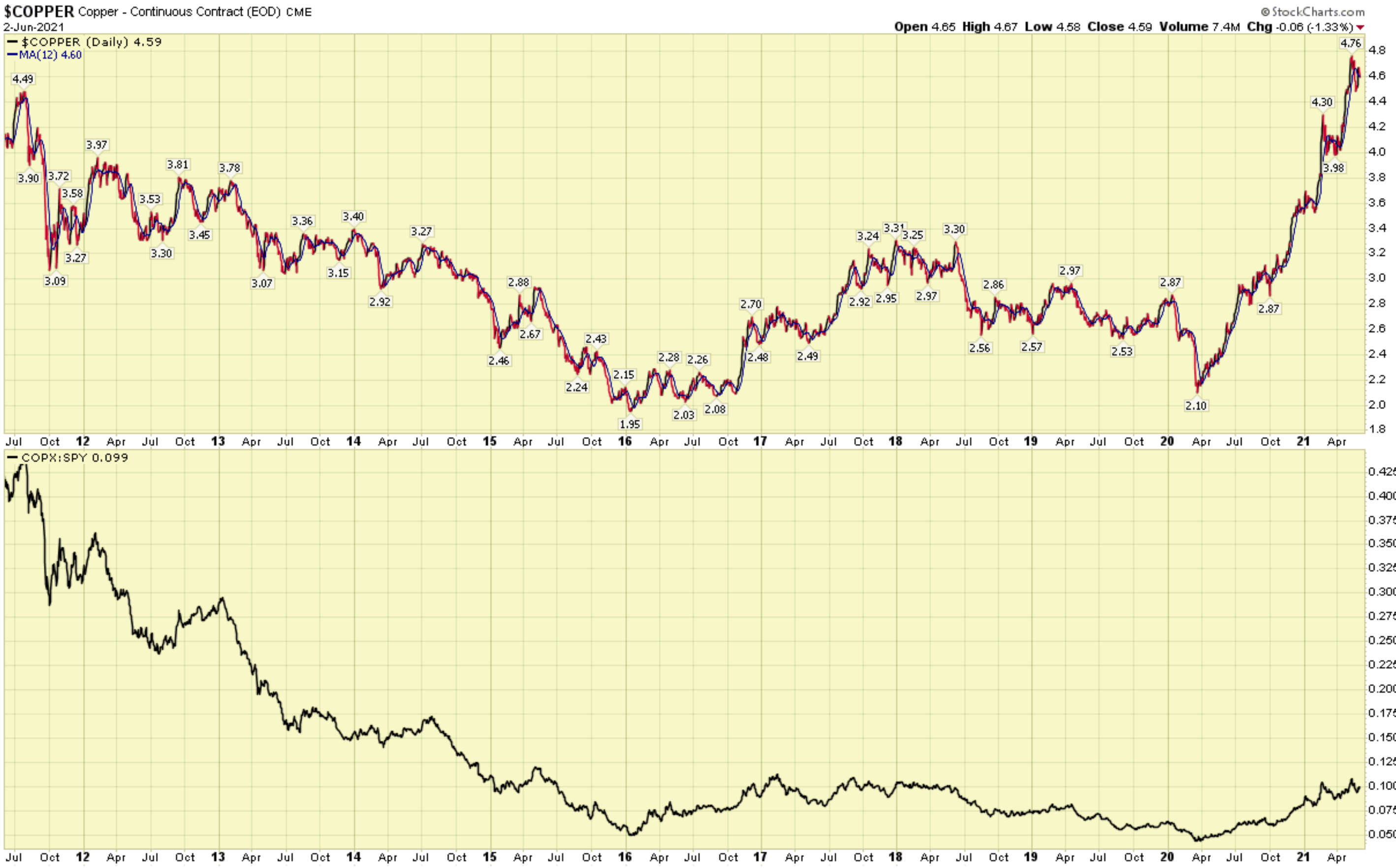
If you would like some evidence of just how much oil producers stocks became the pariah of the stock market, all you need to do is to compare the oil producers exchange traded fund, XOP, against the S&P 500 exchange traded fund, SPY. What you will see since the beginning of 2008, the price investors are willing to pay for oil producers has dropped by some 45% while the S&P 500 went up by some 275%. Reversion to the mean is an investment concept we should not forget.



Charts courtesy of StockCharts.com

Bringing us up to present day, the price of oil is busting north, this morning $WTIC is at $69 per BBL, which is significantly higher than we had in the pre-COVID era, say January 2020. Throw in the fact that and more and more planes are getting airborne (we track that on a weekly basis), yet most of us have yet to book a flight, which is surely going to happen. Pent up demand is huge.

You can see a similar phenomenon in the copper complex – the price of copper is very near its all-time highs, trading north of $4.50 per pound this morning and yet the price of copper producers (COPX) relative to the exchange traded fund SPY (the S&P 500) has fallen by some 90% over the last 10 years.



Charts courtesy of StockCharts.com

Keep in mind that every new electric vehicle that is produced requires somewhere between 5X and 10X as much copper as a conventional vehicle https://www.visualcapitalist.com/how-much-copper-is-in-an-electric-vehicle/ and there is still a huge move to build more wind powered generating facilities which requires… more copper.

Obviously Canada produces a lot of things besides oil and copper – you can expand the list to lumber, iron ore, nickel and even gold - and you get much of the same story – commodity prices at new highs, commodity producers stocks relative to the rest of the market, in the dust bin, and importantly, they are moving north in catch up mode.

By now, I hope that I have convinced you that the idea of Canada's next super cycle is at least plausible. Let's take on the major objections and I will give you our thinking in response:

- Oil will become obsolete – not any time soon is my response. If we are going to build green energy projects they all need things like copper, cobalt, lithium iron, nickel and currently there are shortages in all of them – how do we fix that – more mines. How do we build a mine? We buy things like steel, machinery, and conveyor belts. What does it take to manufacture those things –

well, it takes coal, iron ore, copper, electricity, and oil. Furthermore, after the mine is built it is pretty hard to get that stuff out of the ground without diesel fuel.

- Our government is pro-green which some say equates to anti-energy and anti-resource development – there is at least some truth to that statement and it is important to note that governments can and do change. Regardless of your political stripes, as outlined above, one should keep in mind that there can be no development of green projects without increasing the use of resources.
- The big jump in commodity prices is short term/transitionary - it will wane as we reopen. My thinking says yes, plausibly true, yet let's think through the supply side. There are no major oil projects being expanded, in fact the world's largest producers are choosing green energy projects motivated by ESG concerns. On the mining front, we get much the same - Ivan Glasenberg, chief executive of Glencore, one of the world's biggest miners said it rather succinctly while referring to copper, "we don't have many shovel-ready projects". Please note it usually takes 10 years from the discovery of a resource until you get a mine built and the industry hasn't put much effort into actually looking for the next resource yet.

Wrapping up this track, I feel the need to remind you that this phenomena will not play out in a straight line fashion – notwithstanding the ups and downs, and they will surely come, I believe we are in the early days of a multi year run for Canada because Canada is a resource based economy and higher prices ripple through the economy – employment expands, consumer businesses do well and you get into a self perpetuating cycle that certainly won't last forever, but they do tend to last far longer than you think they can. For prospective clients being introduced to us by way of this missive, if you feel like you are underinvested in Canada, maybe it is time for a chat - **Book Appointments**

We are off to Track #3.

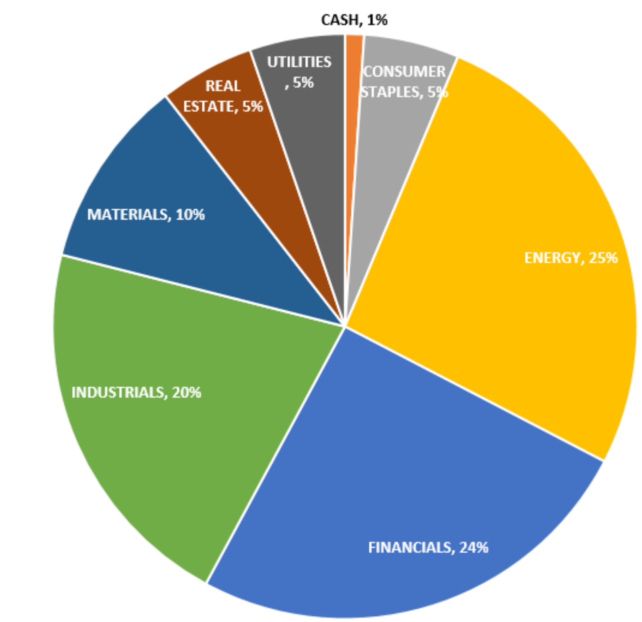
Track #3: Keep More Income – Float Your Canadian Boat

My intention with this track is to give you a flavour for **The Keep More Income (KMI) Strategy** and why it needs to be a consideration for the tax smart investor seeking income and growth. To do that I thought I would take the Guy Raz approach in his excellent podcasts, How I Built This.

Here it goes in lightening round, question/answer/solution format:

- What do most of my clients want?
  - Income, specifically income that grows
    - Focus on dividend payers/growers.
- What else are they super concerned about?
  - Taxes
    - Focus on those companies that qualify for the dividend tax credit – side note, most Canadians can receive up to $60,000 a year in dividends from Canadian companies that qualify for the dividend tax credit and if that was their sole source of income, they would pay no tax, none!
- What else matters over time?
  - Long term growth
    - Focus on common shares as opposed to preferred shares – yes we give up some income in the short term but with inflation on the rise and the Canadian preferred share pool shrinking, growth is going to be required to maintain and increase purchasing power.
- How do you protect the downside?
  - We remove underperforming companies from the program on a monthly basis
    - We have zero tolerance for dividend cuts – we sell.

- What is the current allocation, sector wise and how does that change?
  - The top three sectors are Energy 25%, Financials 24%, Industrials 20%



    - It changes based on our outlook for the various sectors and where investors are being rewarded

The other obvious question is what is the current dividend yield – answer, ~ 2.5% which is far less than the ~4.5% we get on our Tax Preferred Income Strategy (TAPS), but recall the growth factor over time and the fact that a 3 year GIC is ~ 1.5% and it will never grow and attract maximum tax. Mixed farming as one of my astute clients likes to say.

Household names within the portfolio include Canadian Tire, Suncor, Royal Bank, Intact Financial, Sun Life, and Canadian Pacific. Winding down this track, I trust that gives you a real flavour for the program – we are excited about its prospects. Our view is that we have in fact started Canada's next supercycle, fueled by the strength in commodity prices and strong commodity prices tends to float most Canadian boats, including our loonie. If you are looking to learn more, please reach out at chris.raper@raymondjames.ca

We are off to track #4.

Track #4: The Wrap Up – Our GAME Compass Points North & Across The Pond

First, the takeaways:

A reminder that the opinions expressed on this recording are mine. They may differ from those of Raymond James Ltd. Please recognize that some of what I told you is going to turn out to be wrong.

On **Track #2: The Markets – Canada's Next Supercycle Is Underway**, and I know that is difficult to believe given the fact that en masse, Canadian companies have underperformed for 12+ years versus their U.S. counterparts. Be that as it may, my ask is that you consider the long term historical norms and ask yourself when are Canadian companies likely to be cheapest, when everybody believes we are in an upper cycle or when few believe it. My take is that there are few believers yet the evidence is overwhelming we are underway.

On **Track #3: Keep More Income – Float Your Canadian Boat**, we gave you a flavour for how we built out the KMI strategy and I trust it helped you understand the broad process. The take away for me is modest but tax smart income, with growth over time and the resource/Canadian tailwinds at your back.

And finally to **Our GAME Compass Points North & Across The Pond**, regular listeners will probably recall that **GAME** is our acronym for **Global Active Macro ETF Strategy**, a program that is designed to push you where money is flowing to and push you out when it reverses. Just this week we were "pushed" into buying Canada for our Canadian version of the program and that is the first time since we initiated the program back in 2017. It seems to fit well with the overall theme of this recording. What I find fascinating is that the U.K. looks like it will be the next buy and at the investor psychology level, I see a lot of parallels – investors have suffered with U.K. investments for a long time, they have endured Brexit, then a lot of missteps with COVID, their currency melted away relative to the U.S. dollar just like ours did…and all those things are reversing at a time when investor expectations are pretty minimal. Suffice to say, it won't surprise me if our next push is to buy London.

That brings us to a close for this edition of **The Opportunity Update**. A reminder, if you are being introduced to us by way of this recording, then Tracks #5 and #6 are for you.

Thank you for taking the time to listen – I trust it has been insightful. If you have people in your life who you think might benefit from these missives, please forward them as you see fit. Alternatively, they can sign up through our website, where all that is required is a first name and email address.

This is Chris Raper, wishing you a COVID shackles free summer - good day and may God bless from Victoria B.C. on Friday, June 4th, 2021.

Track #5: Postscript I – Our Approach

While this recording has been focused on investments that is not where we start with new relationships. We start with your story, and we revisit it often. Knowing where you came from and what you want the future to look like – your do, have, and legacy ambitions – is the foundation for building a solid client/wealth advisory relationship. Our first order of business is to listen, seek clarity and then document your ambitions for the future – we call it, ***Your Story, Revisited***.

From there, we complete a 360º review of all relevant investment, tax/estate and insurance documents in an effort to identify gaps/risks to the future you envision. When we identify holes, we have a discussion about how we might fill those holes.

Then and only then do we get into a discussion on the investment allocation. We will address your liquidity, income and growth requirements/desires and introduce you to the tax smart investment strategies to meet those needs.

After we invest, it is a matter of manage and measure – we report regularly and when life throws you the inevitable curve ball or your priorities change, it is back to revisiting your story.

In summary, we learn about you, your family, your finances and what your ideal future looks like – the things you want to do, the things you want to have and the legacy you want to leave. We identify the structural risks and how we see mitigating them. We paint a go forward picture with a worst case analysis of the costs involved.

Generally speaking, we are looking to establish relationships with new clients that have north of $1 million in investable assets, but please understand that we are a lot more interested in where you are going than where you are. If you have a credible plan to get to that number say within a three to five year period, we are very interested in meeting with you.

So…if that process sounds engaging, I invite you to call and book some time. If you'd like further information, including access to our quarterly communication pieces, you can check us out on the web at www.chrisraper.com and send us an email from there.

Track #6: Postscript II – The Dividend Value Discipline™ Methodology

The first thing I want to share with you is that **The Dividend Value Discipline™** is our core mandate – essentially, all of our clients have a slice of their portfolio allocated to it. For your awareness, we currently have several strategies that we manage in house, in addition to a short list of 3rd party money managers. Structurally, most clients have three buckets of money with us – a safe money bucket, an income bucket and a growth bucket. **The Dividend Value Discipline**™ straddles the latter two and depending on your needs, we augment it with other strategies. The program continues to be a large slice of our client assets under management and in my case, it is by far the largest.

The process is discretionary, meaning we make all of the buy and sell decisions and report to you after the fact.

Our objectives for the program are:

1. Income every month – that can be paid out or reinvested;

2. An acquisition process where we buy only those securities which become attractive on a "go forward" basis;

3. Absolute returns of 8%+ over any investment cycle, which we would describe as peak to peak or trough to trough. If you are looking for a time frame in terms of years, think 5+ years, but please understand investment cycles have a wide range of timeframes.

The program operates with three key elements and I will walk you through them using the illustration of a three legged stool.

The First Leg is Dividends

With few exceptions, every security that we buy must provide some form of income. We do that because income makes portfolios inherently less volatile, i.e. less chance of loss. The analogy I like to use is that of an apartment block versus a piece of raw land – it is a lot easier to hold on to an apartment block in a tough real estate environment when you are getting a rent cheque every month. Income drives stability and absolute returns.

The Second Leg is Value

Our research function is in house. When we launched the program back in September of 2002, we were one of the first private client teams in the industry to have a dedicated analyst on staff and we add additional resources every year. We spend an inordinate amount of time studying the corporate culture of potential investee companies. If you are interested in what great corporate culture looks like, I encourage you to read ***Good to Great*** by Jim Collins – that is the yardstick we use to measure potential investments against. Another yardstick is the importance of wide economic moats – the things that make the company tough to compete with. We want to own companies that the end client can't live without – great examples might be Microsoft or Intuit, both long term holdings of ours. We believe that the focus on great corporate culture and wide economic moats gives us an edge, and while I can't prove it you I can certainly give you lots of anecdotal evidence to support that thesis.

The more recent development in our strategy has been tackling the growth problem. History buffs will note that when we started the program in 2002, we had 5-year GICs yielding roughly 5% and much better economic growth, whereas today we have 5-year GICs yielding of ~1.5% and much slower economic growth. In short, the 8% is tougher to come by.

Accordingly, we spent late 2015 and 2016 tackling the growth problem. We needed to find companies that were growing far faster than the economy. As you would expect, we started within the normal confines of "has to pay a rent cheque, score well on the corporate culture front and have some sort of strategic advantage (moat) that makes the company difficult to compete with". We then focused on those companies that have demonstrated their ability to grow their earnings/dividends at double-digit rates as a primary indicator of income growth and capital gain potential. As we searched, we found that most such companies fell into one of two themes. They tended to be disrupting the existing marketplace (think Wal-Mart 20 years ago or Amazon today) with a better way of doing things, and/or they tended to be aggregating their way to growth by buying smaller tuck-in acquisitions, much like Constellation Software Inc.

The Third Leg is Discipline

Here I refer to the buy/sell decisions.

On the buy side, I would sum it up as "do your homework, be ready, be patient". Over the years our absolute best buys have been when we have done our homework on the company, perhaps months before, and then some untoward event happens that gives you opportunity to buy in size. The Euro debt crisis in 2011 is a great example that enabled us to buy Nike at a terrific price because we were ready and we had conviction. More recently, I would put he world's #3 french fry maker, Lamb Weston, in that category.

Sell decisions are getting increasingly tougher because the quality of our companies just keeps going up and with their rent cheques (dividends) growing at double-digit rates, our history tells us more often than not that we are better off holding than chasing shiny baubles. That said, new competitors with disruptive technologies can wreak havoc on a company's growth prospects – back to the Amazon/Wal-Mart example. Transition periods of senior management teams can be risky, especially when there is no hire-from-within bias. Then there are times when the price of a stock just gets so far in front of its growth prospects that the only reasonable thing to do is sell. As Buffett likes to say, "You pay a high price for a rosy consensus". When things are universally rosy we try to be sellers, not buyers.

Perhaps the most important part of the buy/sell discipline is the way we operate the program for new entrants – we call it "The Buys Only Mandate". Unlike most of our competition, we only buy those securities which become attractively priced on a go-forward basis, meaning if you start today and your brother starts three months from now, your portfolios are going to be different in the short-term, and more closely aligned the longer you are in the program together. As rational as that might seem, most people do the exact opposite. Every time you buy a mutual fund, you buy a pro-rata share of an existing portfolio – by definition, you got the buys, the holds and the near sells. To us, that is not rational. Who buys 100+ companies in a single day? Were they all great value propositions? You should also be aware that most third party money management programs work exactly the same way – they buy the basket. The buys only mandate was designed to protect your hard earned money.

Other key points to the program:

We essentially have two equity buckets within the program:

1. Core companies – where we tend to hold 20-25 rent cheque growers that we fully intend to hold for a very long time
2. Tactical positions - where we primarily use exchange traded funds to tilt towards particular sectors where we see strong value propositions over the medium term.

To conclude this track, if income and growing your capital sounds attractive to you, and you think that there may be a fit between your objectives and those of **The Dividend Value Discipline™** with at least a portion of your investable assets, then I suggest a virtual or face to face meeting is in order. **Book Appointments**