Q3 2025 Newsletter

We hope that you have enjoyed an unusually sunny Summer in Vancouver and that you and your family are doing well. More importantly, we hope that you and your family have had time to relax, recharge, and make the most of the beautiful weather.

The environment surrounding the economy and markets has rarely been so foggy! After all, it was only six months ago that stocks were in full retreat in the days after "Liberation Day" and the announcements of U.S. tariffs and reciprocal tariffs. Since then, there has been a nonstop series of back-and-forth announcements that has left the average U.S. tariff rate at about 18%, up from about 2% at the start of the year. Our decision to raise some cash and reduce risk in portfolios starting last January looked prescient in the First Quarter. We certainly didn't think that markets would be hitting all-time highs by the end of the Third Quarter.

Looking for reasons why the economy, particularly in the U.S., has proven so resilient since April, we suggest the following:

- We think that the full impact of tariffs in the U.S. has yet to land, and that so far only a small share of price increases has been passed on to the consumer. This helps to explain why the U.S. economy has proven to be resilient in the face of such uncertainty to date but could portend future turbulence.
- The other reason we believe that growth has held up is due to a Tech spending boom on all things remotely related to Artificial Intelligence. However, even while business investment in equipment has been solid, firms remain highly reluctant to add payrolls. This emerging divergence between economic growth in the U.S., and declining jobs hints that U.S. productivity is increasing. Now if only Canada could follow suit to encourage increased equipment spending to bring our country out of its productivity slump! Hopefully this is not lost on the Carney government and we see the appropriate initiatives in the upcoming November 4th budget.

As of September 30th the S&P 500 in the U.S. has gained 14% year-to-date (up 10% when valued in CDN $), and is up 35% since the lows that it hit six months ago. The S&P/TSX in Canada is on an even bigger ride with our index up 23% since the start of the year, mainly

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due to the astounding increase in the price of gold. Excluding Gold and Materials, our Index is up about the same as the U.S. S&P 500. The double-digit returns at a time of such policy uncertainty, rapidly cooling job growth and somewhat sticky inflation, is impressive.

The glue that is now holding the market together appears to be the prospect of further rate cuts. However, many clients must wonder: "how can the TSX be so strong when the underlying Canadian economy is struggling?" The answer is that the markets are normally a pale reflection of the economy. Markets lead, they don't follow, and they are ahead of the economy by about 6 months both on the upside and the downside.

All of this implies that our economy is set to improve. Of course, a critical piece in that outlook is where Canada/U.S. trade relations are headed as well as our upcoming Federal Budget which is long overdue. Although the horizon for investments is never clear, we should know a lot more by the end of the year than we do today.

The anxiety that you, along with most clients are feeling has not been lost on us. That is why we began reducing equity holdings last January. Although this has somewhat reduced portfolio returns the past nine months, it has hopefully allowed you to sleep better at night. With all of the cross currents going on politically in the world in 2025, we thought that it was not the right time to "reach for the moon". We are holding Money Market funds and won't hesitate to use them if we experience a downturn and price correction.

As usual in the Newsletter we will outline 3rd Quarter and Year-to-Date returns in portfolios and outline the trades that were made in the Quarter. With AI helping to propel the markets (along with the prospect of interest rate cuts), we discuss the Bull and the Bear case of this fast-developing technology. Your Portfolio and Performance Report(s) are attached.

3rd Quarter Trades in MPA Accounts

In the Third Quarter we began to deploy some cash into the Canadian market. We bought Peyto, a natural gas exploration company that pays a dividend of close to 7%. We also bought a small portion of Gibson Energy, a transportation and storage company that also pays a dividend of close to 7%. We trimmed the holdings of Wheaton Precious Metals, a gold royalty company and used the money to buy a partial position in TMX Group, owner of the Canadian S&P/TSX stock index.

Finally we recognized that recently our TFSA accounts hadn't been keeping up with the larger accounts. When they started in 2009, the TFSA accounts far outpaced the regular accounts. This was due to a more specific and less diversified strategy in the accounts. We recently added several names to the TFSA's in order to add more diversification that reflects their growing size.

Average MPA Portfolio Returns[1]

In general, we have four types of Accounts: Non-Registered Growth and Non-Registered Balanced accounts, and Registered Growth and Registered Balanced accounts. We sample clients in all of these categories and relay the results.

Non-Registered Growth Accounts averaged an after-fee return year-to-date of +8.25%. The low reading was +7.37% and the high reading was +8.68%. This reflects a return of approximately +5.50% for the Third Quarter alone.

Non-Registered Balanced Accounts year-to-date have averaged +7.00% after fees, with a low reading of +6.39% and a high reading of +7.80%. (Differences in returns are normally explained by withdrawals or deposits during the period). The Third Quarter returns varied between +4.25% and +5.00%.

Registered Growth Accounts year-to-date have averaged between +8.07% and +8.95% after fees. For the Third Quarter alone these accounts returned between +5.36% and +5.89% for the clients sampled.

Registered Balanced Accounts year-to-date returned between +6.95% and +7.35% after fees. The 3rd Quarter returns all hovered around +4.00%.[2]

These results are summarized as follows:

Accounts over $250K:

	Q3 2025	Year-to-Date 2025
MPA Growth (Non-Registered)	+4.90% to +5.76%	+7.37% to +8.68%
MPA Growth (Registered)	+5.36% to +5.89%	+8.07% to +8.95%
MPA Balanced (Non-Registered)	+4.36% to +5.00%	+6.39% to +7.80%
MPA Balanced (Registered)	+3.96% to +4.16%	+6.95% to +7.35%

These returns lag the Indices for three reasons. Firstly, we weren't comfortable with the tariff rhetoric that was coming from the U.S. so we raised some cash in accounts earlier in the year. (That is to say that we were not 100% invested in Equities as the various Indices are. In fact, we are never 100% invested in Equities but we carried less Equities than usual). Secondly, Gold has risen dramatically to comprise 10% of the S&P/TSX, but year-to-date it has accounted for 40% of the TSX return. (We aren't holding 10% Gold in Portfolios). Lastly, the Magnificent Seven stocks continue to account for 40% of the S&P 500. (We have been cautioning for over two years that this is not sustainable and although we hold five of the seven stocks in portfolios, we have been reducing holdings as they continue to rise.)

[1] The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

[2] Differing results are affected by amounts of cash deposited or withdrawn from an account during the quarter.

The Bull and the Bear Case of AI

Artificial intelligence (AI) has emerged as the centerpiece of the U.S. economic growth story – a young but rapidly advancing technology with the potential to transform how the world hires, produces and consumes; much like the internet reshaped the world almost 30 years ago. The prospect of this historic paradigm shift, and the anxiety of being left behind, continues to channel investment capital into this advancing technology.

The Bull case highlights the ability of AI to drive productivity, create new profit pools, and reward companies with scale and infrastructure advantages. The Bear case tempers this enthusiasm with warnings about inflated valuations, uncertain profitability (as witnessed in the internet generation), regulatory headwinds and resource bottlenecks.

The uncertainty inherent in the 2025 stock market is perhaps best summed up by one analyst's comment, that in order to have replicated the performance of North American markets, one would had to be invested 50% in the Magnificent Seven stocks and 50% in Gold. Of course, those two assets are polar opposites, with one representing prosperity and one representing doom! Virtually no professional managers have beaten the index in 2025. For us, the most prudent approach lies between the bullish and bearish extremes. Exposure to the AI theme is impossible to ignore given its secular potential, but diversification in the Canadian market with its emphasis on dividends is also essential. Of course, rebalancing, periodic profit taking, and valuation discipline are critical. FOMO (fear of missing out) is not an investment strategy, nor is chasing past performance.

The Bullish Scenario depends on certain trends in politics and in the economy continuing to unfold. They include:

- The U.S. Federal Reserve (FED) executes 2-3 rate cuts in late 2025 / early 2026.
- Inflation continues down toward targets.
- AI offsets cost pressures in Energy and Commodities.
- Global Trade frictions ease or stabilize.
- No fresh shocks from Tariffs, Energy or Geopolitics.
- Earnings across sectors rebound outside of the Magnificent Seven.
- U.S. consumer demand holds up.

If all of this happens, we believe that year end Indices will be higher than today, implying new all-time highs. However, this is a long list and the bullish scenario is not guaranteed. What could trigger a Bearish Scenario? This could be due to one or several of the Bullish indications listed above not materializing:

- Inflation unexpectedly rises again.
- Geopolitical flare-ups.
- Fiscal policy uncertainty.
- Global supply chain disruptions.

These factors are harder to forecast and give us pause to hold some cash and to balance growth stocks in the U.S. with dividend stocks in Canada.

Not All Rate Cuts Are the Same

As expected, the Federal Reserve recently lowered its benchmark interest rate by 0.25%. Financial media quickly framed the move as a negative signal, suggesting the economy may be weakening. While this interpretation reflects conventional thinking, it's important to recognize that not all rate cuts are created equal. We need to take other factors into consideration.

Broadly, rate cuts can be categorized into two types: "reactive cuts" and "pre-emptive cuts." The former typically occurs when economic conditions deteriorate rapidly and credit markets tighten faster than anticipated. These cuts are often substantial in magnitude. For example, the FED slashed rates by 0.75% in January 2008 during the financial crisis under Chairman Greenspan, and by 0.5% in March 2020 at the onset of the COVID-19 pandemic under Chairman Powell. Pre-emptive cuts, on the other hand, are far less common. There were only five instances in the past 50 years. These occur when the economy remains fundamentally healthy, and the FED acts pre-emptively to cushion against potential risks. Because economic momentum is still intact, lower borrowing costs from such cuts tend to have a more pronounced positive impact on corporate investment and consumer spending. Historically, the S&P 500 has delivered positive returns two years after each of the past five pre-emptive cuts. While past performance doesn't guarantee future results, this pattern supports our view that the U.S. equity market still has room to run.

Stock Feature – MDA Space

We recently added two stocks to our clients' Tax-Free Savings Accounts: **TMX Group** and **MDA Space**. While TMX represents the Canadian Index and is generally a well-known name, **MDA Space** may be less familiar to some clients.

MDA operates across three key divisions:

- **Communication Satellites**: Serving civil, commercial, and defense sectors, MDA's satellite technology supports the growing demand for broadband, IoT (internet of things) connectivity, and other communication services.
- **Earth and Space Observation**: MDA provides timely satellite data and imagery to governments and corporations for environmental monitoring, disaster response, forest management, and resource industries such as oil and gas.
- **Space Exploration and Infrastructure**: MDA is best known for its work on the Canadarm, used in NASA's space shuttles and the International Space Station. Although the shuttle program has ended, MDA continues to develop robotic systems and support space station operations.

With Prime Minister Carney launching several initiatives to stimulate the Canadian economy, we believe MDA is well-positioned to benefit, particularly through its Earth and Space Observation division, which serves critical sectors like mining and energy. Also any Defence sharing agreement with the U.S. as it pertains to Canada's north is sure to benefit MDA.

How Often Should A Financial Plan Be Updated?

A financial plan is a cornerstone of our investment services, helping clients determine whether they are on track to retire comfortably. As a general guideline, if there haven't been any major life changes, a financial plan should be reviewed and updated approximately every two to three years. However, certain events may warrant a more immediate update. These include a significant change in income, a divorce, receiving an inheritance, or deciding to retire earlier than expected. In these cases, it is important to revise the plan to reflect the new circumstances and ensure it remains aligned with your goals.

Our financial planning approach is built on conservative assumptions to provide a realistic and prudent outlook. If you have any questions or believe your situation has changed, we encourage you to reach out for a conversation.

Summary

The third quarter turned out to be strong and it defied the seasonal weakness often seen in September. In fact, gains from September alone contributed nearly half of the year-to-date returns for our portfolios. This shows that commonly held market beliefs don't always hold true. Investment returns can be unpredictable and precise market timing is next to impossible. Nevertheless, we feel that the rapid advance since April is a bit "too far too fast". We are holding some cash and will look for opportunities to deploy them at the right time. Over the longer term, we remain positive with the outlook for lower interest rates and continued growth in corporate earnings.

As always, we appreciate your continued trust. We look forward to talking with you soon. In the meantime, don't hesitate to phone us with your concerns or comments.

Best regards,

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