Partying like its 1999 again!

Dear Valued Clients,

Is it just me or is this Deja vu all over again?

Think back 25 years to 1999. The political world was transfixed on the Bill Clinton impeachment trial, the internet was coming into its own, 'dotcom' stocks were the rage, and everyone was worrying that the world would end at the stroke of midnight with Y2K. 1999 and 2024 share similar fears of political turmoil, potential for a global crisis and from a market perspective, the 'dotcom' hype of 1999 was very similar to the AI hype today.

Nvidia (2024) vs. Cisco (2000)

Today the story is Artificial Intelligence, or "AI". In the 1990's the new thing was the internet. The #1 story stock of the 1990s dot-com boom was Cisco Systems (CSCO). The #1 story stock of the AI boom today is Nvidia (NVDA).
Nvidia has been around for almost 25 years, but the stock has been quiet till recently. They were a little-known chip manufacturer specializing in making processors for video games. The advent of Artificial Intelligence put them on the forefront of the AI boom and the stock literally took off. A $10,000 investment in Nvidia in 1999 is worth over $27 million today!
Here's a look at how the last 5 years for Nvidia compares to Cisco's incredible 5-year run that ended in March 2000:

- Nvidia's 5-year return leading up to June 2024 peak: +3,440%.
- Cisco's 5-year return leading up to March 2000 peak: +3,590%.

History doesn't always repeat, but it rhymes. Back in 2000, guess who Cisco passed to become the world's largest company? Microsoft. Guess who Nvidia recently passed to become the world's largest company? You guessed it, Microsoft.

As a postscript, after the dot-com crash 25 years ago, Cisco crashed with it and has never come close to its year 2000 highs.

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Inflation: Cause, Effect and Consequences

There is an old saying that when the central bank lowers interest rates it's like bringing spiked punch to a party. Why is that? Because low rates inject money into the economy. If low interest rates gets the party started, the past five years has seen 0% interest rates and not just cheap credit, but trillions of free money handed out and government debt exploded.

The party was on, but overindulgence has consequences which we are now experiencing. The economic hangover caused by too much money printing is very predictable, that's inflation. Too much money printing is the cause of inflation, high interest rates are the effect, and the consequence is everyone suffers, especially the most vulnerable members of society.

"Inflation is always and everywhere a monetary phenomenon." – Milton Friedman

What does that mean?

You cannot have inflation without adding to the money supply known as M2. Think about it, if you inject a bunch of cash into an economy without adding more stuff to buy, the prices of everything will go up. During Covid the government flooded the world with trillions of money (M2 expanded 42%) and forced people to stay home limiting production. What you end up with is a situation where more and more money chases a fewer number of goods. All that money sloshing around the system bids up stocks like Nvidia, real estate, groceries…everything. According to stats Can, grocery prices are up 22.5% higher than they were four years ago.

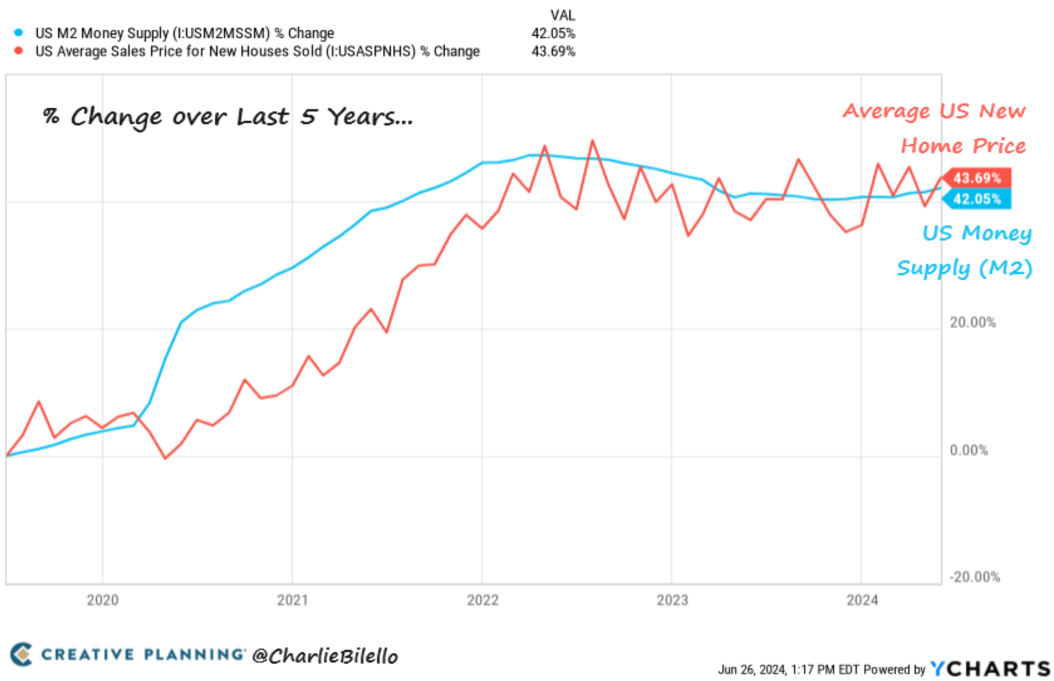
If M2 is up 42% and groceries are up *just* 22%, don't blame your grocery store, thank them for your grocery bill. With housing, the effect of the M2 explosion is exacerbated even further with supply chain bottlenecks, regulation limiting construction and record unchecked immigration. If you own a home already, this has worked out nicely for you. But if you're a first-time home buyer, without help, you are now priced out of the market. Each layer of housing inflation can be blamed on government policy.

Housing; appreciation or inflation?

There is a direct correlation of money supply growth (M2) to inflation. There are also two sides to this coin. If you own stocks or real estate, you enjoy the appreciation. If you don't own a home, it's housing inflation.

Increase over the last 5 years...

- US Money Supply (M2): +42%
- Average US New Home Price: +44%



Works till it doesn't work.

Unless that is, you buy into the concepts of MMT, or Modern Monetary Theory. What is that you ask? There is a new regime of economists that believe that countries that issue their own currency (such as the U.S., Canada, Japan etc.) can issue endless amounts of debt (print and hand out money like Peter Pan) to enjoy unlimited spending. They seriously believe this.

I believe that you can't borrow or tax your way to prosperity. There are only so many wealthy people to tax and so many credit cards to max out before the party ends and the hangover begins.

Sir Winston Churchill famously stated, "*I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."*

These actions have consequences.

- The Bank of Japan's ultra loose (money printing on steroids) monetary policy causing the Yen to hit record lows vs the U.S. dollar while their stock market goes higher.
- Europe and Canada have been focused over the past ten years on policies to ensure equal outcomes, while the U.S. (has historically) been a land that promises equal opportunity. Years of debt financed money printing is causing a hangover. People are not happy. Anyone that works hard and saves is not happy, they struggle to keep up with inflation and are tired of seeing their taxes go ever higher. Young people are not happy because they have no hope of ever buying a house unless they have help from (wealthy) parents. Those wealthy parents are seeing their life's work eroded by taxes and inflation. Historically this sentiment leads to political disruption.
- Fifteen years ago, the value of European markets combined was roughly equal to that of the United States. Today the value of just seven U.S. stocks exceeds the combined value of every stock on all of the European stock markets.
- Canadian GDP and productivity have fallen off a cliff over the past ten tears. There is a feeling in Canada that success is punished, and we are experiencing a mass migration of productive citizens out of the country to the U.S. as a result.
- TransUnion Canada's consumer pulse study for the second quarter of 2024 found 57% of Canadian households said their incomes are not keeping up with the current inflation rate, while 38% expect payments for bills and loans to increase over the next three months.
- In Canada, it was just reported that 1 in 4 people now live at a poverty level. That is unacceptable for a wealthy country like Canada. Every level of the socioeconomic ladder in Canada is suffering and angry. The recent increase to the capital gains tax is the final straw for many.
- When there is no consequence to bad policy, expect more bad policy. The winds of change are upon us, we have already seen incumbent parties booted out in European elections and it's a good bet to expect the same here.
- Bonds and similar fixed income like GIC's, because of inflation (and taxation) have not been working and are still not working. The entire financial system of fiat money (the paper money we all come to know as currency) which is based on financial integrity, is under scrutiny. People have lost trust and are looking for alternatives, see below.

What works

"Buying funds based purely on their past performance is one of the stupidest things an investor can do." - Jack Bogle

If you had all your money invested in Nvidia, it's paid handsomely. But few people saw it coming and repeating that kind of success is spotty, if not impossible. I'm not sure how Nvidia performs in the future, but we know how it ended for Cisco. Several years ago, the darling stock of Wall Street was Tesla, owning it was like holding a winning lottery ticket. Cathie Woods and the ARK Innovation fund looked like geniuses managing an all-Tesla portfolio, but this was a one hit wonder for them. The ARK fund hasn't come close to finding a follow up stock and have lost money with their "expertise" stock picking ever since.

What works (continued…)

1. **The market works**. Market timing and speculation of trying to be smarter than the market has proven time and time again not to work. Case in point, the Nasdaq 100 (QQQ) is a basket of the top 100 growth stocks in the U.S. That list includes Microsoft, Apple, Nvidia, Costco etc. Buying and holding that group **is up 40% in the past 3 years**. The ARK Innovation Fund ($ARKK) picks, buys, and sells individual stocks from that same group is **down over 60%.** As a postscript, Cathy Woods actually held Nvidia, but sold out their position before it had its spectacular run up in value. Her clients would have been better off if she stopped "managing" the portfolio and just held the basket.
2. ***Outcome oriented*** strategies like **Income Accelerator works**. Strategies that don't rely on guesses, forecasts, politics, opinions, trading, etc. to succeed, works. Income Accelerator holdings in tried and true highly predictable businesses like banks, pipelines, energy, infrastructure, and consumer companies that supply necessities; companies with a multi-decade history of paying and growing their dividends, works.
3. **The world is changing,** and we must keep up. What worked historically might not work in the future and many investment "paradoxes" must be considered. Once speculative tech companies are now more like safe defensive utilities. Once safe bonds must now be questioned for their negative absolute (actual) and negative real (after inflation) rates of return. Once considered highly speculative crypto currencies like Bitcoin are now considered risk *reduction* assets in a well diversified conservative portfolio according to research from highly respected asset managers like Fidelity and Blackrock.

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Income Accelerator dividend update so far in 2024.

- BMO, National and Royal Bank all raised their dividend between 2.6% and 3.8%.
- Enbridge, TransCanada, CNQ and Brookfield Infrastructure all raised their dividends 2.8%, 3.2%, 5% and 6%, respectively.
- The star dividend growers so far were Rio Tinto and Costco. They raised their dividends 45% and 13.7% respectively; plus, Costco paid a special one-time bonus dividend of $15 per share.

Conclusion

It's been a busy year already and I don't expect things to quiet down any time soon. It's early, but I think we can expect a great deal of drama leading up to and following the U.S. elections in November. The poly crisis negatives of domestic, U.S. and geopolitics, combined with current and potential global conflict, inflation, and economics is converging with positives such as global energy transition, Artificial Intelligence and other technological advancements and biotechnological discoveries.

Like a phoenix from the ashes, we are just a few years removed from a global pandemic that shut down the entire world that is finding its way again. We can't allow ourselves to get caught up in the doom and gloom or the hype and nonsense. On balance, I am cautiously optimistic.

Update

On a personal note, I'd like to thank everyone for their warm wishes and encouragement about our personal tragedy that turned out better than anyone could have hoped for. As an update, my son Jack is back to work full time, we are working out again, he's taken up golf and recently shot an 89. Like any teenage boy he refuses to make his bed, leaves the bathroom a mess and cannot seem to remember to wipe crumbs from the counter. And I am loving every minute of it. Life is wonderful.

Best Regards,

Darren

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