DIVIDENDS

Investment Planning Enewsletter

Moving on Flatly

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What a beautiful summer it was. Sunny, enough rain to keep it all green and temperatures that did not melt one into the air-conned space. We finished up September with all markets seeing losses and October bouncing back thru today. Israel's war with Hamas has been met with a relatively calm market reaction thus far. While the human toll is unimaginable, the market's assessment is that the latest outbreak of war in the Middle East is unlikely to be a material risk to long-term investors.

The primary spillover from conflicts in the Middle East has typically been felt in oil and gas prices. Thus far it has been neutral. Oil prices rose 35% over the first two weeks of the Russian invasion of Ukraine. Makes sense as Russia supplies 10% of the globes oil and gas.

This likely has one wondering more about the availability of oil and gas on Canadian and US soil. US can likely fill voids from their own fields, pipelines and fill up their storage facilities which are below capacity at this time. Canada could but remains to have the massive challenge of moving it across the country due to lack of pipelines. Enbridge just expanded upon their Texas facilities they own, as they cannot accomplish this within our border.

Where is Inflation Really at?
Frankly, you are the best judge of this by monitoring your pocketbook. I would say the price of goods going up has abated, maybe peaked. Housing is certainly moved lower depending on the location you live in. An interesting one I became aware of is "Truflation.com" (check it out for yourselves). Their moto is to measure daily inflation on 10 million items. As of today, the rate is showing 2.37% in the US. They do not measure elsewhere and that is okay due to the US being the barometer for us all to look at. It is down dramatically from the near 10% rate of inflation they showed for November last year.

Why is 2% Inflation Unrealistic
The answer is much simpler than one might believe. It is driven to stay elevated, in the 3% range for longer, due to one thing...employment. I am not worried about a 3% rate of inflation for the 2% and less experienced over the past 10 years was artificially low due to interest rates being held low.

Vaughn's Employment View That Breaks the Feds Views

In the last 3 years or so we have seen some of the most productive employees in the system retire and quit. The unfortunate reality is those taking their places do not wish to work as hard as their predecessors have. I don't question whether this is good or bad, it is what it is. When the workforce is getting paid the same or more to work less productively, this is inflationary on its own. More money is chasing the goods available is the outcome.

The US Fed and the Bank of Canada think they can curtail spending by raising interest rates dramatically and thus reduce inflation. Like they did in the 70's. Unfortunately, that model does not incorporate the level of employment and lowered productivity we see today. They are actually creating higher, exasperated inflation by keeping rates above where they should be. Their playbook, is flawed and it will not bring inflation down. They need to reduce their Debt balance sheet and bring rates down into the 3% range.

Final Thoughts

I have said since at least February of 2023, that the lows of October last year where a bottoming in the 2022 correction and was not likely to be repeated. Yes, September showing -4% is not great to look at, however it is not a major correction like October of 2022.

Their remains some outstanding companies functioning today that have higher dividend rates than normal due to their stock prices being lower. Many great companies with 4% and 5% or greater dividend yields that have already grown their dividend this year.

The cost of capital is real again; in other words the rate of interest makes it real. That rate is a lot higher than it has been in years. It is also harder to get, it is not as plentiful as it is exacerbated by more private capital going to government spending (buying of Government debt). After so many years of a low cost of capital and tons of excess liquidity sloshing around the world, the adjustment takes time. It is not completed in a tweet, but more like the time to write a novel. Rates should start easing by March of 2024.

Happy to speak with you or your friends at 905-309-9990 or email vwarrington@alignedcp.com

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