



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Welcome back to the madhouse!

Bureaucratic Ego 101:

The saga of Rogers Communications' proposed take-over of Shaw continued over the holidays. The Federal Govt Competition Bureau (CB), actively led by Commissioner Mathew Boswell (appointed in March/2019 by the current Govt) has made continued resistance to this deal a high-profile media matter. The anti-'Fat Cat' tilt to the CB's objections was illuminating. Expert witness supporting the CB's opposition, Dalhousie University economics professor Lars Osberg, stated 'the biggest winners' of the deal would be the Rogers and Shaw families who he noted would hold \$11 billion of stock. He provided the percentages. The Rogers and Shaw families would control 33% on a combined basis. Roger's clan at 28.7% and the Shaw family the rest (4.7%). That's a bad thing apparently. Dr. Osberg neglected to point out that the remaining 67% will be held mostly by Canadian Pension funds and individuals.

<https://financialpost.com/telecom/rogers-shaw-families-big-winners-of-merger-expert-tells-tribunal>

The Competition Tribunal gave a surprisingly strongly worded put-down of the latest rejection of a revised deal by the Competition Bureau. Rather than accept the Tribunal's decision, the CB Commissioner immediately signaled his intention to appeal to the Supreme Court. Mr. Boswell's has made past statements about the Competition Bureau shifting its priority from economic growth to social values. Is this a sober discussion of dry economic competition, a fight for social justice, or old fashioned bureaucratic ego?

<https://financialpost.com/news/economy/boswell>

'The Govt knows best' stance entrenched in this deal sounds familiar. Canada's 'Minister of Innovation, Science and Industry' Francois-Phillip Champagne said he will review the deal "only after there is clarity in the ongoing legal process."

The following report notes the Competition Bureau has spent \$10.9 million in legal fees to date fighting the deal while Rogers & Shaw have spent \$19.6 million. That \$30.5 million will be coming out of the pockets of the taxpayers and consumers the Competition Bureau is charged to protect, in the form of taxes, interest on borrowed debt and corporate costs passed along to customers. The latter will likely be chalked up to 'corporate greed' by elected leaders. Welcome to 2023

'Telecom Services: Tribunal Separates Fact From Fiction and Impugnes Credibility of Regulator's Witnesses' – NBF Research Jan 3, 2022

Company

Rogers Communications Inc. Ticker RCI.B (TSX) RCI (NYSE) C\$63.37 **Rating** Outperform C\$75.00

Shaw Communications Inc. SJR.B (TSX) C\$39.01 **Rating:** Sector Perform C\$40.50

Quebecor Inc. QBR.B (TSX) C\$30.20 **Rating:** Outperform C\$32.00

Excerpt from the full note link below:

A busy few days in the merger/divestiture saga can be summarized by noting that the Tribunal rendered its summary decision late on Dec. 29 in which it resoundingly rejected the application by the Competition Bureau (CB), the regulator quickly signaled its next moves on Dec. 30 to request an injunction and an appeal to the Federal Court of Appeal (FCA), ISED opted on Dec. 31 to refrain from rendering its final decision until it sees "clarity" amid the evolving legal action, and the FCA on Jan. 1 quickly issued an emergency stay order until it reviews the CB's injunction request.

Importantly, the Tribunal's 87-page document (really 79 pages) was released on Dec. 31 but only made public on Jan. 2. Some have argued that the decision was rushed just 15 days post-hearing, but we see a well-reasoned effort that systematically addresses each of the CB's arguments and found these to be lacking in regard to making its case where it had the burden of proof. For those that may think that it was up to the companies to prove their position, the Tribunal "determined that even if the burden was upon the merging parties, that burden would be satisfied." No amount of extra time (unrequired) by the Tribunal should be assumed to necessarily be helpful in changing its view, improving the evidence before it or strengthening what we always considered to be a weak case by the CB.

Much has been said about how the Commissioner of Competition dislikes the efficiencies test, but this case stopped being about that once the proposed divestiture of Freedom to Videotron was announced in July 2022. The third to last paragraph on the final page of the judgment says “given the Tribunal’s conclusion that the Merger and Divestiture are unlikely to prevent or lessen competition substantially, it is unnecessary to consider whether the Respondents have satisfied the requirements of the efficiencies defence in section 96 of the Competition Act.”

The Tribunal saw three issues before it: “a) what relevance does the Initially Proposed Transaction have for this proceeding, b) is the Merger, as modified by the Divestiture, likely to prevent or lessen competition substantially, and c) if so, have the Respondents established the requirements of the efficiencies defence.” The paragraph above summarily deals with b and c, although it must be said that most of the judgment focuses on all of the allegations made by the CB in relation to b.

The Tribunal didn’t agree with any of the CB’s allegations, not a single one. We can only recall two instances where the panel noted any agreement with the CB and these were in reference to when the “but for” assessment should start (date of the merger announcement in March 2021) and that Shaw was a “vigorous and effective competitor.” In context of the latter, the Tribunal acknowledged that “Videotron also has a long history of being a highly disruptive.”

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=439a16ed-6bd9-4c2e-88dd-d6401492abe4&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

DISCLOSURE: I held Shaw Communications in my personal accounts, for family members and for client accounts over which I have trading authority. After acquiring Shaw at much lower prices, we gave up on the deal and sold the majority of our holdings at a profit in late 2022. At this writing our exposure to Shaw/Rogers is low.

‘Infographic: The Longest Lasting Cars, in Miles’ – Visual Capitalist Jan 2, 2023

Which cars have the longest potential lifespan in miles driven?

<https://www.visualcapitalist.com/infographic-the-longest-lasting-cars-in-miles/>

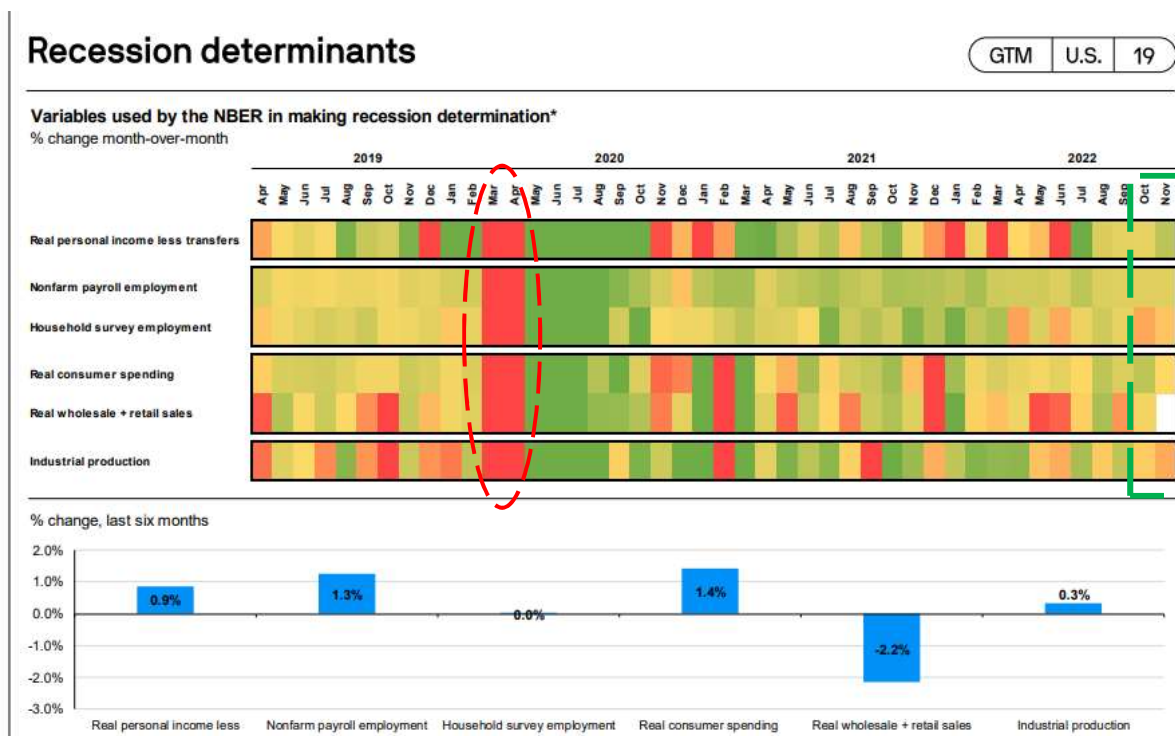
Metro Vancouver: Tough year for residential market in 2022 as interest rates bite:

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=1ba9bb11-e342-4540-a6a0-8fd0e568ff77&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

JP Morgan Insights: Guide to Markets Jan/2023

The good folks at JP Morgan provide an annual 'Guide to Markets'. This year's is worth keeping on the side table.

From Page 19: In March/2020 there was lot's of red = a lot of recession (my red oval). In Q4/2022? Not so much Red (my green square).



The above implies if we have a recession in 2023 it's likely to be shallow.

What about headlines screaming 'Consumers Drowning in Debt'?

From page 24. Unlike the US (or Canada's) Fed Govt Finances, the US consumer is just fine, thanks. Debt-service ratio is the lowest in 40 years, while total assets net of debt are at record highs. Of total debt, 66% is mortgage (builds home equity) and 9% is student loans (builds future income). 75% of total debt is arguably building equity now (house) or in the future (better job = more income). Surprise! Individuals are managing their own risks well. No Nanny State required.

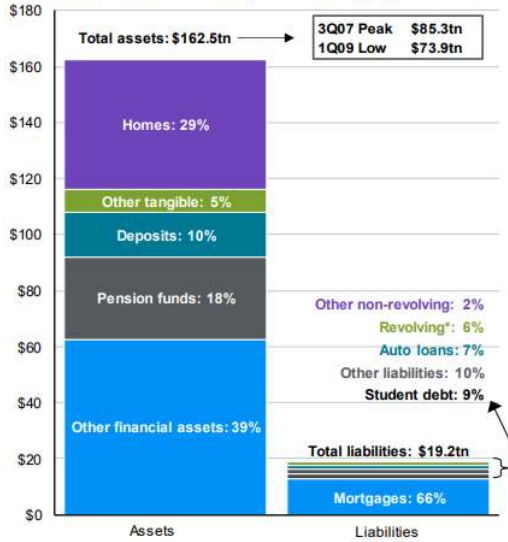


Consumer finances

GTM U.S. 24

Consumer balance sheet

3Q22, trillions of dollars outstanding, not seasonally adjusted



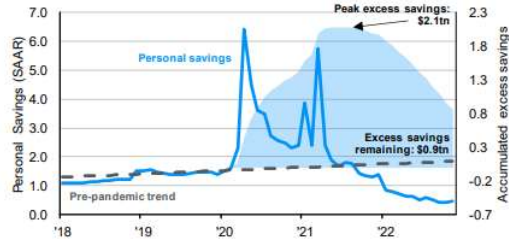
Household debt service ratio

Debt payments as % of disposable personal income, SA



Household excess savings

Trillions of USD



Source: FactSet, FRB, J.P. Morgan Asset Management (Top and bottom right) BEA. Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **4Q22 figures for debt service ratio are J.P. Morgan Asset Management estimates. From March 2020 to August 2021, consumers amassed a peak \$2.1 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation. Guide to the Markets – U.S. Data are as of December 31, 2022.

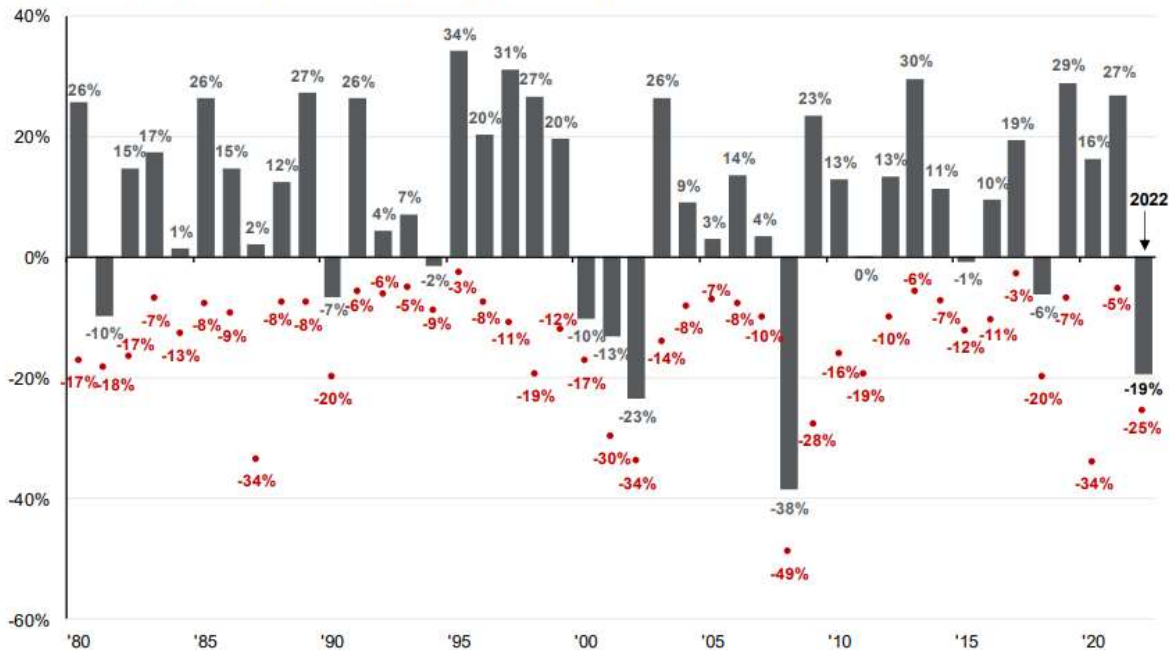
J.P.Morgan
ASSET MANAGEMENT

Annual returns and intra-year declines

GTM U.S. 15

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%. Guide to the Markets – U.S. Data are as of December 31, 2022.

J.P.Morgan
ASSET MANAGEMENT

Note how markets tend to rebound after double digit declines.



We urge clients to wade through at least the bits about the US economy, so important to Canadian investors. In summary, from mindlessly expensive, stocks are now fair value. Lots of room for reasonable if unamazing growth over the next year or so. This doesn't mean we won't see declines. Our take is Buy the Dips.

<https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/market-insights/guide-to-the-markets/mi-guide-to-the-markets-us.pdf>

Moving on to the Canadian Energy patch.

'2023 could be make-or-break year for Canadian oilpatch's long-term survival'

"And while not aimed directly at emissions reduction, Ottawa's long-promised and controversial "Just Transition" legislation also could drop early this year. Prime Minister Justin Trudeau promised programs that would ease the exit of thousands of oil and gas workers from an industry destined to shrink — a proposal vociferously opposed by Alberta Premier Danielle Smith, who has decried the policy as "extremely harmful" to Canadians whose livelihoods depend on the energy industry."

Well...that's what happens when you shut down an industry.

<https://financialpost.com/commodities/energy/oil-gas/why-2023-could-be-make-or-break-year-canadian-oilpatch-longterm-survival>

You want Canada to sell less oil? The Taliban thanks you.

Taliban Ink First Contract With Chinese Firm to Produce Oil (1)

- Deal will aid Afghanistan's crippling economy, Taliban say
- Taliban-run administration will get 15% royalty fees

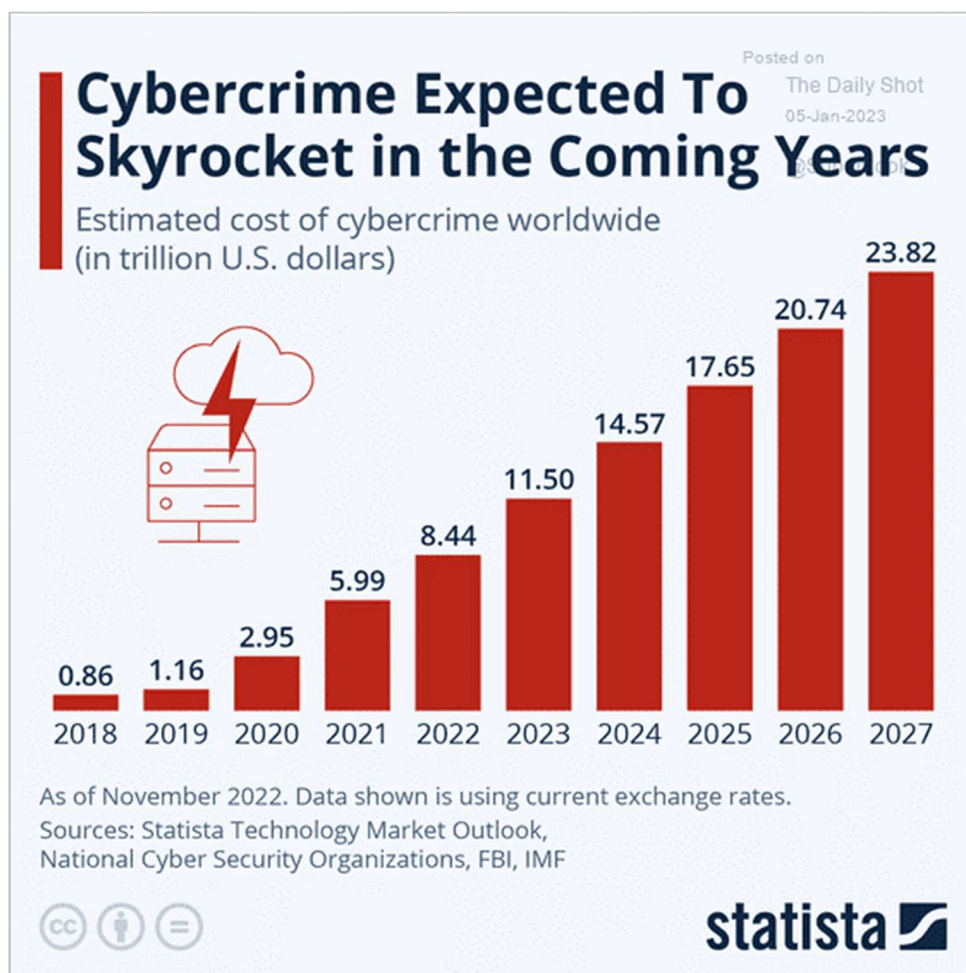
By Eltaf Najafizada

(Bloomberg) -- The Taliban-led administration in Afghanistan signed its first international contract Thursday to extract oil from the northern Amu Darya basin as the beleaguered group seeks to increase revenue.

The agreement with a subsidiary of China National Petroleum Corporation, was

Unlike most other forms, cyber-crime holds little risk for the perps. Their worst outcome is an hour or two wasted attempting to hack your security settings. We think online security is / will become top of mind for Joe and Jolene Average.





Investing in defense stocks?

As awful as it is to confront, living in a western democracy, I have been forced to confront my assumptions about the global order. Commerce that betters the lives of local populations is not a limiting factor of despotic ambitions. Vladimir Putin's expansionist dreams trump the daily living experience of the average Russian (let alone Ukrainian). Chairman-for-life Xi Jinping refuses to accept Western COVID vaccines, choosing saving face for the poor performing Chinese vaccines over saving the lives of his citizens. The decades-long 'Peace Dividend' has faded. It seems we're back to our old habits, relearning that good fences make good neighbors. I'd rather not, but I must put on my Big Boy pants and get to work on those fences. It is what it is. We understand some clients will exclude the defense industry from their portfolios. We respect and accommodate those views.

The rise of drone warfare in Ukraine had a client requesting ideas on Israeli defense contractors. The following idea is courtesy of David Fingold's Dynamic Active Global Dividend ETF (DXG-TSX-\$44.90).

ELBIT Systems Limited ADR (ESLT-NASDAQ-\$168.93) - monthly ranges – 10 years.



From the ELBIT Intl website:

Corporate Overview

We are an international high technology company engaged in a wide range of programs throughout the world, primarily in the defense and homeland security arenas. We develop and supply a broad portfolio of airborne, land and naval systems and products for defense, homeland security and commercial applications. Our systems and products are installed on new platforms, and we also perform comprehensive platform modernization programs. In addition, we provide a range of training and support services.

<https://elbitsystems.com/>

DISCLOSURE: At the time of writing, I hold no position in ELIBIT personally, for family members or for client accounts over which I have trading authority. We have not traded in the security in the past 60 days. I hold the Dynamic Active Global Dividend ETF (DXG) personally, for family members and in client portfolios over which I have trading authority. We have traded in the DXG security within the past 60 days.

Finally, good riddance to 2022. Welcome 2023!

'Think you have it bad?' - Josh Brown

<https://thereformedbroker.com/2023/01/03/think-you-have-it-bad/>

2022 was annus horribilis for the wealth of Jeff Bezos and Elon Musk, the latter being the first person in history to lose \$200 billion. To bad. So sad. They may have to get used to spending their own, versus other people's, money. Not to worry. They both have plenty for odd-shaped rockets, huge yachts and Big Ideas.

The following table provides the cumulative, periodic, live returns net of costs for our 100% equity, CDN/US large cap blended, dividend growth portfolio. The period spans the COVID Recession and last year's FAANG collapse. We've provided benchmark returns for comparison. Benchmark Indices are synthetic, excluding real world costs. The Hilberry Dividend Growth portfolio provided a boring +5.17% 2022 return. Be boring. Make money.

PORTFOLIO PERFORMANCE (CAD)

CHANGES IN MARKET VALUE				
	1 YEAR	2 YEARS	3 YEARS	4 YEARS
	2022/01/01 - 2022/12/31	2021/01/01 - 2022/12/31	2020/01/01 - 2022/12/31	2019/01/01 - 2022/12/31
PERFORMANCE				
Time-Weighted-Net	5.177 %	14.587 %	11.674 %	10.802 %
Money-Weighted-Net	5.177 %	14.587 %	11.674 %	10.802 %
Indices				
DJ CAD DIV	(8.09) %	10.31 %	6.75 %	10.38 %
DJII	(2.45) %	7.20 %	6.64 %	8.96 %
S&P 500 RT/TR	(12.42) %	5.75 %	9.22 %	12.95 %
S&P/TSX RT/TR	(5.84) %	8.53 %	7.54 %	11.19 %
* Legend: DJ CAD DIV: DJ CAD DIVIDEND, DJII: DJII, S&P 500 RT/TR: S&P 500 TOT RET, S&P/TSX RT/TR: S&P/TSX COMPOSITE TOT RET				
Notes: Values in percentage are annualized for periods of more than twelve months.				

DISCLAIMER: Past returns are not indicative of future results. While deemed accurate we do warranty the posted returns. The above is for information purposes only and is not to be construed as a solicitation to purchase securities. Further details are available upon request.

Our 2023 views...

- Bond and stock markets have mostly priced in a slowing economy/recession.
- That recession will not be a deep one, meaning stock prices are not likely to 'crash'.
- Russia doesn't win Ukraine. Not sure what that looks like though.
- Europe comes to grips with geopolitical/energy security. Priorities change.
- International investor distain for Canada passes, the Loonie strengthens.
- The US dollar (DXY-\$103.90) goes sideways to lower, helping US corporate earnings.
- Oil prices will rise. Canadian and US oil producers stocks will follow.
- The Canadian banks look good to us.
- Higher interest rates will force discipline on investors, sifting high quality from low.
- Our high quality, low corporate failure risk, dividend income approach should do fine.
- We maintain our balance of Canadian and US equities, tilt towards Canada.



Have a Great Weekend

Steve & Anna Hilberry



Steve Hilberry
Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD January 6, 2023

DOW INDUSTRIALS:	33,589
S&P 500:	3891
S&P/TSX COMP:	19769
WTI:	\$73.76
LOONIE IN \$USD:	\$0.7440 \$US

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