R&R INVESTMENT PARTNERS

R&R REPORT

January 2023

Stock Market Forecasts

The calendar year end is that favorite time of year when investors do two things:

1. Make News Year's resolutions (As an interesting side note the scientific research suggests that New Year's resolutions made and acted on before the new year have more staying power than those made in the new year!)
2. Search for stock market forecasts

As this is not a self-help commentary, we would like to point out that very few investors look back at the stock market forecasts made at the beginning of the year just past. A Reuters poll on December 1, 2021 (just over a year ago) of 45 analysts showed that the median forecast for the S&P 500 (i.e. the US stock market) in 2022 would be a rise of 7.5%. Contrast that with reality, the S&P 500 finished down 19.4% in 2022.

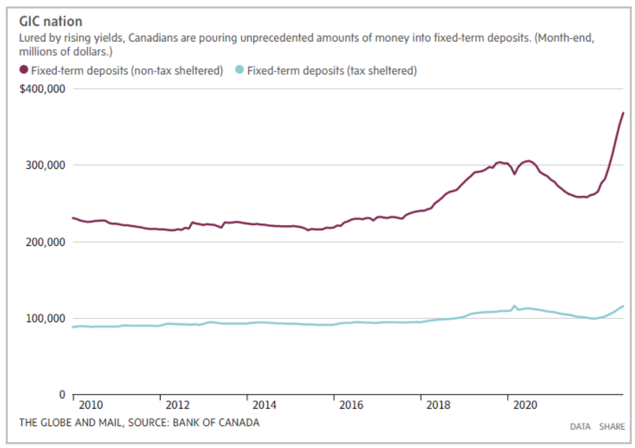
In the interest of not making forecasts, at the start of 2022 we proposed a couple of simple and timeless investment principles:

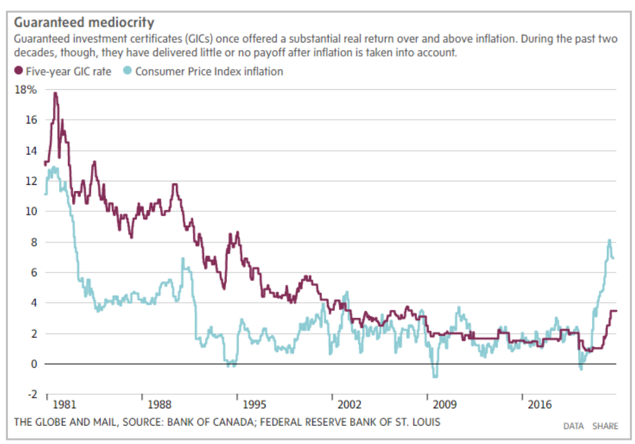
1. Like everyone else, we had no idea where interest rates were going, although we suspected that if history was any gauge the central banks would make a mistake and raise them too little, too much, or both by starting late and going too far.
2. With returns over the last five years being better than average for investors, we suggested that we should mute our expectations in 2022.

For 2023 we would make a couple of new observations:

1. Inflation, interest rate increases, and recession are the three things every investor is mentioning in conversations. This would suggest that a large portion of these three economic elements are factored into the prices we see.
2. It is a foregone conclusion to most investors that we are either in a recession or will soon be if we are not already. So the question is, how much of that was reflected in prices in 2022?

How should a sensible and goal driven investor behave in this environment; or even better, how are Canadian investors actually behaving? As we can see in the graph "GIC nation" investors are loading up on GICs. The red line shows that non RRSP purchases have gone through the roof. Meanwhile, the second graph, "Guaranteed mediocrity", shows the historical GIC rate in red and the inflation rate in blue. With the exception of the 1980s, when inflation was falling and GIC rates were wonderfully high, investors generally earn a GIC rate less than inflation, guaranteeing a loss of purchasing power. Also, this does not factor in for the reality that interest income is taxed at the highest possible tax rates in Canada, while dividends and capital gains are taxed at much lower rates.





Charts source: https://www.theglobeandmail.com/investing/markets/inside-the-market/article-what-they-wont-tell-you-about-gics/

In short, a 5% GIC nets an investor 2.6% after tax in Alberta, and even less in BC and Ontario, while a long-term 5% return in dividends and capital gains will net approximately 3.5%, or a 40% higher return after tax. To be clear, we think that these current GIC rates are entirely suitable for one- and two-year money that needs to be liquid. This is why we offer a complimentary market search and purchase for the families we work with to get the best GIC rates we can. We think GICs are a great option for funds that need to be kept liquid for the very short-term.

However, rather than succumb to fear and take long-term money for long-term goals that are 10 years or more away and put it in a GIC netting 2.6% after tax, we maintain that your long-term money is best treated in equities that have a historical long-term return well in excess of inflation and GICs. Today, investors are asking:

- Will there be a recession in 2023?
- Are we already in one?
- How high will interest rates go?
- When will interest rates start being cut?

The answer to these questions are embedded in this five-step wealth creation/preservation strategy:

1. Know thyself
2. Remember that investing is not a competition with your friends, but rather a long-term plan to accomplish realistic personal financial goals
3. Focus on that which you can control:
   - Keep your short-term spending in cash, or one- and/or two-year GICs
   - Keep your long-term money in equities and accept that the market fluctuates
   - Recent selloffs create higher future returns, so add capital if you are a long-term investor
   - Manage your spending at sustainable levels and if you are working invest for your long-term future, your future self will thank you
   - Remember, if you are retired or working, overspending creates pressure that is easily controlled by spending less. This is what we tell our kids
4. Tune out the noise and the producers of that noise who want to distract you, not educate you. More importantly, try your best to ignore short-term market movements. If we have a full-blown recession in 2023 it will affect you less if your two years' worth of expenses are sustainable and in cash, if your debts are manageable, and if your long-term investing plan simply carries on and takes advantage of any sales in stock prices
5. Finally, enjoy your family, friends, and the people you love. They will not be with you forever and that is what we should use money for in the first place

We wish you a happy, healthy and prosperous 2023.

Randy, Ian, and the whole R&R Team

These are the year-to-date returns to November month-end for the strategies that we manage on your behalf. When we have our official year end numbers for 2022, we will write a full commentary at January month-end and will broadcast a webinar on Thursday, February 2. Regardless, in short, we would say that all strategies performed in line with what we would have expected in this rising rate, inflation fueled market selloff, where overvalued companies sold off more than the durable businesses that generally populate your portfolios.

Annualized Returns (%)	**YTD**	**3 Years***	**5 Years***	**10 Years***
Canadian Focused Balanced Strategies				
Income	-3.17	5.42	5.16	6.46
Income & Growth	-0.22	5.98	5.61	7.54
Global Balanced Strategies				
Moderate Growth	-6.16	6.58	6.35	8.51
Dynamic Growth	-0.30	9.41	8.18	9.84
Canadian Equity Strategies				
Canadian Dividend Income	-1.73	6.40	5.31	8.30
North American Equity Strategies				
Dividend Growth	6.16	13.13	10.19	12.59
Active Growth	-10.23	5.39	3.59	9.56
U.S. Equity Strategy				
U.S. Dividend Income**	6.70	16.97	12.98	N/A

Source: AMA Program, gross of fees. *Returns are annualized for periods longer than one year. **Returns are in USD. As of November 30, 2022.

Randy Yozipovic and Ian Munro are Investment Advisors with CIBC Wood Gundy.

Yields/rates are as of January 3, 2023 and are subject to availability and change without notification. Minimum investment amounts may apply.

For GIC terms of one year or less, simple interest is paid at maturity. For GIC terms of greater than one year simple interest is paid annually or compound interest is calculated annually and paid at maturity. For more information about this product, please contact your Investment Advisor.