InTouch

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QUARTER 2 – 2025

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Our customized services include:

- Retirement Income Planning
- Investment Management
- Asset Planning
- Wealth Protection
- Risk Management
- Tax Planning

BASIC FINANCIAL SERVICES INC.

STERLING MUTUALS INC.

Welcome to the Q2 edition of In Touch. We hope this issue provides you with valuable information, which will allow you to make strong financial decisions.

What's Happening

In a year of changing markets and economic uncertainty, we want to reassure you: we've been hard at work on your behalf.

Our team continues to monitor the markets closely and make thoughtful, strategic decisions to help your portfolio stay resilient and aligned with your long-term goals. While volatility can be unsettling, it's also a normal part of the investment journey—and a time when discipline and experience matter most.

We remain committed to transparency, diligence, and proactive management. Whether it's adjusting allocations, identifying new opportunities, or reinforcing your financial plan, everything we do is aimed at protecting and growing your wealth.

As summer is in full swing, our team is taking the opportunity to enjoy the season while continuing to work hard to support your needs. We're committed to delivering the same level of dedication and service you expect, even as we soak up a bit of sunshine ourselves. We hope you're also finding time to relax and recharge, and we wish you a wonderful and enjoyable summer!

Market & Economic Update

What a whirlwind 2nd quarter to 2025. It began with global investors blindsided by US President Donald Trump's announcement of harsher-than-expected tariffs on April 2. Those sent stocks tumbling within a matter of days. Then, after Trump reversed course just a week after the announcement, stocks staged a remarkable rally, making up all those losses and then some. The market has climbed more than 25% since bottoming out on April 8. Below is a summary of other events that occurred:

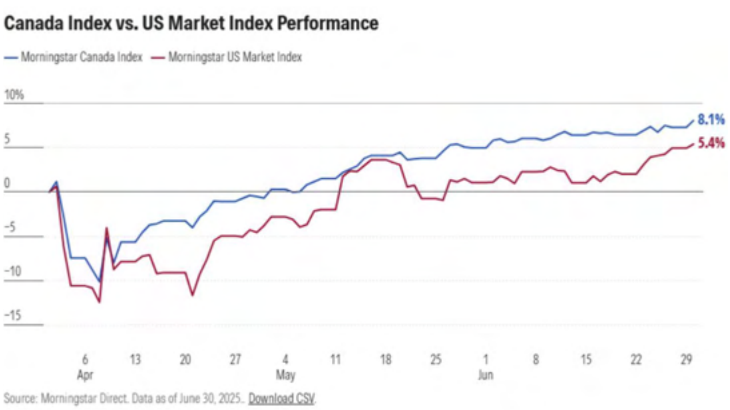
1. President Trump announced global tariffs, see here for more details on the timeline: https://apnews.com/article/tariffs-timeline-trade-war-trump-canada-mexico-china-a9d714eea677488ef9397547d838dbd0
2. Trade Wars between the United States and Canada, China, along with many other countries, following the tariff announcement.

3. New trade deals and global restructuring of trading partners.
4. Continuation of the war in Ukraine provoked by Russia.
5. Israel and Iran war began, and a ceasefire has since stopped it following the USA's attack on Iran's nuclear sites – those sites and their nuclear program being deemed to be the reason for the conflict.
6. Historic European defence spending to protect against growing threats and wars breaking out across the globe.
7. President Trump's "Big Beautiful Bill" economic proposal to fuel more US growth.

We could state several others as well and this is not meant to give panic, but clarity on what is occurring around the world right now. I quite like our bubble up here in the Great White North!

But it is not all bad news, even in times of war and particularly trade wars – there is money to be made in the stock market.

We stuck with our investment strategy of holding onto the good quality companies we invest in, and it paid off. A large reason for the success of the portfolio is due diversification – spreading out your hard-earned money into different companies across the globe. An example of this is our portfolio capitalizing on the growth of the Canadian and US markets in the last 3 months as well as International growth.



Where Are We on The Emotional Journey of Investing

We are out of the worst of it for the time being and per the chart below, likely in the "Glad I stayed the course" mode after the market recovery.

We are not fully out of the woods with all of the news items mentioned above. They will surely have an impact on the rest of 2025 but your portfolio has held up and grown this year amidst challenging markets. This was the case during COVID and many years since then. We remain confident in the portfolio and your investment managers who are making changes behind the scenes and always looking for opportunities to grow & protect your hard-earned savings.

Market View and Investment Philosophy

- The current market is characterized as a volatile, messy, gross macro environment.
- Mark Schmel (manager for your Fidelity Global Innovators and Canadian Growth funds) is 'Putting the Global back in Global Innovators'.
  - Specifically highlights European growth stocks that nobody really owns
  - Asia is noted as having many great ideas.
  - The Chinese economy, while soft, is getting better, and Asian economies in general are improving. There is a lot of untapped growth and cheap multiples compared to US growth stocks. For example, a US growth stock might trade at 35 times earnings, while an Asian growth stock trades at eight.
- US Dollar: The US dollar is believed to be in a tough spot.
  - Continued pressure on the US dollar is expected.
  - Reasons cited include it being "over owned," better opportunities existing overseas, and the policy actions of the current US administration being perceived as hostile globally.
  - Mark believes the move away from US assets continues, pressuring the dollar. He struggles to see a scenario where the dollar will be strong.

- Gold and Cryptocurrency: Both are seen as benefiting from the shift away from the US dollar and potentially secular trends.
  - Gold is working well as central banks worldwide are buying it on the shift away from the US dollar. Mark believes Gold is in a secular bull market that could continue for years. This is linked to the idea that the world "just can't really trust the American government anymore".
  - Mark views Cryptocurrency as the "same trade" as gold.
  - Both gold and crypto are volatile, and it's recommended to hold only a small percentage of a portfolio in these assets.
- Canadian Market: Seen as tough.
  - Short term he is worried, in medium to long term hopeful that provinces will stop fighting, stop brain drain, and be competitive.
  - We send our cheap oil to US as we don't refine it ourselves, tariffs are a good wind of change to make us more independent.
- Tariffs: Mark believes the market has "moved on" from caring about tariffs. While prices might increase for some goods, management teams are expected to be able to handle it.

What Does Your Media Diet Look Like?
We wanted to spend some time talking about the media. With social media, many major news outlets and others fixating on negative news constantly… it can be frightening & scary.
We find their focus on heightening short-term concerns, makes it tempting to react impulsively and emotionally to headlines.

For your peace of mind and to reduce stress - our recommendation is to avoid negative new headlines or switch to "consume" more positive media outlets / information. Usually less is more in this case. If you have concerns, please speak with Mumin and Cody at anytime.

What this means for Basic Financial: Our funds view and outlook

We continue to monitor the markets and our portfolio. We are confident in our strategy of having a diversified portfolio with a mix of active managers and passive managers which continues to outperform our peers. We have designed the portfolio to help ride out any potential future market volatility and are not making any major changes at this time.

As always, please feel free to reach out if you have any questions, comments or would like to book some time to review your specific situation. We offer both face-to-face or electronic meetings via Zoom. If you feel the information above may be helpful to a family member or friend, feel free to share or visit our website www.basic360.ca

Sincerely, your team!

Article of Interest

Young Canadians want passive income, but there are no shortcuts to making money

By Kelsey Rolfe

Mr. Lodhi, a Toronto financial services professional in his 30s, sees passive income as a key part of his financial plan, particularly as a buffer against economic downturns.

But he estimates it's less than 10 per cent of his total income, and it's not money that he spends. "Right now it's just something I'm using to generate additional income, and it's going back into growing my pot of investments."

Passive income is a type of income that requires little or no effort to maintain, such as investment or rental income. And while generating it is hardly a new idea in the personal finance world, it's particularly in vogue, partly stoked by social-media "finfluencers" for a subset of millennial and Gen-Z Canadians trying to get ahead in an economy that increasingly feels stacked against them.

Small-city lawyer, 36, uses multiple corporations to save and invest

"A lot of where that drive comes from is definitely the cost of living going up, from what I see in my business day to day," says Cody Weber, a certified financial planner with Basic Financial Services in St. Catharines, Ont.

Mr. Weber, 29, says passive income comes up in "100 per cent" of his conversations with young clients, and he's also generating his own income streams to make himf inancially resilient to future downturns.

"People feeling like they'll never get ahead, never buy a home, so they're moving to passive income streams to try to make a better life for themselves, buy that house or go on those trips."

But financial advisers and passive income proponents say that those hoping for a shortcut to wealth generation may find themselves disappointed: There's a whole lot of active work, time and investment that goes into creating passive income.

According to data from TikTok, more than 3 million videos have been posted using the hashtag #passiveincome, 74,000 of which were posted by Canadian users in the past 12 months. Forty-four per cent of viewers were between 18 and 24, 26 per cent were between 25 and 34, and 30 per cent were 35 and older. The hashtag #sidehustlealso has a total 4.7 million posts.

There are plenty of low-effort ways to start building a foundation for passive income, such as opening a high-interest savings account or a chequing account that pays interest on the balance, or investing in dividend-paying stocks. Dividends, Mr. Lodhi said, have the additional benefit of being taxed preferentially in some cases.

Mr. Lodhi said he's also invested in high-interest savings account ETFs, or exchange-traded funds, which trade on the market and earn money by investing in a number of high-interest savings accounts and paying the earned interest to investors.

In the past, he's also engaged in leveraged investing through a margin account, a sophisticated and risky investment strategy that involves borrowing money to purchase stocks or other securities with the goal of generating outsized returns. Canada's tax rules also allow investors to deduct the interest paid on their loan from their annual income.

Zainab Williams, certified financial planner and founder of Elleverity Wealth Management in Milton, Ont., noted that these types of investments will pay off, but likely on a much longer time horizon if someone is starting from scratch or with a small amount to invest.

As an example, young people who come to her educational seminars often ask her about how to earn $1,000 a month in investment income. If those earnings came from an average 5-per-cent dividend yield, Ms. Williams said, the person would need to have invested roughly $240,000 into the market. "Getting to [that point], you have to work hard to save up all that money. You have to be dedicated enough to invest diligently, reinvest your dividends, to snowball to $240,000," she said.

Another form of passive income can come from developing a side hustle or freelance business, said Lin Sok, a Montreal-based independent financial security adviser.

She has numerous clients who work in online industries, such as website designers or social-media content creators, who are generating passive income through affiliate marketing or paid residual advertising.

Mr. Weber is in the midst of building his own side hustle. He's currently developing aYouTube channel and blog focused on financial education content that he hopes will eventually generate advertising revenue, and is also building an online course on retirement planning.

Buying and renting property is likely at least temporarily out of reach for many because of the large upfront costs, which include not just the purchase costs but potentially renovation expenses.

Mr. Weber was able to get into the rental income market by getting creative in purchasing properties. He bought his first property with a friend, which they now rent out. He bought his second with his cousin and her husband; they live in the home's top floor unit, he lives in a basement, and they have a tenant on the main floor.

He estimates he spent about a year converting each home into apartments and finding tenants before he was able to earn any income.

Despite the solid income stream, not everyone is suited to be a landlord, he said.

"If you're not passionate about it, a lot of people will fall off. They'll say, 'You know what? I did it, it wasn't for me.'"