RAYMOND JAMES | CHRIS RAPER & ASSOCIATES

The Quarterly Opportunity Update

Recorded and produced on Friday, January 14th, 2022 – data and pricing references are as at December 31, 2021 unless otherwise stated.

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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 Quarterly Opportunity Update**, which was recorded for you on Friday, Jan. 15, 2022. For your awareness, this recording is accompanied with a transcript complete with charts which provide evidence to the issues I will be speaking on – I believe you will get a lot more out of audio by referencing the transcript.

You are listening to **Track # 1: The Skinny**, where I am going to give you the high points on what we are going to cover today.

- On **Track # 2: The Markets – Inflation, Bias The Upside** – I chose to focus the lead track on inflation because I see it as the biggest future threat to our collective wealth. I will speak to the evidence of its permanence and then we will move to sectors of the market that have historically done well during inflationary times … and just as importantly, what has not. Then our usual course of leading indicators and thoughts on the all important energy complex and what it means for the $CAD.
- On **Track # 3: The Dividend Value Discipline™ - Socially Responsible Investing Update,** otherwise know as ESG – we will cover off our pragmatic approach, why we sometimes disagree with the ratings agencies and finally highlight the progress of our investee companies.
- On **Track # 4: Key Takeaways & 2021 Performance Recap**, we will cover off the 2021 performance of our in-house investment mandates and give you the key takeaways of the recording and end with some comments on how to position ourselves for the year ahead.
- **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. In short, 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.

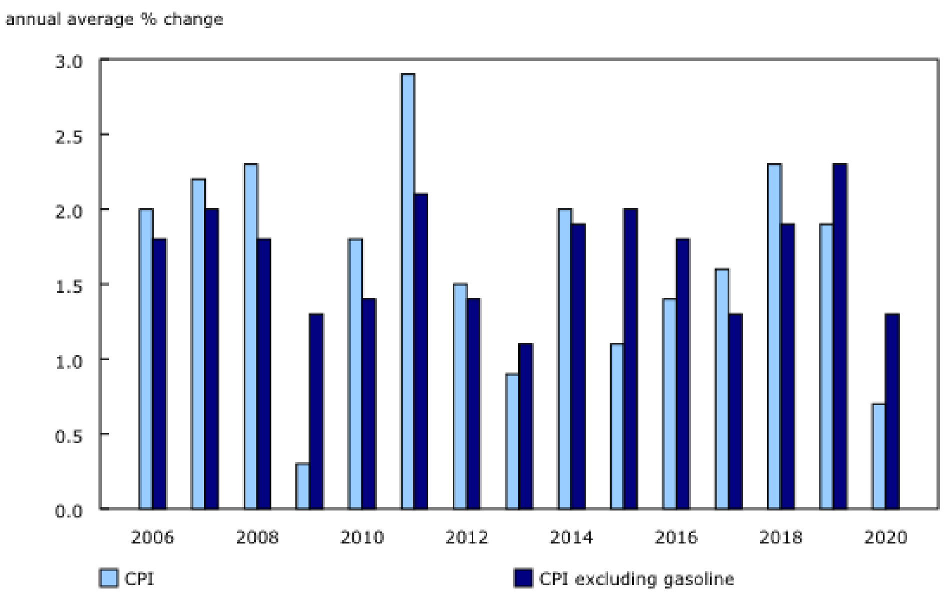
Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up. When I say I am bearish, it means I expect things to go down. Likewise, north means up and south means down. When I speak about rent cheques, I am speaking about income, primarily dividends. You may hear 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 – Inflation, Bias The Upside

I do not need to convince you that inflation has risen significantly from the roughly 2% that we experienced in most of the last decade. Fill up your vehicle or make a trip to the grocery store and you have all the evidence you need.

Canada's Consumer Price Index came in at a whopping 4.7% annualized to the end of November, 2021. When you compare that to a 3 year guaranteed investment certificate at say 2.5%, you can see that, "Houston, we have a problem."

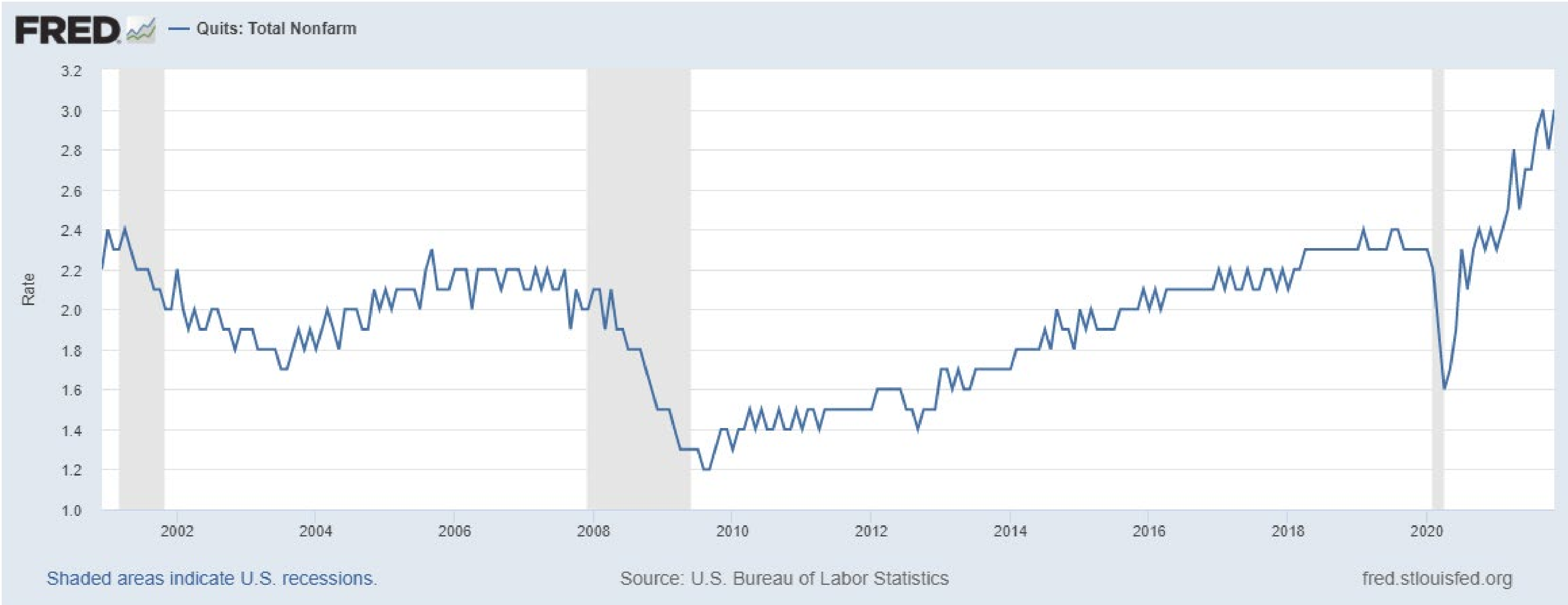


source: https://www150.statcan.gc.ca/n1/daily-quotidien/211215/dq211215a-eng.htm

The more recent number comes from the US – their December 2021 year over year inflation rate pegged in this week at an eye-popping 7% per annum, a 40 year high. To be clear I do expect that rate to moderate somewhat as we work out supply change logistics and inventory shortages, but my longer term bias is for persistent inflation. Here's why - for most of 2021 market pundits saw inflation as transitionary due to supply bottlenecks, incredible demand in a post pandemic world (which we still have not achieved) and rising commodity prices. The assumption was that as we get back to some semblance of normal, inflation would go back down.

We were and remain biased to the view that we are entering a period of inflationary permanence. Our view is that higher commodity prices are here to stay due to years of underinvestment coupled with the global push to go green. On the latter point, paradoxically, the move to solar power, wind turbines and electric vehicles translates to increased demand for things like lithium, cobalt, nickel, copper and all such materials have to be mined where fossil fuels is the dominant energy source. If you want to unpack this phenomena further you can check out Canada's Next Supercycle Is Now Underway in the June 4/21 of **The Opportunity Update** which is archived on our website.

The cost of materials is only one factor - not to be overlooked is the state of our labour market. The shortage of workers is new pandemic we have to deal with - okay, that might be a little over the top, but just a little. Our sleuth analyst Alex Vozian, has been a long time tracker of what is known as the labour quits rate and starting in the latter half of 2021 workers started quitting at rates we have never seen before. They may be quitting because they are leaving the workforce permanently (the older baby boomers have cashed out), they get a better offer elsewhere or they are starting their own gig. Anyway you shake it, that leaves those remaining in the workforce with the upper hands when it comes to wage negotiations and wage inflation is extremely persistent once the cycle turns. To wit, Goldman Sachs reported last week that their composition-adjusted wage tracker for Q4 2021 pegged in at a preliminary annualized 6.0% in quarter-on-quarter annualized versus 4.1% year-on-year. What that means is the curve is getting steeper – wage inflation is warping higher.


FRED
Quits: Total Nonfarm
Rate
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

Assuming inflation plays out the way we expect it to, how do protect ourselves or even profit from it?

Persistent inflation is a real negative for most of the bond market, especially for long dated maturities, whereas the floating rate and short duration securities tend do better, as central governments try to tame the tiger by raising rates and cooling demand.

As you would expect, commodities and commodity producers have historically done quite well during inflationary times and what is good for commodities is good for Canada, ergo, I expect our domestic market to outperform the US over the next decade. To wit, we own more Canadian stocks today than we did a year ago and I expect to own even more as we enter 2023.

I know some of you are interested in gold and gold producers – yes, on average they have tended to do well during inflationary times but it is a mixed bag. Keep in mind, that the historical data does not include the alternative cryptocurrencies. On that note, I have no intention of owning any cryptocurrency in the foreseeable future and that means it will not be any part of our discretionary mandates, because I own a slice of every one of them. That is not to say that Bitcoin can't go up – I just choose to stay away. The industry is not sufficiently mature for me to have any interest.

Other sectors that tend to deliver in inflationary times include consumer staples, utilities and healthcare, as they are the things that consumers are least likely to scrimp on. Please know that they have done so in a modest fashion.

On the flip side, technology companies tend to trade at a high price relative to their earnings because their earnings growth rates tend to be higher as well. Their performance has been underwhelming in inflationary times because inflation eats away at that future earnings stream. As we look to the months ahead, we are more interested in studying companies that are technology adopters and thus lowering unit costs - Dominoes Pizza, comes to mind.

Okay, that's a wrap on the inflation front – what I want to leave you with, is that we have a plan and we will adjust as the evidence is revealed.

Following our usual course, let's get updated on our leading economic indicators. Our vector for the world's manufacturing economies is the price of copper because copper goes into just about every manufactured good you can think of. Copper started the year at $4.45 per pound, up almost 9% from where it closed out the third quarter of 2021 and as of yesterday it close out at $4.55. Additionally, the Global X Copper Miners ETF (COPX) is breaking out and as we know, the market is a look ahead animal. Here is my read – the market is looking across the Omicron valley.

Next we move to the Philadelphia Semiconductor Index ($SOX) which is our vector for human ingenuity based economies – those areas of the world where most of the economic activity is based on creativity. That creativity is fueled by vast amounts of computer processing power and thus the trend in price of semiconductor stocks is a really great tell for the future rate of economic growth. Q4 – 2021 compared to Q3 – 2021 saw the $SOX up some 22%. The first two weeks of January has seen the $SOX sell off pretty steeply, but when I look at the chart, I am still seeing, a series of higher highs and higher lows – the uptrend continues.

Turning to the energy complex, the price of oil has remained robust, in spite of all the cancelled flights/trips due to the Omicron, which should beg the question, what is it going to look like when Omicron has moved through the entire global population. Higher is my answer, which is an obvious plus for Canada's resource based economy.

Eating my humble pie, on the October recording I told you I expected the $CAD to rally towards year end in light of the higher energy prices that we were seeing – that did not happen - my take is that Omnicom slowed it down – this week we have seen a sharp rally off the December lows and I expect that rally to continue.

With that we are off to Track #3.

Track #3: The Dividend Value Discipline™- Socially Responsible Investing Update

As most listeners would know, we have more $'s committed to **The Dividend Value Discipline™ (DVD)** than any other program – thus it seems appropriate that we address our socially responsible investing/environmental social governance thinking within the context of the program.

The first thing I want you to know that is that we take a very pragmatic approach to the socially responsible investing (SRI) and accordingly are unwilling to accept environmental social governance (ESG) ratings at carte blanche. Here's why – take a company like Cameco which produces uranium to fuel nuclear reactors – some of the ESG raters see the company as unfit for investment whereas others see it as above average. We side with the latter, because if we are going to get anywhere near close to net zero, we have to embrace a new generation of small scale modular nuclear reactors to produce our electricity. Solar and wind are not going to get us there and both of those solutions have their own environmental concerns. Similarly, our investment in Tourmaline Oil Corp. has an A rating according to MSCI whereas Sustainalitics has it rated very poorly. What I want you to consider is that Tourmaline is Canada's largest natural gas producer, that natural gas is replacing coal fired energy production, its emission intensity dwarfs any of Canada's senior energy producers and just for good measure, please know that Canada's environmental standards for the oil and gas sector are amongst the highest in the world. Our take is that they have done an exceptional job and we should be celebrating such companies.

The above said, if we were to accept the ESG ratings from MSCI and Sustainalitics at carte blanche, here is what you would find within The Dividend Value Discipline™:

1. That 23 of our 30 investee companies are rated above average by both agencies.
2. That the other 7 companies are rated on the upper side of average by one of the agencies.
3. That we have no companies in the below average quadrant.

As you would expect, we are a lot more concerned about the direction of an investee companies ESG results than where they start. If you think that through, it is analogous to being more concerned about the growth rate in a company's free cash flow versus where it has been historically. As you know, most pension funds and institutional investors now have ESG criteria so if you can identify a company that is improving its ESG performance, there is an increasingly likelihood that shows up on their potential buy lists. To that point, our investee companies, Tractor Supply, Steris, Accenture, KLA Corp, Constellation Software and Costco all got a bump in their ESG rating this year from MSCI and none of our companies have regressed.

I trust that gives you some insight into our ESG focus and progress thereof – we are off to track #4.

Track #4: Key Takeaways & 2021 Performance Recap

For those of you in audio only mode, our internally managed investment strategies for the year ended December 31, 2021 pegged in as follows:

+25.7%	The Dividend Value Discipline™ (balanced - ~ 75% equities/25% fixed income)
+33.3%	The Dividend Value Discipline™ (equities only)
+18.0%	The Global Active Macro ETF (GAME) Strategy
+25.9%	The Keep More Income (KMI) Strategy
+11.0%	The Tax Advantaged Preferred Share (TAPS) Strategy
+43.7%	The Next Cycle Resource Fund (NCRF)
+4.7%	The Fixed Income Cheap and Cheerful (FICC)

Please note those figures do not include the returns from the non-discretionary side of your accounts. For most of our clients, that is the ultraconservative side, i.e., the guaranteed investment certificates (GICs) and the high interest savings accounts (HISA) - a laughable moniker if there ever was one. Obviously, the latter will have the effect of reducing household returns and please be reminded they do serve an important purpose – they ensure that we don't have to sell securities in a down market to meet your cash flow requirements.

The above numbers are only applicable to those accounts we manage within the Raymond James Ltd. (Canada) platform. Our cross border clients who have accounts domiciled at Raymond James USA Ltd. will have different results, in large part due to currency swings. As you know, the timing of cash flows and our buys only approach for new money translates to considerable variability in actual client experience.

For you awareness the December 31, 2021 statements are now up on your client login site – if you are not using that site, please reach out to us so we can get you up and running. We will kill less trees, it has 24/7 access and is far more secure than email.

In terms of takeaways:

- Please be reminded that the opinions expressed are mine, they may differ from Raymond James Ltd and undoubtedly, some of them are going to be wrong. It is just a natural outcome of this business. When we are wrong, we fess up and move with the evidence.
- On track # 2 we covered off what we see as the biggest threat to our collective wealth – we expect persistent inflation in the years ahead due to high labour cost and rising commodity prices. We intend to protect ourselves and even profit from it by owning more resource producers and those companies that have a penchant for adopting technology to drive down unit costs. We expect to own more Canada and less of the US a year from now.
- On track # 3 we covered off our approach to SRI/ESG evaluation and why we believe the rate of positive change is far more important than the actual starting point. We have seen some significant improvement within the investee companies of The Dividend Value Discipline™.
- Last, I want to leave you with these thoughts – I have had a number of calls/emails suggesting that because we had such a good year in 2021 that 2022 has to be down year. The historical precedent does not support that supposition, although it does point to a more volatile year and certainly more modest gains. A down year is within the realm of possible outcomes. We just don't know. Our counsel remains focused on our investment behaviour – if we need to buffer our cash reserves, we take money off the table. What I am very confident that there will be some scary periods in 2022 and we will have a few clients who insist on selling and conversely a few clients who will send us money during that time. Please try and be one of the latter ☺.

That brings us to a close for this edition of The Quarterly 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. Alternatively, they can book some time at **Book Appointments**.

This is Chris Raper, wishing you all the best of the New Year - good day and may God bless from Victoria B.C. on Friday, January 14, 2022.

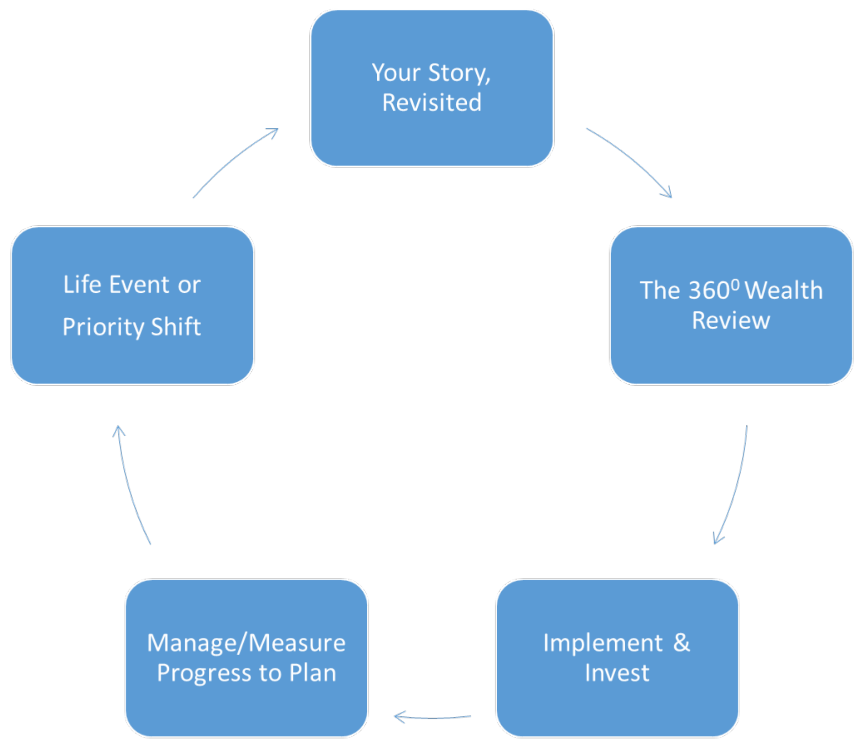
Track #5: Postscript I – Our Approach

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:

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

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

- 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.

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