Investing Wisely

A Newsletter from Mike Wise

May 2025

Sad news.

Carmen passed away unexpectedly last month, from complications from an undiagnosed heart attack that had occurred a week previously. She was fine on Sunday morning and enjoyed our lunch out, then in mid-afternoon she said she felt sick and BOOM, she fell to the floor. The paramedics and Foothills cardiac ICU were heroic in their efforts, but to no avail.

Our son David arrived from Ottawa in time to say goodbye, while daughter Liz phoned in from Los Angeles but was only able to arrive later that night. They've gone back to their respective families now, but it was a blessing to have them around. I'm hoping that my work responsibilities to you, and our new-to-us high energy border collie, will help me adjust to my new situation.

Carmen Lynn (Walden) Wise
(with Missy, March 2025)

We will be hosting a Celebration of Life in Carmen's honour on 14 August, at 1:30pm, at The Inn on Officers Garden.
Please keep the date in mind; David, Liz and I hope that you'll be able to attend.

We will be hosting a Celebration of Life in Carmen's honour on **14 August, at 1:30pm**, at **The Inn on Officers Garden**, in Currie Barracks here in Calgary. Carmen's great passion was her music, so it will be a music-filled event. It will be joyful, and maybe a bit flamboyant, in keeping with her personality. Please keep the date in mind; David, Liz and I hope that you'll be able to attend.

We had to put our old dog, Chester, to sleep just a couple of months earlier. It was tragic at the time, but has since faded into relative insignificance. Despite me feeding him and taking him for walks, he was Carmen's dog; I was just his servant. We will place Carmen and Chester together somewhere later in the year.

I didn't want to be without a dog, so asked Carmen for permission to go looking for another animal soon after Chester's passing, and she agreed. We went to Calgary Animal Services and looked at a male golden retriever, but it was just too big for us. The docent said they had another mature dog available, and brought in a 20kg female border collie. We fell in love instantly. Missy is 6 yrs old, very lively, and smarter than we are. Daily long walks are a necessity. I have her in Agility, and she is also taking sheep-herding lessons at a nearby ranch.

GICs (and Possible Alternatives)

Portfolio Strategies now offers Guaranteed Investment Certificates (GICs) from several suppliers

PORTFOLIO STRATEGIES 30 YEARS

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Table 1
Guaranteed Investment Certificates
Offered by Portfolio Strategies Corp.

Port Strat GIC Offerings non-redeemable	
Company	Posted 5-yr Rates*
Bank of Montreal	3.50%
Bridewater	N/A
Coast Capital	3.40%
Equitable	3.60%
General	N/A
Home Trust & Bank	3.66%
Home Equity	N/A
Manulife	3.30%
Wealth One	4.00%

rates as posted by Cannex on 7May2025. Rates offered by PSC do not necessarily match Cannex posted rates. N/A simply means that the company did not provide rates to Cannex.

Table 2
Low-Volatility Mutual Funds
Calendar Years 2015-2024
Source: Mutual Fund Company Data
Note: past performance is not necessarily indicative of future performance

Low-Vol Mutual Funds
Calendar Year Returns 2015-2024

Fund Name	Reward/Risk Rating*	Average Annual Return**	Std Deviation of Ann Returns***	Potential 1-Year Downside (95% Prob)****
Franklin US Monthly Income Fund A	1.39	6.80%	5.12%	-1.62%
Edgepoint Global Growth & Inc Portfolio A	1.12	7.00%	6.21%	-3.22%
Fidelity American High Yield Fund B	0.96	6.20%	6.34%	-4.23%
Dynamic Premium Yield Fund A	0.95	6.70%	7.04%	-4.88%
Manulife Fundamental Balanced Class	0.92	7.50%	8.18%	-5.96%
ATB Compass Balanced Portfolio A	0.92	7.00%	7.61%	-5.52%
Fidelity US Monthly Income Fund B	0.92	6.50%	7.11%	-5.20%
CI Money Market Fund Corp Class A	0.92	1.30%	1.45%	-1.09%
Mack B'Water Cdn Growth Bal Fund A	0.90	7.10%	7.89%	-5.88%
CIBC Renaissance Floating Rate Inc Fund	0.90	6.20%	6.92%	-5.18%

** Average Annual Return divided by Std Deviation of Annual Returns*
*** Arithmetic Average of 10-Year Calendar Year Returns, After Fees*
**** Standard Deviation of Calendar Year Returns*
***** Z-score of -1.645. 2012 returns were comparable or worse than those shown in table.*

on their nominee fee-for-service platform. They are best held within a registered account because of the tax advantages vs an open account. Table 1 shows the companies that we have on the Port Strat platform, and the 5-year GIC rate for those that are posted on the Cannex website.

RRIF clients need to be aware that the GIC rates shown in Table 1 are less than the required minimum redemption that you are required to withdraw each year. The “guarantee” is that you will deplete your capital!

I’m not a fan of GICs, primarily because they are non-redeemable, which means you are locked-in for the term. Your circumstances may change, and if you need to get out of a non-redeemable GIC you will pay a very heavy financial penalty. You also lose a possible opportunity cost if financial conditions change during the term of the GIC.

Now let’s look at alternatives.

Scotiabank is my favourite supplier of High Interest Savings Accounts. The current “advisor-only” rate that they offer to my clients is 2.70% in a fee-for-service account. This is a regular savings account, CDIC-insured, with daily liquidity and interest credited monthly. I tend to use this product as the source of monthly income for my RRIF clients, replenishing it each year from more volatile investments.

Another interesting alternative to non-redeemable GICs are the Desjardins Target Date Bond Funds. These funds invest in short-dated investment-grade corporate bonds and give a fixed yield if held to maturity. The maturities currently on offer are November 2025, November 2026, and November 2027. New issues will be out shortly, for maturities in 2028, 2029 and 2030. The wrinkle is that they can be bought and sold like a mutual fund at any time prior to maturity. This gives you the option of holding to maturity if interest rates fall, or sell to buy a higher-yielding security if interest rates rise. As of May 9, the yield to maturity of the 2025 issue is 2.92%, 3.00% for the 2026 issue, and 3.12% for the 2027 issue.

Once we seek higher returns that will grow our investment portfolio over time, we need to step out of the world of guarantees. Risk and reward are inseparable.

I’m fairly risk-averse, and I want my clients to sleep well at night, knowing that their hard-earned funds are well-cared-for. Markets go up and down, seemingly at random. My general principle has been to try to limit my clients’ downside risk in all but the very worst-case scenarios to -10% in a single year. That has been difficult over the past decade, because

Table 3 2025 Returns - Year to 30 April			
	31 Dec 2024 Price	30 Apr 2025 Price	YTD Change
Equities			
TSX (CAD)	24727.94	25031.51	1.23%
S&P500 (USD)	5881.63	5686.67	-3.32%
NASDAQ 100 (USD)	19310.79	17977.73	-6.90%
Commodities			
Oil (WTI; USD)	$71.87	$58.41	-18.73%
Gold (Comex; USD)	$2639.30	$3247.40	23.04%
Fixed Income			
DEX Universe Bond Index (CAD) - Total Return	1168.9	1178.10	0.79%
Govt of Canada 10-Yr Bond Interest Rate	3.225%	3.174%	-0.051%
5-yr GIC Rate (rate as of May 7)	3.10%	3.65%	0.55%
High Interest Savings Account (rate as of May 3))	3.20%	2.70%	-0.50%
Exchange Rates			
USD/CAD	$0.6951	$0.7239	$0.0288
EURO/CAD	$0.6712	$0.6407	-$0.0305

low interest rates have forced all of us into higher-risk investments in search of yield.

Nevertheless, I can and do offer my clients mutual funds that offer the promise of returns that are double those available from GICs, while keeping the downside risk in any single year to single-digit losses. Table 2 indicates 10 such funds. These cover a range from a short-term money market fund to a growth-oriented balanced fund. The key column for risk-conscious investors is the one on the right. This indicates the level of single-year downside that a client must be willing to accept as a trade-off for the higher expected returns over the course of a full decade. I'm using statistics to estimate the probability that any year will have a return better than that shown. In this case we're using a 95% probability; there's also the converse of a 5% probability of a return *worse* than that shown.

Where We Are

Table 3 shows how stocks, bonds and commodities are performing so far this year. Most of my clients have a balanced portfolio. My pension-style Canadian Neutral Balanced Benchmark is down -1.6% in the first 4 months of 2025. This is an after-fees benchmark with a weighting of 60% equities (2:1 CAD/US) and 40% fixed income.

The Bank of Canada has been very aggressive in lowering Canadian interest rates, and by extension the Prime Rate and GIC rates. The BoC dropped rates by another ½% so far this year. The Prime Rate now stands at 4.95%. The cut in interest rates, while welcomed by borrowers, has hurt savers and has also adversely impacted the looney. The Canadian dollar fell by almost 6c relative to the US greenback last year, but has recovered by almost 3c so far this year. A weak looney gets passed on to every one of us in the price of imported goods at the grocery store and elsewhere.

The European Union and the United Kingdom have also started on a rate-cutting cycle, but the US Federal Reserve is standing pat. The US prime rate is currently 7.50%.

US interest rates remain far higher than those in Canada. That gap is a large contributor to the weakness of the looney versus both the US dollar and the Euro.

I quote B2B Bank (part of Laurentian Bank) GIC rates in Table 3. Table 3 also shows that my favoured supplier of a High Interest Savings Account offers an "advisor-only" rate of 2.70% to my clients. This rate is for a standard bank savings account, CDIC-insured, with interest credited monthly. The supplier is one of the Canadian Big Banks.

Stock markets are having a tough time this year. Although the numbers shown in Table 3 do not show much movement, they hide much greater short-term volatility, as every pronouncement of President Trump has caused wild swings in market behaviour. In general, though, the Magnificent 7 tech stocks that have dominated the US stock market are falling out of favour with investors, in favour of less-exciting companies.

Rather amazingly, perennial laggard Toronto is one of the top-performing stock markets in the world! The S&P/TSX has out-performed the S&P500 by 5.3% over the past 12 months.

On the commodities side, oil is not doing well, and is bouncing around the $60/bbl mark, down -20% so far this year. Bad news for Alberta! Gold, however, is doing well, and is up another 23% so far in 2025.

McKinnon Flats

Where We're Heading

I wrote in my last letter that "it looks as if 2025 is shaping up to be a year dominated by political change, particularly in Canada and the United States." I might have under-estimated the chaos that President Trump could wreak, not only on the United States, but around the world!

I'll try to stick to economic & financial topics over the next sections, but inevitably geo-politics will sneak in there occasionally.

Canada

We've just had our federal election, and have returned a minority Liberal government for the 4th straight time. The Liberals have a new leader in Mark Carney, but all the old faces that sat around PM Trudeau's cabinet table remain in place.

Prime Minister Carney ran against President Trump. Opposition Leader Pierre Poilievre ran on a forward-looking platform of change and growth. The Liberals won. More Canadians, particularly older Canadians, apparently feared President Trump more than they wanted future prosperity.

> *"The new federal administration of Mark Carney is at once committed to Net Zero and obliged to revive the economy after a lost decade of sluggish productivity, weak investment and minimal real wage growth. It will be an interesting demonstration project to see how they try to do it, and what results. Especially as part of the Canadian national reaction to Donald Trump's annexation-and-tariff offensive was supposedly to realize we'd been fools to neglect our economy so blithely, thus rendering ourselves vulnerable, and we must and would do better. Allegedly this realization had taken hold from coast to coast and from bottom to top. But did Carney and his Liberal associates really take it to heart? And even if they did, did they also take it to brain? We're about to find out, and it may not be pretty."*
>
> John Robson, writing in *Climate Discussion Nexus*, 14May25

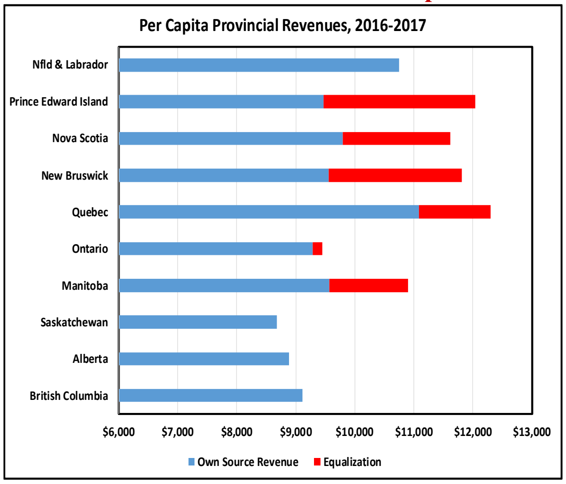
Mr. Carney is an economist by training, and has a strong resume. He's a smart man, but he is also a climate-change zealot. He was the behind-the-scenes advisor to Prime Minister Trudeau for the last 5 years of the previous Liberal government, and was in large part responsible for the recent disastrous economic policies of Canada.

I don't usually speak of a politician's spouse, but Mr. Carney's wife is an even more extreme climate change zealot than he is!

I wish Mr. Carney and the Liberals well. I'm encouraged that our new Prime Minister, in his first news conference, essentially laid out his policy vision as that of the Conservative Party! I wonder what Ms. Fox Carney thinks about that! The pillow-talk at night must be interesting.

More troubling, the re-election of the Liberals has stoked separation talk within Alberta. The argument for separation is primarily economic, and focused primarily on the energy sector. A significant number of Albertans fear

Chart 1
Per Capita Provincial Revenues, 2016-17
Source: Fairness Alberta & Wikipedia



that the anti-growth agenda of the previous Liberal administration will continue.

While there are several gripes, the equalization formula is one of the lightning rods. Equalization is supposed to even out revenues between provinces, so that all Canadians receive roughly the same level of services from their provincial government. Chart 1 has old data, but the general picture is the same: the provinces that receive equalization payments have higher per capita revenues than the 3 western provinces that do not receive equalization.

Mr. Poilievre has publicly stated that the Conservative Party has no plans to change the equalization formula. He's now running in a rural Alberta riding where this is a hot-button issue. I wonder how he is going to square the circle?

Since Alberta is the economic engine of Canada, the various concerns of Albertans need to be taken more seriously in Eastern Canada than they currently are. We could be drifting into a full-blown constitutional crisis. *(Ed note: I grew up in Eastern Ontario. I never travelled further west than Hamilton, nor further north than Algonquin Park, until I left for my summer jobs in university. Alberta was just somewhere "way out there", like Mongolia. That would still be case for the majority of folks in Southern Ontario.)*

Even if the Liberals should miraculously ditch their Net Zero agenda and adopt a pro-growth philosophy (and the two are not mutually exclusive), it will take

Mike and Carmen at the Opera, April 2025

a while for the result to show up in the stock market. The response might be more immediate in the CAD/USD exchange rate and in the bond market.

Not even the Bank of Canada can predict the short-term impact of the Trump Tariffs on the Canadian economy. The summary of the April *Monetary Policy Report* put it this way:

"Inflation was near the 2% target in the fourth quarter of 2024, and interest rate cuts had bolstered economic growth. But since then, the trade conflict has intensified. Trade uncertainty and tariffs are expected to slow growth and add to price pressures.

"The Canadian economy ended 2024 strong. However, the escalating trade conflict is diminishing growth prospects. … The unpredictability of US trade policy, and the speed and magnitude of the shifts, are making the economic outlook very uncertain.

"Given the unprecedented shift in the direction of US trade policy, there is considerable uncertainty about how tariffs could impact the economy. The degree to which prices will rise and economic activity will weaken is unclear."

On a broader front, Canada and the US will start discussions in the near future concerning the Canada-US-Mexico trade agreement, which was scheduled for renegotiation in 2026 in any case. This

Carmen and Mike at Forget-me-not Pond

would happen whether Liberals or Conservatives had won the election. These negotiations will be between civil servants, not politicians.

United States

What am I supposed to say about the United States? Donald Trump strides across the entire world, sowing chaos everywhere he goes.

According to Brian Lee Crowley, managing director of the MacDonald-Laurier Institute think tank, President Trump's 4 core guiding principles are:

- The USA is the world's greatest country. It has lost its edge recently, and it is his duty to restore its greatness. Hence the MAGA movement;
- China is the greatest threat to America's hegemony;
- He is genuinely concerned over the welfare of America's forgotten working class;
- Energy, and particularly oil and gas, is the key to American economic strength.

President Trump thinks of himself as a fantastic dealmaker. He sees life as a series of deals, and his preferred strategy appears to be to create chaos and confusion in the ranks of his opponent so that he comes out ahead. Misdirection is also a favourite tactic – think the 51st state gambit. It sure sucked in a large portion of the Canadian electorate!

He likes tariffs. He thinks that tariffs on imported goods could allow him to lower taxes on the working class. As a result, his administration imposed tariffs at a minimum of 10% on virtually every country in the world. Many are now scrambling around to see if they can get the tariffs removed. The US claims that something like 130 countries have applied for tariff relief through negotiation. Talks are ongoing between the US and China, and the US and United Kingdom. Canada is never mentioned in this context.

He also thinks that tariffs will induce companies that shifted production away from the US will return that production to the US, by building new factories primarily in the Rust Belt. It is a strategy that seems to be working. Some companies, at least, are making announcement headlines. But action will speak louder that press releases.

It is still way too early to see the effects of tariffs in the economic numbers, but let's see where we are today.

We'll start off with interest rates. See Chart 2. A positively-sloped yield curve (longer-dated bonds have a higher yield than short-term bonds) is considered good for the economy, while a negative slope to the yield curve is unfavourable. Interest rates for short-dated notes have gone down over the past year, while the interest rate for long-term bonds has gone up. Bond watchers look closely at the

Chart 2
Yield Curve for US Treasuries As of 16 May 2025
Source: Barron's

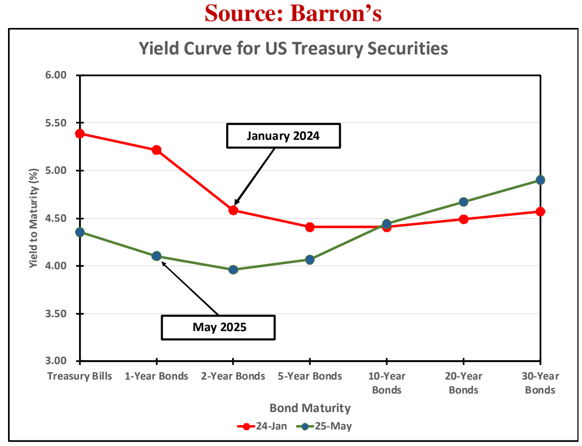
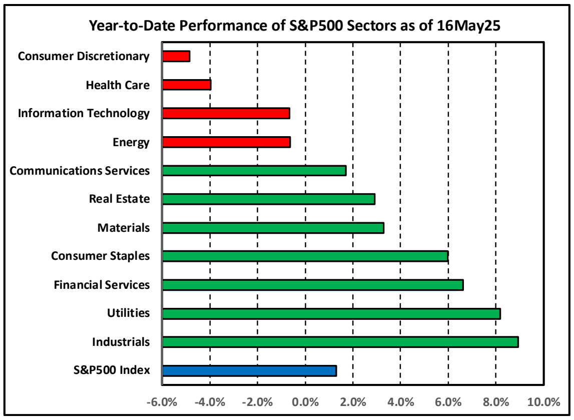


Chart 3
Year-to-Date Performance of S&P500 Sectors, as of 16 May 2025
Source: Standard & Poors



spread between the 2yr note and the 10yr bond. The so-called 2yr/10yr spread is positive. Others look at the spread between the 3-month treasury bill and the 10 year bond. This is essentially flat. The flinty-eyed bankers who rule the bond market continue to believe that the US has achieved the fabled soft landing, and there is smooth sailing ahead.

I think that the bond market would be happy if rates stayed unchanged for the rest of the year. Bond investors can get a risk-free coupon of close to 5% on long-dated US Treasuries, and better than 4% while sitting on cash held as short-term T-Bills. Investors in corporate debt can do better than this. Way back in the Middle Ages, my teachers taught us that corporate bonds can give investors equity-like returns, but at lower risk. I use that strategy in many of my client portfolios.

What about the stock market? The positive-sloped yield curve is signalling that we should have a decent-to-good economy, and President Trump's economic policies in his 1st term were pretty good for business, so shouldn't that be good for stocks?

Chart 3 shows the year-to-date performance of the 11 S&P500 Sectors, as of 16 May 2025. The blue line at the bottom of the chart shows the overall S&P500 Index. The stock market has rebounded strongly in May, after President Trump announced a preliminary deal with China, in which the punitive tariffs that each country imposed on the other were removed for 90 days while they negotiated terms of trade. Table 1 showed that the S&P500 was down -3.32% at the start of May; just 2 ½ weeks later it is up 1.30%. Quite the turnaround!

Chart 3 shows that the best-performing sectors of the S&P500 are Industrials and Utilities. The laggards are Consumer Discretionary and Health Care. Info Tech remains out of favour, and remains down slightly on the year.

It is anyone's guess where the US stock market might end up by the end of this year. President Trump is just too unpredictable, and Mr. Market is reacting to every tweet. When elephants are rampaging through the jungle, sometimes the best strategy is to seek shelter and do nothing.

Summing Up

I think that we'll be happy with single-digit returns from the stock market this year. This is more in keeping with long-term averages, but less than what we might have become used to over the past while.

I like the bond market, and a mix of short-term bonds and/or a high interest savings account, coupled with a high yield corporate bond fund, should give solid positive returns.

I remain a gold bug. I think an allocation of up to 5% in gold bullion is appropriate. Risk takers might prefer to put some of this allocation into crypto.

Chester

Missy