



WEEKEND READING

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

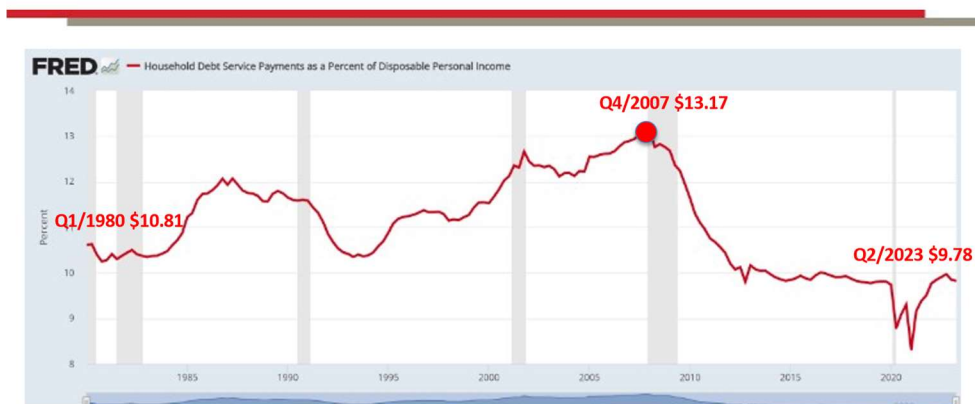
Hilberry Team Fall Review...reviewed.

We held our semi-annual October review last week. Duncan on Tuesday October 24 and Comox on Thursday Oct 26. We gave our long-suffering Weekend Readers a rest over the past week. We're summarizing the presentation this week and catching up

A few slides from the presentations.

Why we're not worried about the banks lending to US consumers.

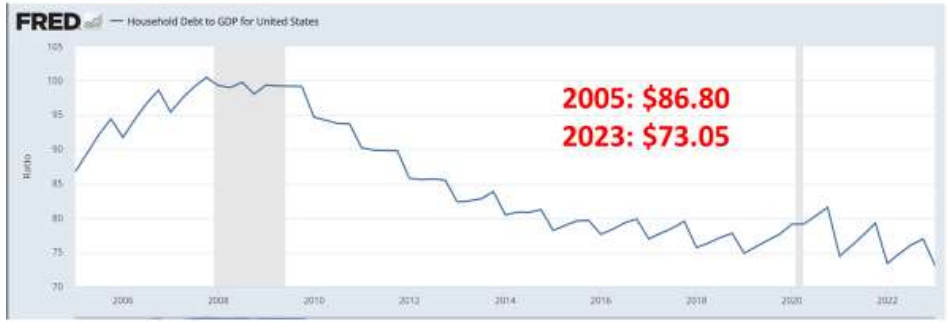
2023 US Debt service % disposable personal income



Source St Louis Fed Reserve

US Household debt service now lowest since data began in 1980 .

What about US Household Debt per \$100 GDP?



Source St Louis Fed Reserve

Peaked in 2009. Headlines report the past, not the future



Pundits have pointed to Canadian household debt ‘soaring’ vs US. This has them in a panic over Canadian banks.

Canada Household Debt per \$100 GDP – Problem or Not?



Source St Louis Fed Reserve



Before you panic over Canadian household debt levels vs the US...



US Annual Population Growth Rate is dropping

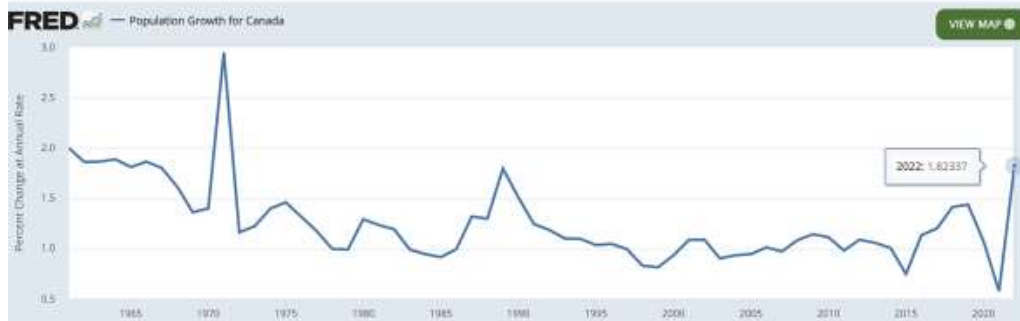


1960: 1.7%
2022: 0.4%

Source St Louis Fed Reserve



That 70's Show - Canada Population Growth accelerating



Canada's growth rate higher than US for all periods since 1960. New families borrow more money.

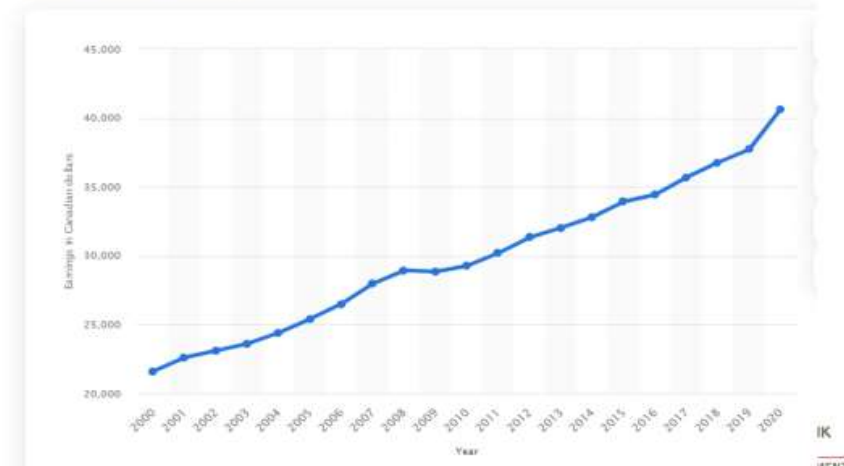


At 1.8% growth rate, we need to borrow money. Canadians are actually doing okay...



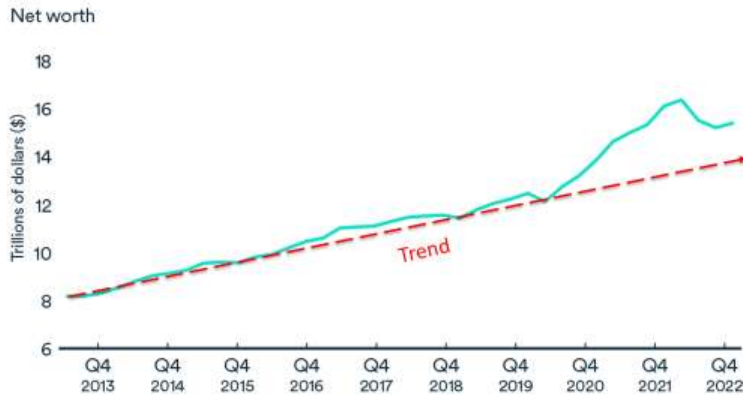
Canadian's Income continues to climb

Median annual income in Canada from 2000 to 2020
(in Canadian dollars)



Source: Statista

Canadian Total Net Worth accelerated during COVID



Source: Statistics Canada via Refinitiv, BDC.

Chart source: BDC: Monthly Economic Letter March/2023"



“Tax the Rich” has been popular.

Activists complain that ‘The Rich’ (defined as the top 10% of wealth holders) control over half of Canada’s assets yet pay less than 40% of all tax revenues. “NOT FAIR!” There’s assets and then there’s income. Ask any farmer.



The next slide looks what it takes to be in the top asset buckets in Canada. The entry level to that rarified 10% club was \$1.6 million pre-COVID. This group owns 56% of all assets yet 'only' pays 39.6% of all Federal income taxes paid.

When we look at share of all income vs. Federal Income tax paid, the argument breaks down. Canada's top 20% have 74% of the assets (\$1 million+ IE a house in most major cities), receive 44% of all income, yet pay 61.4% of Federal taxes. The bottom 20% receive more in benefits than they pay out. The much pursued 60% 'middle class' voter (who with luck will not remain so over their lives, that upward mobility thing) is paying the remaining 38.6%. Seems like a generous deal already.

Wealth in Canada: Top % Thresholds

%	Threshold	Total \$B	Share of Assets	Share of Income	Share of Fed Tax paid
Top 1%	\$6.3 million	\$2,903	24.8%	10%	21.1%
Top 5%	\$2.4 million	\$5,008	43.5%	22.8%	28.8%
Top 10%	\$1.6 million	\$6,653	56.9%	33.1%	39.6%
Top 20%	\$1 million	\$8,643	73.9%	44.6%	61.4%
Bottom 20%	n/a	n/a	n/a	5%	< 1%

Sources:

PBO: 'Estimating the top tail of the family wealth distribution in Canada: updates and trends 2019

Fraser Institute 'Contrary to rhetoric, highincome families pay most taxes in Canada' 2022



What about share of income and share of all taxes paid (Fed + Prov)?

Who pays what? Individual Income and Taxes

- Top 1%: \$512,000 = 22% of all tax paid
- Top 5%: \$236,000
- Top 10%: \$174,400

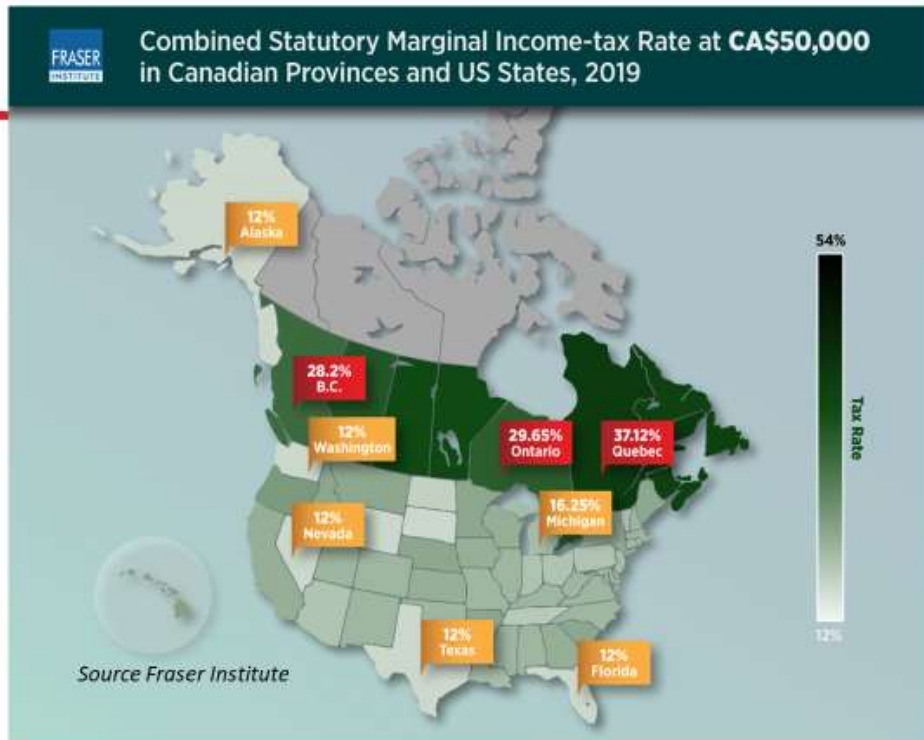
Earners in Canada	Portion of Canada's total taxes
Bottom 20%	2.1%
Middle 60%	37.8%
Top 10%	60.1%

Source: Fraser Institute, TaxTips.CA,

WEALTH MANAGEMENT



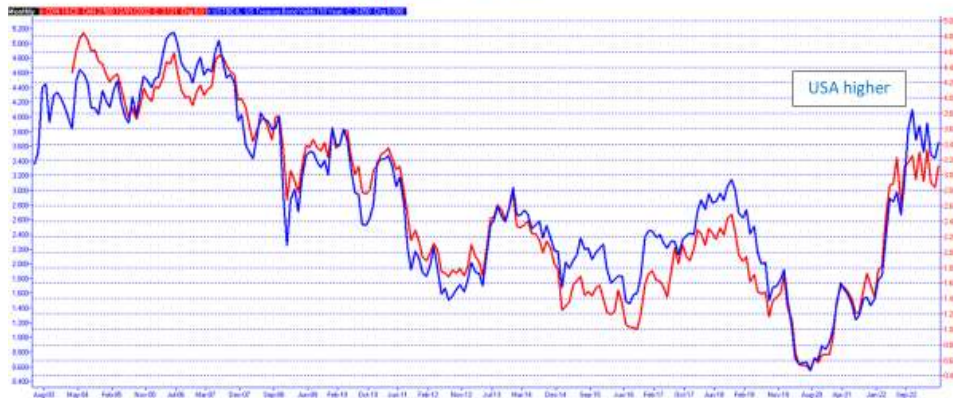
It's not just 'The Rich' who experience high taxes.



\$50,000 Canadian is currently worth \$37,000 USD. That income goes a lot farther in the US states boarding Canada. Yes, there are differences in healthcare, education and government services. Still...how many US citizens make day trips to Canada to save on gas and groceries? When politicians of either stripe tell you “Canadians are suffering. Vote for me”, keep the above in mind. We’re doing fine. Our lenders seem to think so.

Is Canada in Trouble? Bond Market says no.

Fed Govt 10 Yr Yield: Canada vs USA – monthly ranges 20 years



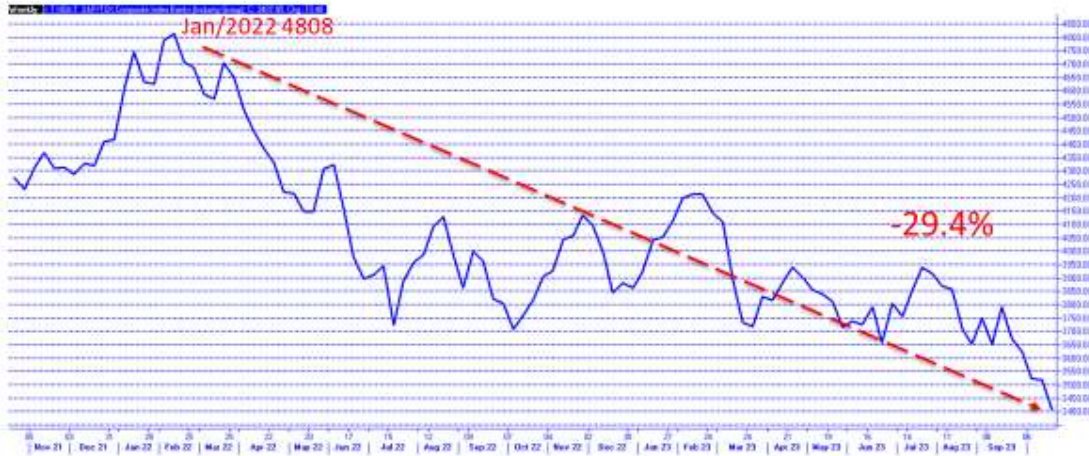
Source: Refinitiv, Hilberry Oct, 2023



The international bond market is not worried about Canada's ability to pay. If international lenders aren't worried about lending to Canada's government, should we be worried about Canadian banks lending to Canadians? Canadian bank investors are clearly nervous.

Investors pricing Canadian Banks for future pain

TSX Banks (3,407) weekly - 3 years



Source: Refinitiv/Hilberry Oct 21, 2023



Canada personal debt: Bad news is costs are up...

Interest payments are rising faster than disposable income

Annual change



Source: Statistics Canada, BDC.

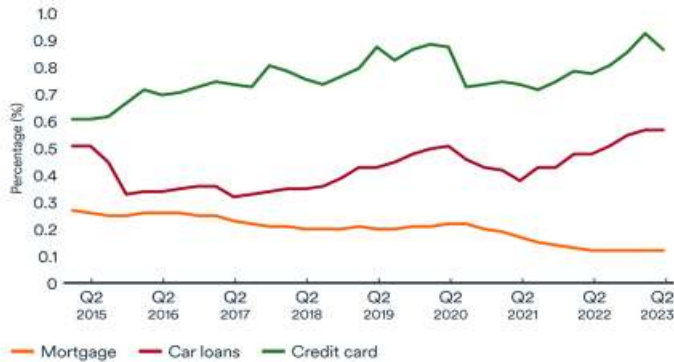
Source: BDC. Monthly Economic Letter: October 2023



...but Canadians are handling it.

Households are still in good shape and able to repay their debts without much difficulty

Share of loans in arrears, by product type



Source: Bank of Canada, BDC.

Source: BDC Monthly Economic Letter: October 2023



While the full impact of rising rates has yet to hit refinancing, mortgage delinquency has been declining since 2015. Car loans are flat. Credit cards are up. All these delinquency ratios are under 1%. Surprise! Canadians are managing their affairs without government help. We said the declines in Canada’s bank share prices were rare opportunities. We mentioned several banks as targets. I’ll give our notes on Scotia Bank (-40%) as an example.

Scotia Bank (BNS-TSX-\$56.68)



Source: Refinitiv, Steve Hilberry



One of our beliefs is “Get paid to wait”. Scotia Bank’s current market price dividend yield of 7.5% makes patience a lot easier.



Bank of Nova Scotia Price (\$56.68) and Dividend \$4.15



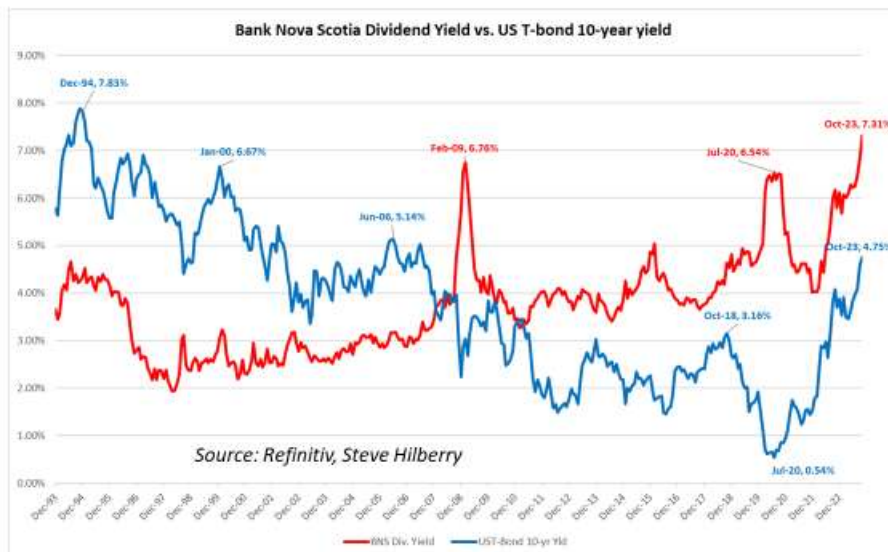
Source: Refinitiv, Steve Hilberry



'Market Yield': The current \$4.15 cash dividend per share expressed as a percentage of market price \$56.68.

What about the recent rise in bond yields? Does this make that 7.5% irrelevant? The next chart compares Scotiabank's running yield per share (dividend/share price) compared to the prevailing US Fed Govt 10-year bond yield. I was licensed in 1989. The 10-year peaked at 7.83% in 1994. The current US 10-year yield is around 4.75%. Scotia Bank's current 7.5% is the high for my career...period, let alone relative to the alternative bond yields on offer.

Bank of Nova Scotia: Dividend Yield at 30 year high



Source: Refinitiv, Steve Hilberry



Book Value is short-hand for 'What we paid for what we own' (there's more too it). One of my favorite Bank value tools compares the Market Price to Book Value per share.

Bank of Nova Scotia \$56.66 1988 -2023 Price / Below Book Value



History says buying at or below Book Value doesn't happen very often and has been a good buy /terrible sell point. History may not repeat but it'll probably rhyme. At our seminar date Scotiabank's share price around \$56 was trading below the Book Value of \$57, explaining why we were buyers of Scotiabank's shares all that week.

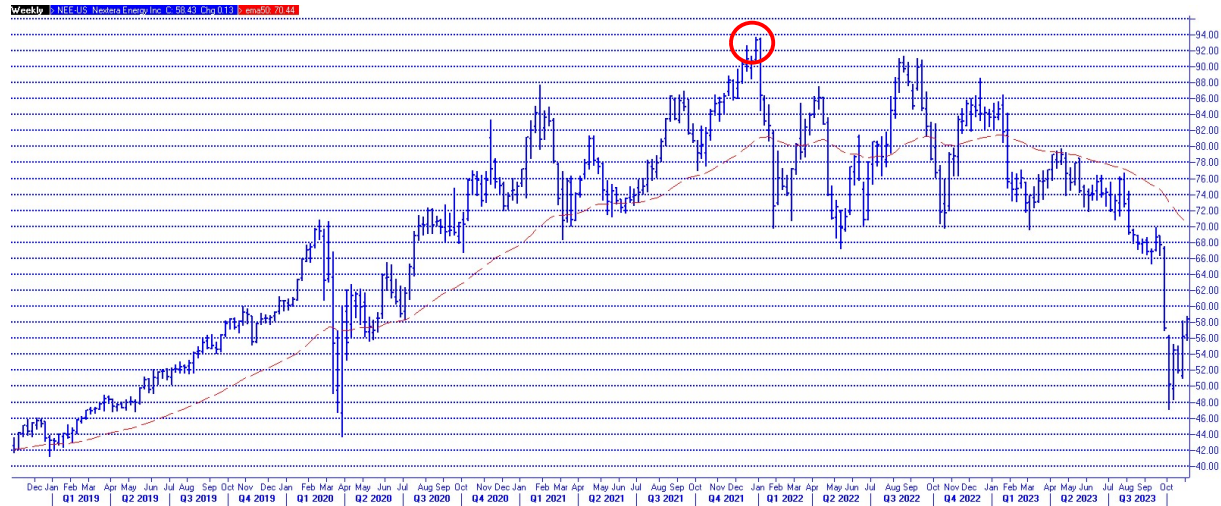
DISCLAIMER: I hold Bank of Nova Scotia common shares personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days

Opportunity in clean energy arrives.

At our seminar we noted we've avoided investing in 'alternative energy' ...until now. Finally (maybe) some sanity is returning to values of companies coming up with viable solutions vs virtue signalling. We've followed **Nextera Energy Corp (NEE-NYSE)** for some time without owning it in our model portfolios. That changed recently.



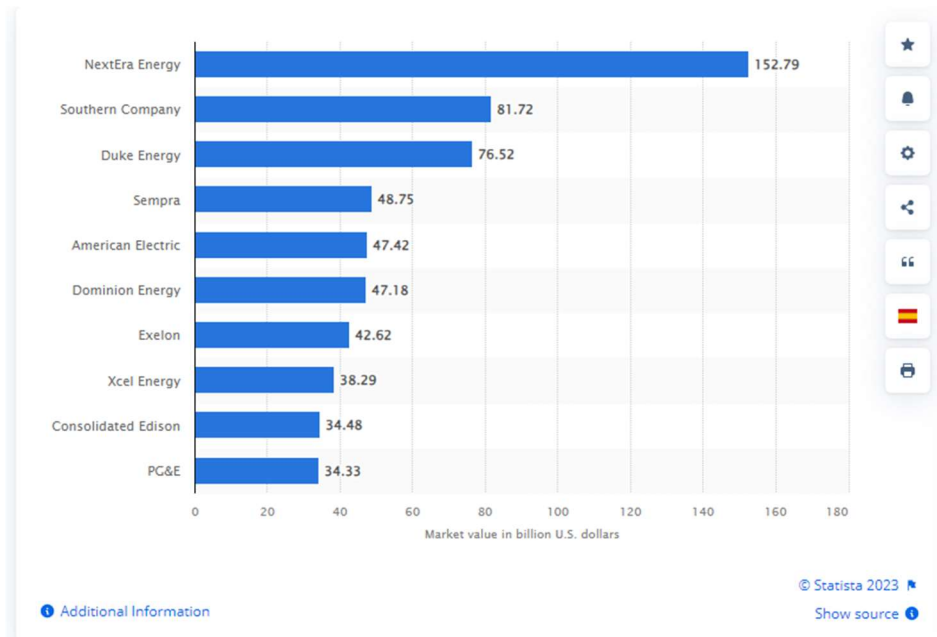
Nextera Energy Corp (NEE-NYSE-\$57.85) – weekly ranges – 5 years.



Previously known as Florida Light and Power, Nextera became the most valuable publicly traded US utility company in the United States...until 2023.

<https://www.nexteraenergy.com/company/history-timeline.html>

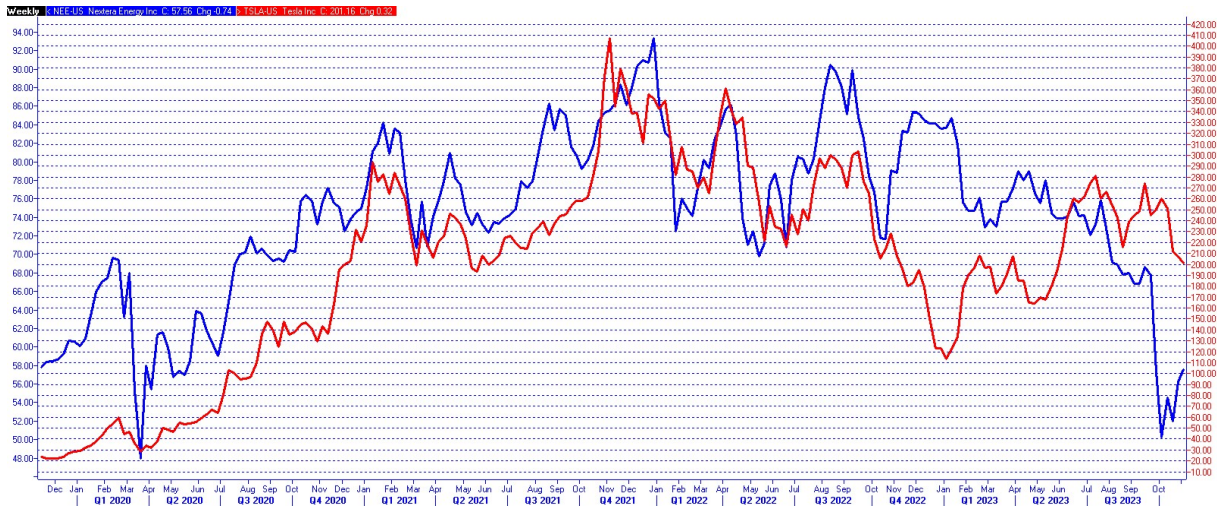
In June/2023 Nextera was valued more than their two nearest competitors Southern Company and Duke Energy combined (source Statista)



2007-2015 **Nextera Energy Corp (NEE-NYSE)** traded around 16.7 X earnings. Jan/2020, the last year of the Donald Trump Presidency, Nextera traded in high-\$50 per share range. Following the Nov/2020 election of US President Joe Biden, the green gold rush saw NextEra soar to a peak of \$93.73 the last week of 2021. Tesla peaked 3 weeks earlier. The next chart confirms the same money has been chasing both names.



Nextera Energy (NEE- \$57.85 NYSE- blue) vs Tesla (TSLA- \$201.08 NSDQ red) weekly 4 years



The 2021-2022 peaks with Nextera at \$93 meant it was trading around 33 X earnings, double the 2007-2015 ratios. We thought that was too rich. Investors were giving a utility a lot of credit. Nextera's recent lows of \$47.15 saw the price at 15.2 X trailing earnings – back to the 2007-2015 ranges. Now we're talking. We recently added NextEra Energy (NEE-NYSE-\$57.85) to our US Dividend growth portfolio.

DISCLAIMER: I hold Nextera personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days.

We remain optimistic that humans find solutions. A team of French geologists may have found one for climate change.

'They went hunting for fossil fuels. What they found could help save the world' – CNN Oct 29, 2023

NOTE: We are cautious of headlines yelling 'Save the World'. This one may be warranted.

<https://www.cnn.com/2023/10/29/climate/white-hydrogen-fossil-fuels-climate/index.html>

Continuing the Seminar notes: Whaddya done for me lately?

Jan to Oct/2022 the S&P flopped 27%, pricing in a recession. It has since rebounded with a recent slip back. We think the broad markets are signalling a recession was due (happening now?) and is about to pass.

Prices have rebounded implying expansion



Sources: Refinitiv, NBF, Hilberry

How has our portfolio fared during the 2022-23 tough markets? The next two slides compare our Hilberry blended Canadian + US Dividend Growth vs various benchmarks, The first slide looks at 2022's -27% market slide. Jan/Oct 2022 we showed a ½% loss.

Jan-Oct/2022: Selected US & Canadian equities

Description	Oct 21/2022	% From High	Year to Date
S&P500	3752.75	-22.1%	-21.3%
US Div Achievers	3281.06	-18.1%	-17.6%
FAANG+TM Index	4663.85	-42.15%	-37.2%
TSX Composite	18860.95	-19.5%	-11.1%
TSX Banks	3816.9	-21.6%	-13.6%
DJ Cda Select Div Index	276.0	-20.1%	-14.7%
Hilberry Cdn Div Growth	n/a	-9.6%	-1.3%
Hilberry US Div Growth \$CDN	n/a	-5.5%	+0.10%
Hilberry Div Growth Blended	n/a	-7.4%	-0.5%



Here's our portfolio from the S&P500 market top in Jan/2022 to our seminar date in Oct/2023. While we show a modest +1.5% total net return our dividend income has jumped.



Bear Market Survival: Jan/2022 to Oct/2023 +1.5% total



Per \$100:

- S&P500 \$C: \$99.05
- DJIA \$98.64
- TSX \$97.34
- DJ Cdn Div Index \$91.82
- Portfolio \$101.49. Divs now 4.0% +15.25%



Since inception our portfolio has averaged 10.3% net. For each \$100 invested we now show \$10.78 per year in cash dividends. Current yield on current cost on our Canadian dividend portfolio is 5.7%. We said we're happy to get paid to wait believing patience could be well rewarded.

Oct/2023: Hilberry Portfolio Cumulative per - \$100

- 12-mos: \$102.80 = 2.80%
- 2 years: \$103.54 = 1.75% avg
- 3 years: \$137.90 = 11.31% avg
- 5 years: \$138.86 = 6.79% avg
- Inception July 11, 2013: \$273.19 = 10.33% avg ann return
- **For each \$100 invested July 11, 2013**
 - Sept 2013 Projected 12 mos div: \$3.21
 - Sept 2020 Projected 12 mos div: \$6.54
 - Sept 2021 Projected 12 mos div: \$8.37
 - Sept 2023 Projected 12 mos div: \$10.78
 - Annual Dividend Income growth rate: 12.51%
 - Sept 30 10.78% cash yield on net investment
 - Oct 24 - CDN portfolio 5.7% current yield pre-tax

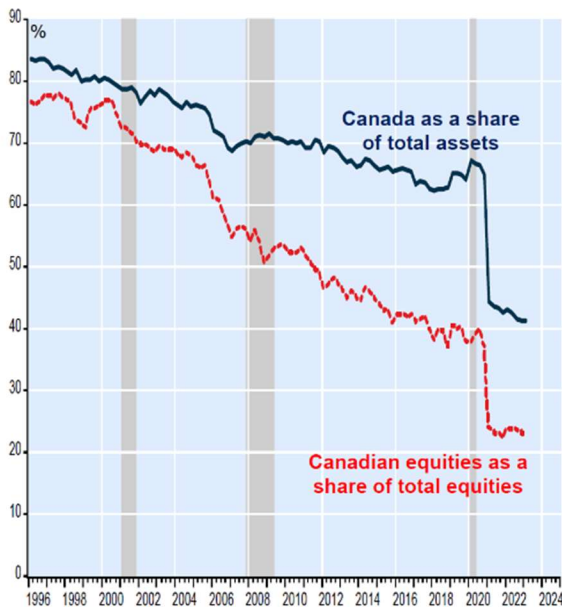


Canada: Our pension funds continue to shun domestic assets – NBF HotCharts Nov 1, 2023

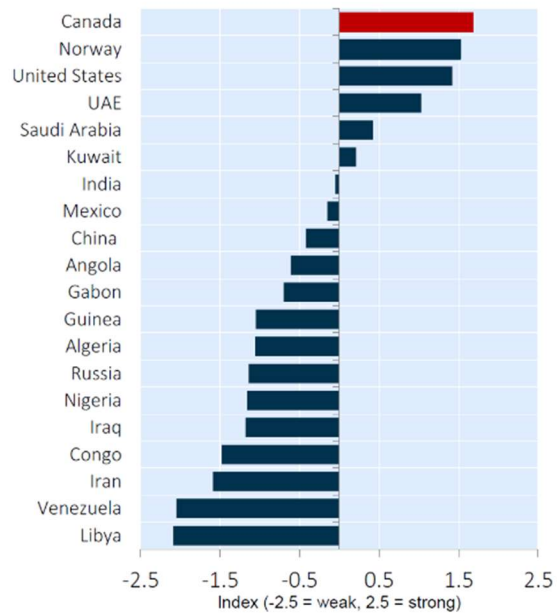
In past readings we've pointed out the exit of international investors from Canada. Turns out Canada's pension funds have also been net sellers of Canadian assets, equities in particular. NBF's Chief Economist Stefane Marion points to Canada's regulatory hurdles as a factor.

Canada: Our pension funds continue to shun domestic assets

Canadian assets as a % of total assets and share of Canadian equities in total pension fund equity holdings



Regulatory quality index for OPEC countries plus CA, MX, NO, CN and IN (2022)



NBF Economics and Strategy (data via via Statistics Canada [11-10-0077-01](#) et [11-10-0085-01](#) and [World Bank](#))

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=0f6980c8-2f42-4700-a5dc-a7c8d57ef439&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

That was then, this is now. We think the future will change in Canada's favor. The Loonie around 73 cents US and low Canadian equity prices mean it's time to Buy Canada. We suspect international investors will think so too. Getting paid to wait may be required.

Life is good in Canada. It's great here on the Island. Maple Bay Sunrise over Mt. Maxwell on Saltspring Island – from a client's window.



Have a Great Weekend

Steve & Anna Hilberry



Steve Hilberry
Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD November 3, 2023

DOW INDUSTRIALS:	34,085
S&P 500:	4,363
S&P/TSX COMP:	19852
WTI:	\$81.10
LOONIE IN \$USD:	\$0.7319 \$US



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