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Quarterly Update – Second Quarter of 2025

Financial Markets Update

Our market update has three parts this quarter: Financial Assets, Real Assets, and "Are they really assets?". Starting off, we'll talk about the stocks and bonds – the bread and butter of an investment portfolio. Then we'll switch gears to real assets (land and commodities), and we'll end with the question "Are they really assets?", where we deal with the more questionable side of the investing universe.

Part 1: Financial Assets

After a tough first few days of the quarter, major stock markets have posted near-record returns. Stock markets in all of the 15 largest countries have returned 15% or more since the April lows including thirteen equity markets returning more than 20%.

Our outlook is cautiously positive. Large governments around the world seem to be turning back to deficit spending, where they borrow money from investors and give it out around the country to stimulate economic growth. The USA's new boldly-named bill does just that. Germany has announced measures with a similar spirit and more European countries could follow suit. It's probably not the ideal solution for each and every country, but when the governments spend more than they earn, equity markets usually benefit due to the increased economic growth. Still, we are a bit cautious because stocks are still very expensive relative to history and the underlying economic situation is still weak. Inflation is still above long-run targets, and the unemployment rate has started ticking up from recent lows in both Canada and the USA.

On the other side of financial markets, the Canadian and US bond indices were mostly flat this quarter, but remember when we said that governments are planning to borrow to cover their spending bill? That borrowing comes from issuing new bonds, which are sold periodically to investors at an auction. In a cattle auction, you bid the price and highest price wins. In a bond auction, investors bid the interest rate they would accept and the lowest interest rate that wins the bid.

If bond investors start getting nervous that the US government won't be able to pay back its now thirty-six trillion-dollar pile of debt, investors might start demanding a higher interest rate to buy US bonds.

Deficit spending might be good for the stock market in the short term, but it the US had better watch that it doesn't drown in a pile of debt.

Part 2: Real Assets

Let's start by talking very generally about commodities. We feel that many are priced much cheaper than they should be. Here's our perspective: Setting aside our deep love for this planet and the environment, our comfortable western lifestyle can only happen because we take metals, minerals, oils, gasses, and sludges out of the ground and we turn them into useful things. For decades, there has been a lack of investment in businesses that dig things out of the ground. Lagging investments means lagging exploration and development. New mines take years or decades to develop, so there is no quick fix. As a

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result, we expect that mining capacity will not keep up with global demand for many commodities in the future as everyone in the world seeks a more comfortable western lifestyle. A growing population and a finite earth will come to a crossroads eventually. Our take-away: There are a lot of opportunities today to invest in commodities and well-run commodity companies.

The second real asset on the agenda is residential real estate. From both anecdotes we've heard and empirical data, the real estate market in Winnipeg is hotter than hot. Buying a home can quickly turn emotional and motivate both buyers and sellers to make less-than-optimal decisions. As a buyer, missing out on an opportunity in a fast-moving market might make you willing to bid prices higher than fair value to avoid missing out on a thinly populated market. That seems to be what's happening in Winnipeg right now.

Emotions can work on the flip side, too. In Vancouver and Toronto, the exact opposite situation appears to be playing out. Sellers had long been holding out in a market with more and more supply and fewer and fewer buyers. Now, sellers are finally capitulating and accepting lower offers, possibly just out of fear that the market is falling out from underneath them.

These were likely outcomes. Supply of single-family houses for sale in Winnipeg is still lower than pre-pandemic levels and new builds of single-family houses are not keeping up with the population. Both these things suggest that the Winnipeg market might not cool down soon. Vancouver and Toronto have real estate markets, specifically their condo markets, that have been in a bubble for more than a decade. Are they seeing the start of a burst or just a quick pfffft to let out the pressure? We'll have to wait and see.

Part 3 – Are they really assets?

Few asset classes have as fanatical followers as cryptocurrency and private equity. In our final section, we're going to touch on whether or not these classes deserve a place in an investment portfolio. I'll give you the answers up front. Cryptocurrency: No, it's not an asset. Private Equity Funds: Only if it fits your risk tolerance and only if you really trust the fund manager.

Starting with Crypto. If Bitcoin were a person, it would be old enough to drive. Lots of other technologies needed much less time to prove their viability. So far, it still isn't used to buy things, and it doesn't store value like traditional currencies either. Specifically, no one can pay their taxes with Bitcoin. Cryptocurrencies still seem to be used mostly by criminals and speculators, but some large retailers are starting to look at the technology as a way to move away from using credit card companies as payment processers. This would be an interesting development and a real-world use case for stablecoins.

Their idea wouldn't involve using Bitcoin directly, but they are looking to use the same underlying technology to basically issue their own cryptocurrency which they say customers would use to buy stuff at their store. Imagine "WalmartCoin" (can we trademark that?). This probably all sounds a bit odd, but it's healthy to question whether the economy actually needs credit card companies as a middleman.

Cryptocurrency adoption is still incredibly low, but maybe American retailers will have a better shot at convincing customers to use cryptocurrency than anyone else. They are historically very skilled at motivating people. Walmart famously has helped the adoption of new US coinage, working directly with the US mint. For now, we will still sit and watch the show, rather than predict where it may go.

The second and last topic might be more controversial than cryptocurrency. Private Equity refers to shares of companies which aren't traded on a public stock exchange. These fund managers give investors access to invest in companies that can't be purchased directly on a public exchange like the New York Stock Exchange.

People in favour of private equity say that it's a way for the common investor to invest in companies that they wouldn't otherwise be able to access, to diversify their equity portfolio, and to increase risk-adjusted returns. The main issue we see with private equity funds is that it's challenging to determine the fair value of the companies inside these funds. Since the stocks don't trade on a public market, the value is decided by the fund manager. There are two problems with this.

First, the fund manager is paid a fee that's a certain percent of the value of the assets managed. This gives the fund manager financial incentive to err on the high side. Lots of fund managers are very trustworthy. Some are not.

Second, fund managers don't place a value on each company in the fund on each day. They typically only re-value each company monthly, or quarterly, or only if they think something about the company has changed significantly. Because they don't incorporate day-to-day changes in the value of the fund's stocks, the fund appears less volatile than it actually is. Private equity managers claim this as a positive, but we think that's misleading. Not marking the company's value to the market price on any given day DOES NOT remove the risk even if it hides the volatility of the investment.

For equity funds that hold publicly-trade companies, there are thousands or millions of investors bidding for the stock every day. Because the bidding happens out in public, other investors have a pretty good idea of what the value of a stock is. This is the realm we prefer to focus on. That said, we agree with lots of the benefits: smaller investors get access to a wider universe of companies. How could more choices be a bad thing? Our take-away: It is possible to pick reputable fund managers and index methodologies with solid long-term track records and simple, low-cost fund structures. Due diligence is key. Finally, because of the added risk of investing in private equity funds, they are not suitable for every investor.

Keeping Yourself Secure in the Digital Age – by Andrew Froese

We once relied on strong locks to keep our assets safe, now we need to rely on strong alarm systems.

Imagine back to before the internet. Before the first computer, even. Our investments – stock certificates, paper bonds, wads of cash, rolled coins, gold – all had a singular physical form. They each had to be *somewhere* at all times. Keeping your assets safe depended on the security of locked door that sealed them from the outside world. The vault at the bank, a safety deposit box, the safe in your basement, they all felt impenetrable; they made us feel secure. Then came debit and credit cards. These tools are designed to give flexible access to your accounts. In short, your assets can be *anywhere*.

The world changed, so necessarily, we changed.

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We changed our focus – don't give out your PIN, don't let someone walk away with your credit card, don't check your bank account on a public computer. But we also changed our comfort level. I for one, am entirely confident that if my credit card is compromised, Visa will make things right. And I'm not relying on blind faith. They've done it a few times in our relationship. "Compromised credit card" is banker-speak for "someone bought stuff and made me pay for it". I realize that this is the equivalent of saying that I am totally fine being stolen from. I'll admit that I feel a bit uneasy about how easy it is to fix.

The world has changed again and so must we.

Online banking has made access to financial accounts more ubiquitous yet. Online shopping involves transmitting your credit card information. Adding to the exposure, E-retailers are all too eager to offer to store your credit card information on their servers for "faster checkout". It might be a tiny bit easier for you, but it also leaves an extra copy of your information out in the world. Online tax filing can involve entering the mother of all personal datapoints: your SIN.

Each of these interactions puts your personal data out into the world and criminals have started to focus on intercepting that data. With enough of your information, they can pretend be you (or at least near as makes no difference). They could convince a bank they are you and take the money in your account. More commonly, though, they can use your personal information to open new bank accounts and credit cards, take out new loans in your name, or file fictitious tax returns. Your personal data points are the ultimate master key to your finances.

Just like before, we should change our focus and comfort level. Start by acknowledging that the lock and key model of financial security doesn't work if you don't control the room that your data is stored in.

In the new world, the defense needs to be three-fold:

1. Still keep your doors locked tight. On the physical side, keep valuables in a safe or safety deposit box. On the electronic side, use long, complex passwords for your online financial accounts and don't use the same password more than once.

2. We all learned to protect our PINs, now we need to take it a step further: protect your personal information. Avoid checking that box that says "Save my card for future use". Think twice before entering the combination of name, address, and date of birth on a website. Think three or four times about entering your SIN.

3. Most importantly, set up a good alarm systems so that you know if your personal data is being used. The most effective alarm system, and one that we recommend for everyone, is to subscribe to a credit monitoring service. Whenever someone applies for credit in your name, the financial institution will request a credit report from one or both of the credit reporting companies that operate in Canada (TransUnion and Equifax). Credit monitoring serivces will alert you whenever a credit report is requested. This means that even if they get the master key, you can know if a fraudulent application is being made in real-time, so you can take steps to stop it. This won't prevent someone from getting your information, but it can prevent them from using it. Both credit

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reporting companies offer monitoring services. In our experience, Equifax has more features available and they are a bit easier to deal with. Most major financial instutitions also offer services. Just make sure you choose a reputable provider.

Finally, remember that we are the gatekeeper to your investments with National Bank Financial. Transfers cannot be initiated online, and money can only be transferred after we confirm the instructions with you verbally. Our human relationship is a strong lock keeping your investments safe. We know your voice, how you communicated, and cash needs. While a phone call before withdrawing cash can be an annoying extra step, know that we do this to keep your money secure. Even more, if you suspect that your financial information has been compromised and you want help navigating a solution, don't hesitate to call us. If you receive a message that you think might be a scam, don't hesitate to ask our opinion. If you are ever unsure about anything related to your financial or online security, please call us. As admitted millennials, we grew up as technology evolved and are able to use that knowledge to help clients.

Sincerely,

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