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MINIMIZING RRSP LOSSES

By Gordon Pape, Editor and Publisher

Ideally, your strategy should be never to lose money in your RRSP. But unless you want to keep it all in cash and GICs, there are risks that must be accepted. In a bad year like 2022, even the most conservative RRSP portfolios lost ground. Not only did stock markets tank but the bond market, which was a safe haven for decades, delivered its worst results since the early 1980s.

In times such as these, the goal is to minimize losses and put the portfolio in a position to recover quickly. I believe our RRSP portfolio did that. Over the one-year period from February 2022 to this month, the portfolio fell 5.1%. No one likes losing ground, but that was a decent performance in the circumstances.

Our RRSP Portfolio was launched in February 2012. It has two main objectives: to preserve capital and to earn a higher rate of return than you could get from a GIC. The original value was $25,031.92.

Continued on page 2...

IN THIS ISSUE

Minimizing RRSP losses	**1**
Buy now?	**6**
Your questions: Sells when he travels	**8**
Adam Mayers updates Microsoft, Scotts	**9**
Gordon Pape updates J.B. Hunt Transport, iShares Canadian Core Bond Index ETF	**11**

Next issue Feb. 20

RRSP—continued from page 1...

About 30% of the portfolio is in bonds, preferred shares, and cash. The balance is in growth-oriented assets that offer exposure to the Canadian, US, and international equity markets. The portfolio contains a mix of ETFs, stocks, and limited partnerships so readers who wish to replicate it must have a self-directed RRSP with a brokerage firm.

These are the securities currently in the portfolio with comments on how they have performed since the last review in August. Results are as of the afternoon of Feb. 9.

IWB RRSP PORTFOLIO SECURITIES

iShares 0-5 Years TIPS Bond Index ETF (TSX: XSTP). This ETF invests in short-term US Government inflation protected notes. They pay a low rate of return, but both the face value and the interest increase as inflation rises. This provides downside portfolio protection. The units are up $0.33 since the last review in August. We received distributions that totaled $0.956 per unit. Note that while distributions are monthly, they vary considerably and some months the payout is zero.

iShares Canadian Universe Bond Index ETF (TSX: XBB). This ETF tracks the performance of the total Canadian bond universe including government and corporate issues. Bonds are finally starting to rally after being crushed last year by rising interest rates. The units are down $0.60 since the last review but they have recovered from their 52-week low of $26.21. We received distributions of $0.311 per unit.

iShares Convertible Bond Index ETF (TSX: CVD). This fund invests in bonds that can be converted into common stocks under certain conditions. It offers a play on the stock market while providing cash flow. The units lost $0.13 in the latest period. That was more than offset by distributions of $0.425 per unit.

iShares S&P/TSX Canadian Preferred Share Index ETF (TSX: CPD). This ETF invests in a portfolio of preferred shares, mostly rate reset issues. These should tend to rise as interest rates move higher, but we didn't see that in 2022 as the units dropped 18.4%. They've recovered some ground this year with an advance of 8.1% as of Feb. 8. Distributions totaled $0.306 per unit.

Continued on page 3…

RRSP—continued from page 2...

BMO S&P/TSX Banks Equal Weight Index ETF (TSX: ZEB). This ETF invests in shares of the Big Six Canadian banks. Banking stocks normally fare well in a rising interest rate environment, but recession fears weighed heavily on prices last year. The good news is we're starting to see a recovery. The units are up $1.27 since the last review. Monthly distributions totaled $0.74.

iShares Edge MSCI Minimum Volatility USA Index ETF (CAD-Hedged) (TSX: XMS). XMS invests in low-beta US stocks such as T-Mobile, Cisco Systems, Johnson & Johnson, and PepsiCo. Low beta means they are less sensitive to broad market movements and, in theory, less risky. The fund posted a loss of $1.23 in the latest six months. Quarterly distributions totaled $0.196 per unit.

BMO Low Volatility Canadian Equity ETF (TSX: ZLB). This ETF invests in a portfolio of large-cap Canadian stocks that have a low beta history. It's up $0.88 since the last review, and well ahead since it was added to the portfolio. We received two quarterly distributions for a total of $0.53.

BMO Low Volatility International Equity Hedged to Canadian Dollar ETF (TSX: ZLD). This ETF focuses on international stocks and is hedged to Canadian dollars, so the currency risk is removed. It lost a modest $0.04 in the latest period. Distributions totaled $0.32 per unit.

Brookfield Renewable Energy Partners LP (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership owns a range of renewable power installations (mainly hydroelectric but also some wind and solar). Green energy stocks have gone through a prolonged slump and these units lost a gut-wrenching $14.57 in the latest period. We received two distributions for a total of US$0.64.

RRSP—continued from page 3...

Here is how the RRSP Portfolio stood as of Feb. 9. Commissions have not been factored in. Canadian and US currencies are treated at par but only come into play in the distributions from the two Brookfield funds.

IWB RRSP Portfolio (a/o Feb. 9/23)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/ Loss %
XSTP	8.8	130	$40.00	$5,200.00	$39.73	$5,164.90	$281.58	+4.7
XBB	10.0	210	$32.82	$6,892.21	$27.80	$5,838.00	$269.89	-11.4
CVD	3.2	110	$18.20	$2,002.50	$17.25	$1,897.50	$159.53	+2.7
CPD	5.6	280	$13.86	$3,880.80	$11.67	$3,267.60	$167.44	-11.5
ZEB	10.7	170	$42.46	$7,218.20	$36.98	$6,286.60	$248.20	-9.5
XMS	7.8	150	$28.19	$4,228.50	$30.64	$4,596.00	$297.90	+15.7
ZLB	11.2	160	$31.97	$5,114.80	$40.91	$6,545.60	$101.68	+30.0
ZLD	4.2	100	$24.04	$2,404.00	$24.53	$2,453.00	$240.00	+12.0
BEP.UN	10.1	160	$21.08	$3,373.56	$36.98	$5,916.80	$307.26	+84.5
BIP.UN	14.8	190	$19.18	$3,643.48	$45.59	$8.662.10	$191.39	+143.0
FTS	6.4	70	$57.67	$4,050.90	$53.62	$3,753.40	$224.70	-2.0
BCE	6.2	60	$65.07	$3,904.20	$60.65	$3,639.00	$525.72	+6.7
Cash	1.0			$535.78		$578.14		
Totals	100.0			$52,448.93		$58,598.64	$3,015.29	+17.5
Inception				$25,031.92				+146.1

Comments: Everything was down last year. Our RRSP Portfolio didn't escape. We managed a small gain in the first part of the year but lost 5.3% in the latest six-month period. For the 12 months, we were down 5.1%.

The biggest losers were the two Brookfield limited partnerships, and that hurt even more because they are our two largest holdings. We will address that in a moment.

Over the eleven years since the portfolio was launched, we have a total return of 146.1%. That's an average annual growth rate of 8.53%. That's down over the past year but still well above target. There are no 8% GICs around.

Changes: We will sell our positions in BEP.UN and BIP.UN for a total (including retained earnings) of $15,077.55.

We will use $9,886 to buy 200 shares of Brookfield Corporation (TSX, NYSE: BN) at $49.43. This move allows us to retain some exposure to the company's infrastructure and energy assets (Brookfield is a major shareholder in the two partnerships) while allowing us to participate in other aspects of the business such as real estate, asset

Continued on page 5…

RRSP—continued from page 4...

management, and insurance. In short, we are trading for more diversity and stability.

We will also buy 100 shares of Enbridge at $52.90 for a total expense of $5,290. This provides some exposure to the booming energy industry as well as giving us a nice yield of 6.7%. We're short $98.45, which we'll take from cash.

We will use retained earnings to add to these positions:

XBB – We will purchase another 10 units for a cost of $278. That will give us 220 units and reduce the cash balance to zero. We are short $8.11, which we will take from cash.

ZLD – We'll buy another 10 units for $24.53, for a cost of $245.30. We now have 110 units with no retained earnings. We'll take $5.30 from cash to make up the difference.

The new cash balance (including retained income) is $2,473.03. We will keep it at Duca Credit Union, which is offering 4.25% now. That increases to 4.75% after April 30.

Here is the revised portfolio. I'll review it again in August.

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IWB RRSP Portfolio (revised Feb. 9/23)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
XSTP	8.7	130	$40.00	$5,200.00	$39.73	$5,164.90	$281.58
XBB	10.3	220	$32.82	$7,170.21	$27.80	$6,116.00	$0
CVD	3.2	110	$18.20	$2,002.50	$17.25	$1,897.50	$159.53
CPD	5.5	280	$13.86	$3,880.80	$11.67	$3,267.60	$167.44
ZEB	10.5	170	$42.46	$7,218.20	$36.98	$6,286.60	$248.20
XMS	7.7	150	$28.19	$4,228.50	$30.64	$4,596.00	$297.90
ZLB	11.0	160	$31.97	$5,114.80	$40.91	$6,545.60	$101.68
ZLD	4.5	110	$24.08	$2,649.30	$24.53	$2,698.30	$0
BN	16.6	200	$49.53	$9,886.00	$49.53	$9,886.00	$0
ENB	8.9	100	$52.90	$5,290.00	$52.90	$5,290.00	$0
FTS	6.3	70	$57.67	$4,050.90	$53.62	$3,753.40	$224.70
BCE	6.1	60	$65.07	$3,904.20	$60.65	$3,639.00	$525.72
Cash	0.7			$466.28		$466.28	
Totals	100.0			$61,061.59		$59,607.18	$2,006.75
Inception				$25,031.92			

BUY NOW?

By Adam Mayers, Contributing Editor

Is it a good time to buy stocks?

That's always the question, but for many it is top of mind after a particularly poor year in 2022. As I dug through my pile of reading this month, there are strong arguments on both sides and as an investor you have to choose one. I'm tilting towards selective buying if you have patience, knowing there is plenty of volatility ahead particularly in the first half of the year.

Investor sentiment shifted just before Christmas which led to a relief rally that has carried into February. Many see it as the first green shoots of spring, sensing that inflation is easing and interest rate increases have peaked and will gradually decline. It helped that the Bank of Canada has indicated it is pausing its hikes, supporting the rate cut view.

The lighter mood has carried the TSX Composite Index up by 7.35% since Dec. 20.

It's a different situation in the US, where the Federal Reserve Board raised its target rate by another quarter point this month and indicated there is more to come. The Fed acknowledges inflation is moderating, but wants it to come down farther, faster. The latest US jobs report showed strong growth lending more weight to further hikes.

Despite the Fed's more hawkish posture, the Nasdaq Composite is up 11% since Dec. 20 and the S&P 500 Index has gained 7%.

That still leaves room for selective buying. You can never call a top or a bottom, but you will win in the long run if you own companies that fill a need (as opposed to a want) and provide essential goods and services. They include household goods like soap and cleaners, groceries, healthcare and medicines, banking and insurance, utilities, infrastructure, and real estate. They are recession-resistant while offering opportunities for long-term growth while you wait.

In a recent interview with MarketWatch, Toronto economist David Rosenberg summed up these companies as having "strong balance sheets, earnings visibility, solid dividend yields and dividend payout ratios. If you follow that you'll do just fine," he said.

You find these companies in the Canadian and US primary core holdings of the IWB recommended list. If you own them and think they have sold off, now may be a good time to add to your positions.

Here is some commentary from my mailbag on the good-time-to-buy theme:

Continued on page 7…

Buy now?—continued from page 6...

Certainty comes after the fact: Whether a stock is too expensive, or a bargain is something you find out in hindsight, writes Tom Bradley, founder of Steadyhand Investments. If you wait for that certainty, you'll probably miss out on a lot of potential gain because prices will already be significantly higher.

Take a long-term view: News of the day often lacks perspective and reacts to events without the benefit of a sober second thought. Author and journalist Peter C. Newman used to call the news, the first rough draft of history. Taking a hard look at a company and its prospects lessens anxiety over whether today's price is the right one. You are always taking a risk when you buy, but hopefully an informed, calculated one.

Price is important: As share prices have fallen, price-to-earnings (p/e) multiples have come down too. They are now closer to the historical average of 16x earnings from the mid-20s a year ago. That doesn't mean all stocks are bargains or that multiples could not fall further, but it's a useful benchmark. Whether the price is right depends on your assumptions about profits, interest rates, inflation, and how deep or mild a recession will be. Economist and financial commentator John Mauldin observed in a recent newsletter that all of these things are inherently uncertain and carry a risk, which is why stocks have profit potential.

Investor sentiment is changing: In early 2022 there was a shift to fear from the irrational exuberance brought on by interest rates near zero. The December rally indicates the fear factor has eased. Investor behaviour is a big part of stock movement. Brian Belski, Chief Investment Strategist at BMO Capital Markets acknowledged the sentiment shift in a research note. He argues stocks are in the early stages of a multi-year recovery. He sees a mild recession and opportunity in small and mid-cap US stocks.

The R word: The much-anticipated recession has likely started. Layoffs are mounting in the tech sector, profits are weakening, and outlooks revised. Soft landings don't happen very often. Mr. Rosenberg believes the bear market for stocks is only half done. Mr. Mauldin likewise expects a painful first half. "I don't expect anything like 2008 but the odds of getting through this painlessly are quite low," he said.

So, plenty of opinion and no certainty. I was browsing through my bookshelf and revisited a book written 60-odd years ago by Bernard Baruch, a great investing mind and a multimillionaire adviser to five US presidents. He died in 1965 when he was 94.

One of his oft-quoted lines is: "If all you have is a hammer, everything looks like a nail," a metaphor for we see what we want to see.

His 1957 memoir, *My Own Story*, is full of insights which still resonate. (The book

Continued on page 8…

Buy now?—continued from page 7...

is sold on Amazon.com or can be read free online at the Open Library.)

Here are a few of his observations:

When should you buy stocks? Some people boast about selling at the top and buying at the bottom. I don't believe this can be done. I have bought when things seemed low enough and sold when they seemed high enough.

On market psychology: During a Depression, people believe a better time will never come. At such times a basic confidence pays off if one purchases securities and holds them until prosperity returns.

On information overload: If anything, too much information is available today (1957). The problem has become how to separate the irrelevant from essential facts and determine what those facts mean.

Sound advice in a challenging time.

Adam Mayers is a contributor to The Globe & Mail's Report on Business and a former investing columnist at The Toronto Star. His website is adammayers.com. He lives in the greater Toronto area.

YOUR QUESTIONS Sells when he travels

Q - I have RRSPs and TFSAs in my self-directed portfolios. As I start to enjoy retirement, I sometimes like to go off grid. Rather than take the chance of some disaster happening and losing principal while I'm away I prefer to simply sell off and hold cash, then buy back in when I get home. I sleep better that way. Interest rates have been so low the past few years it didn't bother me to just leave it sit, but now things have changed. Where do you suggest that I put my cash while I'm away? I typically go for 2 - 8 weeks at a time. Thanks for your help and thanks for the newsletter. - Dennis P.

A - This is certainly an unusual strategy – in fact, I've never heard of anyone using it before. You may sleep better at night but all this trading in and out is costing you commissions. Even if you deal with a discount broker, those expenses add up over time. Then you must consider how much you are losing if the market rises while you're on the sidelines.

I have four suggestions for you. The first is to restructure your portfolio so that you can go away for a few weeks and not worry about it. A combination of conservative, dividend paying stocks and some fixed income securities would achieve that goal.

Continued on page 12...

ADAM MAYERS' UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

If 2022 was the year share prices came back to earth, two industry leaders in different businesses landed with a thud. During the pandemic Microsoft Corp. and lawn-and-garden leader Scotts Miracle-Gro benefited from the once-in-a-lifetime conditions which supercharged demand for their products.

Both floundered in 2022, though their prospects remain good.

Here are updates on both:

Microsoft NDQ: MSFT

BUY

Originally recommended on Apr. 9/18 (#21815) at $90.77. Closed Friday at $263.10. (All figures in US dollars.)

Background: Microsoft is the world's largest software company. Its Windows operating system runs in about 90% of the world's personal computers. Microsoft also owns LinkedIn and markets the Xbox gaming system.

Performance: The shares are up almost 10% year-to-date and are 190% higher than their 2018 recommended price.

Developments & discussion: Microsoft had a tough 2022 amid the general tech retreat and worries about its $68.7 billion takeover of Activision Blizzard. The deal is facing close scrutiny by regulators. As a result, Microsoft's stock fell 28.5% last year, though its financial performance has held up. In its latest quarter, reported Jan. 23, Azure cloud revenue grew by 31% and overall revenue rose 2% to $52.7 billion, beating estimates. Net income of $16.4 billion fell 12%.

Azure has a 30% share of the cloud computing market, up from 20% in 2018, according to estimates from Bank of America Global Research. It has steadily grabbed share from Amazon Web Services, the market leader, whose share has fallen to 55% from 71% during the same period.

Regulators continue to examine the Activision Blizzard deal. The UK Competition and Markets Authority is expected to signal imminently whether it aims to block the deal or clear it with specific remedies such as selloffs. That could influence the US Federal Trade Commission, which is suing to block the transaction arguing that it is anti-competitive. Gaming is almost 11% of Microsoft's revenue and would grow considerably with the acquisition. Meanwhile, Microsoft's shares have reacted positively to a $10 billion investment in OpenAI, a company that

Continued on page 10...

Scotts Miracle-Gro Company NYSE: SMG

BUY

Originally recommended on Aug. 10/20 (#22029) at $158.47. Closed Friday at $76.70. (All figures in US dollars.)

Background: Scotts is one of the world's largest marketers of lawn and garden care products including Miracle-Gro, a best-selling water-soluble plant food. Its Hawthorne Gardening Co. subsidiary provides fertilizers and hydroponic growing systems to the cannabis industry.

Performance: Scotts shares doubled during the first pandemic year, peaking at $250 in March 2021. From there it was a painful slide before finally settling at $42 in September 2022. This year, the shares have jumped 64% to their current price.

Recent developments: Scotts was a pandemic winner as lockdowns meant more time in the backyard. Its leading position and tie in with retailers such as Canadian Tire and Home Depot provided a huge tailwind. At the same time, it expanded its cannabis industry investment, betting a US federal law decriminalizing cannabis was on the way. That law has yet to be passed and reopening the economy has meant less time in the garden.

Scotts retrenched in 2022 and it has paid off, CEO Jim Hagedorn said in a conference call on Feb. 2. Scotts turned a first quarter profit for just the second time in its history, led by record shipments of mulches, seeds, and fertilizers. It generally ships for the spring season in the quarter but realizes little revenue. Sales beat the plan, gross margin improved by almost 300 basis points, and there is evidence that while the lawn and garden business is mature, the bulk of the new pandemic gardeners have been retained.

Scotts is continuing to invest in cannabis research at its Kelowna, BC facility, running trials on lighting, nutrients, genetics, and other technologies to improve yields, quality, and energy efficiency. It expects consolidation and opportunities for high-value, no-cash partnerships to further strengthen its Hawthorne subsidiary. "There is light ahead. We are moving in the right direction. We have more work to do," Mr. Hagedorn said.

Dividend: Scotts $0.66 quarterly dividend yields 3.5% at current prices.

Action now: Buy.

Microsoft—continued from page 9...

makes ChatGPT. ChatGPT is an artificial intelligence (AI) technology that could power a new search engine able to disrupt the dominance of Google. GPT was integrated with Microsoft's search engine Bing in 2019 and is used by its Azure cloud services. It unveiled an enhanced version of Bing last week, which can answer complex questions.

Dividend: Microsoft raised its dividend with the September 2022 payment. The $0.68 per share quarterly payment yields 1.1% at current prices.

Action now: Buy.

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

J.B. Hunt Transport NDQ: JBHT

HOLD

Originally recommended by Gordon Pape on April 6/20 (#22014) at $89.76. Closed Friday at $190.60. (All currency figures in US dollars.)

Background: This company is in the freight transportation business, providing truckload, intermodal, and contract carriage facilities to customers across a diverse set of industries in the US, Canada, and Mexico. It specializes in handling imports through its "shore to door" service. Major customers include the Burlington Northern and Norfolk Southern railways.

Performance: After a sharp drop in September, the stock has been moving steadily higher. We are up 112% from the original recommended price.

Recent developments: The company released fourth quarter and year-end results. Fourth quarter results were weak compared to the year before, but full-year results showed strong gains.

Revenue for the quarter was $3.65 billion, up 4% from the same period last year. But for all of 2022, Hunt's revenues were $14.81 billion, an advance of 22% over the prior year.

Fourth quarter operating income was $281.9 million, down 13% from the prior year. Earnings per share were $1.92, also down from $2.28 in the same quarter of 2021.

But here again, the full year picture was quite different. Operating income was $1.33 billion, up 27% from 2021. Full year earnings per share were $9.21 vs. $7.14 in the prior year, up 29%.

Obviously, fourth quarter results reflected a slowdown in the economy that hurt the company's revenues and bottom line. The company noted a fourth quarter volume decline of 27% in its Integrated Capacity Services operations and a 1% drop in intermodal.

Dividend: The company announced a 5% increase in its quarterly dividend to $0.42 ($1.68 a year). The dividend is payable on Feb. 23 to stockholders of record on Feb. 10. The yield at the new rate is 0.9%.

Outlook: The weakness in the fourth quarter will probably carry over to the first half of this year. This is a sound company but the stock may stagnate at around the current level for a time.

Action now: Hold.

iShares Canadian Core Bond Index ETF TSX: XBB

BUY

Originally recommended on March 5/07 (#2709) at $29.44. Closed Friday at $27.59.

Background: This ETF is designed to replicate the returns of the total Canadian bond universe, including government and corporate issues.

Performance: The fund lost 11.78% in 2022, the worst year in its history by far (it was launched in November 2000). But in the first three weeks of this year, it gained 4.1%. We recommended selling the position in April 2022 at $28.33. It dropped as low as $26.21 before rallying.

Key metrics: The fund was launched in November 2000 and has $4.7 billion in assets under management. The effective duration (a measure of interest rate risk) is 7.51 years. The MER is very low at 0.1%.

Distributions: Payments are made monthly, currently at a rate of $0.068 per unit ($0.816 a year). At this level, the forward yield is almost 3%.

Portfolio: There are 1,489 positions in the portfolio. About 42% of the assets are in bonds maturing in five years or less (the lowest risk). Almost 25% is in bonds with a maturity of 15 years or more (highest risk but generating the best return right now).

Outlook: Bonds and bond funds normally provide stability to a portfolio. That didn't happen in 2022 but the outlook for this year is better and the bond market is off to a promising start.

Action now: We are restoring this ETF to a Buy rating.

Q&A—continued from page 8...

The second thought is not to cut yourself off completely from the outside world. Use your phone to check the markets and the status of your portfolio every few days. If you don't like what you see, call your broker and take action.

Thirdly, enter stop-loss orders on any security you're concerned about. If the price falls below the stop level, your broker will sell. Of course, if the stock rebounds the next day, you're out of luck.

Finally, if you're determined to stick with your current plan, put the cash in a high-interest savings account while you're away. The problem is you will be limited in your choices to those offered by the financial institution with which you're dealing. For example, Saven Financial currently offers 3.75% on a high-interest savings account. But you're not going to close all your existing accounts and move the money over there for a few weeks.

I think you should reconsider your approach. There are more effective ways to deal with a temporary absence. – G.P.