
# January 2024 Newsletter

We would like to wish you and your family a healthy and prosperous 2024.

2023 was an eventful year with many political and economic factors impacting the markets globally. The ongoing wars, rising interest rates, and moderating inflation were three of the largest factors. While the global markets experienced above average volatility, many of the global stock markets performed well despite analysts' expectations.

In this newsletter, we provide a review of our investment process, results, and a brief outlook for global investments in 2024.

## Investment Process and Portfolio Review

Our investment process for the Global Multi-Asset Portfolios aims to capture most of the market's upside while seeking to avoid most of the market's downside volatility. The process utilizes a multi-asset approach which may include Canadian equities, U.S. equities, developed international equities, emerging international equities, currencies, commodities, gold, oil, infrastructure, Real Estate Investment Trusts (REITs), bonds, preferred shares, and cash. We actively measure the supply and demand for each asset class and allocate our investments to the strongest asset classes.

Each of the Multi Asset Portfolios has two positions – a "Core" position and a "Tactical" position. The core position always holds specific assets, while the tactical positions change based on the universal law of supply and demand.

During 2023 we made significant changes in both the core and tactical positions. These changes reduce the downside volatility of the portfolios, further diversify the portfolios into additional assets that were previously unavailable, and to deliver more consistent returns independent of the stock market – much like a pension plan.

## Core Position

The core position contains the fixed income component and investments in real estate, private equity, and alternative strategies.

## Fixed Income Component

Interest rates continued to rise for most of 2023. Rather than owning the bond index we purchased short-term corporate bonds, GICs and held high-interest savings accounts (HISAs) to generate interest income within the portfolios. We also added investments in alternative bond strategies. These income investments have extremely low volatility, liquidity, and attractive returns.

## Alternative Strategy Investments

In 2023 we added investments known as alternative strategies. Many of these investments are available to accredited investors only, and several were only made available through BMO Nesbitt Burns recently. Most of these investments have little or no correlation to the stock market, have proven track records, and have a history of consistent returns. Unlike stocks listed on the stock markets, our intention is to hold alternative investments over longer periods of time. They also have limited liquidity, often on a monthly or quarterly basis.

### i. Private Investments

Several real estate investments that invest across Canada were added including Skyline Industrial and Skyline Apartments. Both have dividends of 4% annually and have records of returns exceeding 10% annually. Forum REIT (Real Estate Investment Trust) has a dividend of 4% and a historical return of 8-10% annually. Avenue Living Mini Mall has an annual distribution of 6% and historical returns of 12-15% annually.

Private equity invests in private companies and private credit. Hamilton Lane is U.S. based and provides a fund that is exceptionally diverse globally with low volatility. This investment provides no annual dividend and targets a return of 8-10% annually.

### ii. Liquid Alternatives

Liquid Alternative investments are an alternative strategy with daily liquidity like most stocks or mutual funds. The Dynamic High Yield Plus Fund invests in U.S. stocks and has about half of the volatility of the U.S. stock market. The fund pays a monthly dividend and has an annual yield of 11%.

The Arrow East Coast Income Fund and Dynamic Credit Absolute Fund focus on a specific segment of the bond market – credit spread risk management. Both funds have no dividend, low expected volatility, and an annual return expectation of 7-8% annually.

## Tactical Position

The tactical position invests in assets during the short to intermediate term. This component owns large liquid stocks in Canada or the U.S., or Exchange Traded Funds (ETFs). ETFs are ultra-liquid and allow us to gain or reduce exposure quickly and efficiently to a variety of asset classes including commodities, currencies, bonds, stock indices or stock sectors, real estate, and cash. Whether for stocks or ETFs, we use several tools that measure changes in supply and demand which help us increase or decrease the exposure to various asset classes. This component can be 100% cash during times when the market is experiencing significant downside volatility. The tactical position helps reduce the volatility of the portfolio overall, better protects capital, and enhances returns.

You can view the portfolio asset mix **here** and portfolio results **here**.

## Outlook

At the outset of 2023, most investment analysts and forecasters predicted the stock markets would perform very poorly and they performed better than expected. A recent survey of large U.S. investment firms showed half expected higher prices, and the others looking for lower prices by year-end. The consensus estimate is almost unchanged by year-end. We have no idea where the markets are going, but historically the fourth year of the U.S. election cycle is favourable. Time will tell, but whatever happens, we are prepared.

If you have any questions regarding this summary or your investment portfolio, please contact us.

Sincerely,

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