

ODLUM BROWN REPORT

01 2023



ODLUM BROWN
Investing for Generations®

INSIDE THIS ISSUE

Page 1

[A Message from Our President and CEO](#)

Page 2

[Now is the Time for Discipline](#)

Page 4

[Odium Brown's Annual Address](#)

Odium Brown Limited

Suite 1100 - 250 Howe Street
Vancouver BC V6C 3S9

Main 604 669 1600

Toll Free 1 888 886 3586

Kelowna 250 861 5700

Victoria 250 952 7777

Chilliwack 604 858 2455

Courtenay 250 703 0637

Langley 604 607 7500

Email information@odlumbrown.com

 [Odium Brown Limited](#)

 [Odium Brown Community](#)

 [@Odium_Brown](#)

 [OdiumBrown](#)

MAKING A DIFFERENCE
FOR CLIENTS FOR

100 YEARS

A Message from Our President and CEO

Happy New Year, everybody!

The turning of the calendar is always symbolic, but to us at Odium Brown, entering 2023 is a *big deal*. This year, we mark 100 years as a firm, and could not be more excited to celebrate with all of you!

I'd like to take this opportunity to reflect on what makes Odium Brown different, and what it is about our offering that has brought us to this milestone.

It should come as no surprise that our story is remarkable; after all, a lot happens in 100 years! Since our founding in 1923 by two Canadian military officers – General Victor Wentworth Odium and Colonel Albert Malcolm “Buster” Brown – this firm has forged ahead through the Great Depression, World War II, the Great Financial Crisis and (you may have heard of this one) a global pandemic. Throughout all this and more, we have adapted, evolved and established our firm as a stable and trustworthy financial partner.

But how did Odium Brown achieve this enduring success? What is the “secret sauce” of our longevity?

Simply put, shared values and a common purpose.

Our founders had a vision to follow the Golden Rule. To do the right thing. To act in the client's best interests. To eschew personal ambition and take care of one another. Looking back, this was remarkably forward-looking, and I'm sure they could not have conceived how far their vision would take us.

But for those of us who have stewarded this firm through the technological, economic and geopolitical upheavals of decades, it has remained our True North.

That's not to say there haven't been challenges, and I want to talk a bit about what it means to us to be an independent firm. Independence is not easy to maintain in this industry. For us, it has been worth defending – at times, fiercely. It is who we are, and it is *the* critical differentiator that enables us to do what we do best: put our clients first.

Because we are independent, our clients know that every recommendation is objective and every trade is suited to their individual goals and circumstances. Because we are independent, our team members share in the success they help create, as we remain 100% employee-owned to this day.

This creates powerful alignment throughout Odium Brown around what we are here to do: help our clients achieve their financial goals.

On the one hand, it is simple; on the other, it has taken a century's worth of courage, conviction and sophistication to achieve.

Continued on next page

Share your Odlum Brown story!

Whether you are a client, or perhaps familiar with us through our community involvement, we invite you to help us celebrate our 100th anniversary!

Scan the QR code below for an opportunity to share your Odlum Brown story. Tell us how we've been part of your journey, about a time we made an extra impact — or even just who you think would play Odlum Brown in a movie!

We would be honoured to hear from you.



It is why generations of investors have entrusted us with their financial futures.

Speaking of the future, I am very excited about what lies ahead for Odlum Brown. Oh, yes — at 100 years young, we are just getting started!

As we celebrate our 100th anniversary throughout 2023 and honour our rich history, we will also be looking forward to how we can build on this extraordinary foundation. How we will provide a large-scale offering to clients while maintaining a small-firm feel. How we will broaden and deepen our community impact across geographies and generations. How we will affirm our place among Canada's top independent firms.

One thing is for certain: our valued clients will be front and centre in our plans, and at the forefront of our yearlong festivities. I hope you will begin by attending our Annual Address next month to learn more about our story and our client-focused approach — and I especially hope you will stay for cake!

Happy 100th to all of my passionate, dedicated colleagues, past and present; to our indomitable community partners; and to all of our esteemed clients, who are the heart of Odlum Brown. I couldn't be more proud to share in the accomplishment of a century with all of you.



DEBRA DOUCETTE
President and Chief Executive Officer

To learn more about our 100th anniversary and share your Odlum Brown story, visit odlumbrown.com/100.

To register for one of our upcoming Annual Address presentations, visit odlumbrown.com/rsvp.

Now is the Time for Discipline

COMPOUND ANNUAL RETURNS¹ (Including reinvested dividends, as of December 15, 2022)

	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION ²
Odlum Brown Model Portfolio	-3.0%	-2.4%	9.5%	8.6%	12.6%	12.0%	14.0%
S&P/TSX Total Return Index	-4.9%	-2.7%	8.1%	7.3%	8.0%	8.5%	8.4%
S&P 500 Total Return Index (\$CDN)	-10.3%	-11.0%	10.2%	11.1%	16.6%	9.1%	10.0%

¹ Except for YTD period. ² December 15, 1994.

A year ago, we celebrated the Odlum Brown Model Portfolio's 27th anniversary and a valuation of \$10 million. That marked a 40-fold gain from the initial investment of \$250,000 in our hypothetical portfolio in 1994. We credited governments and central banks, and the unprecedented levels of fiscal and monetary stimulus they unleashed to supercharge the economic recovery, for the pace by which we breached the \$10 million milestone. In 2021, the Model appreciated by 26%. This past year, the Model was down 3.0% as of mid-December, a meaningful recovery from a year-to-date loss of nearly 10% in mid-July.

We are grateful that our Model has held up as well as it has, considering the unexpected persistence of high inflation and the dramatic rate by which central banks have raised interest rates to get it under control. Indeed, the Bank of Canada and the U.S. Federal Reserve increased administered short-term interest rates seven times during 2022, from an upper bound of 0.25% in early March to 4.25% and 4.5%, respectively, by the end of the year. It was the fastest and most aggressive tightening of monetary policy since the early 1980s.

A year ago, we did not foresee a recession on the horizon as there was too much fiscal and monetary stimulus in the economic pipeline. It usually takes 12 to 18 months for stimulus to have an impact on the economy, so we expected growth to revert to the slow, muddle-through state that existed prior to the pandemic. And growth did reduce: according to the latest estimate from the International Monetary Fund, global growth slowed from 6.0% in 2021 to 3.2% in 2022.

The economic outlook for 2023 is uninspiring. The fiscal and monetary restraint implemented in 2022 will have a meaningful dampening effect as it works its way through the economic system. Government deficits declined significantly last year, as extraordinary assistance programs ended, and there is little support for big government

The Odlum Brown Model Portfolio was established on December 15, 1994 with a hypothetical investment of \$250,000. The Model provides a basis with which to measure the quality of our advice. It also facilitates an understanding of how we believe individual security recommendations could be used within the context of a client portfolio. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.



spending in the near term, given the inflationary pressures in the economy. Interest rates on mortgages, corporate loans and government bonds increased considerably in lockstep with changes in administered interest rates. Moreover, the money supply began to shrink in the latter part of 2022, as central banks' quantitative easing was replaced by quantitative tightening. In other words, central banks started selling some of the bonds and mortgage-backed securities they had bought during the pandemic.

The dour economic outlook no doubt makes it hard to be excited about the stock market, yet it's important to remember that markets are forward looking. Investors, corporate leaders and consumers expect tougher times, and much of that pessimism is already discounted in share prices. That's positive from a contrarian perspective. While the exact timing and level of a market bottom is impossible to predict, the stock market has always resumed its upward march well before the trough in the economy.

The bond market is sending a strong indication that a recession and lower inflation and interest rates are on the horizon. The yield on long-term government bonds is currently lower than the yield on short-term government bonds. This has created what pundits refer to as an inverted yield curve. It's an unusual condition that typically happens before a recession. Under normal and healthy conditions, investors are rewarded with higher yields on longer-term bonds to compensate for greater risk.

We view the inversion of the yield curve positively. As we explained in our November 2022 *Odlum Brown Report*, "Harsh Medicine for a Healthier Future," higher unemployment and an economic recession are likely the necessary evils we need to arrest crippling inflation and put the world on healthier ground.

In fact, our hope is that the battle to extinguish inflation will end an era of monetary mismanagement and set the stage for a reversal of several of the negative unintended consequences of overly accommodative monetary policies.

Central banks reduce interest rates during a recession or economic crisis to stimulate the economy and create jobs. Lower interest rates have three distinctly positive influences on the economy: (1) they encourage consumers to borrow and spend; (2) they motivate entrepreneurs and business leaders to expand existing businesses or create new ones; and (3) they inflate asset values and make people feel richer, which in turn fuels greater spending.

While we are grateful that central banks ease monetary conditions to moderate the pain that comes with economic setbacks, we feel they have lost their way in recent decades and overplayed their role. They have forgotten that the economic cycle

serves an important, cleansing purpose, which fortifies society's economic foundation. Cheap and easy money policies have very real and negative consequences that undermine our financial stability, productivity and social fabric.

For each of the positive influences, lower interest rates have three distinctly damaging effects over the long term: (1) they encourage excessive risk taking and debt leverage; (2) they lead to a misallocation of resources toward unproductive or less productive activities; and (3) they fuel inequality, as wealthy people own a disproportionate amount of the assets that get inflated by low interest rates.

The buildup of these consequences has been considerable since the 2008 financial crisis, as the Bank of Canada and U.S. Federal Reserve kept administered interest rates near zero for nine of the last 14 years. Global debt leverage is at an unprecedented level, productivity is depressed and social unrest is the worst we have seen in decades. The good news is that the normalization of interest rates will help reverse some of that. Consumers, businesses and governments will be motivated to reduce leverage. Unprofitable and unproductive businesses will go bankrupt or be scaled back, freeing up much-needed labour and resources in short supply elsewhere in the economy. The downward revaluation of assets will also help narrow the divide between the haves and the have-nots.

The recklessness and possible fraud that has become apparent in the crypto industry is a great example of all three damaging consequences and their reversal. Greed and the promise of easy money caused investors to take excessive risks. Fortunes were made and lost, and now investors are being more cautious. Unproductive jobs are being eliminated, and businesses elsewhere in the economy are finding it easier to attract good employees. The bursting of the crypto bubble has thus far destroyed more than \$2 trillion of value.

Considerable wealth and froth have been expunged from other formerly popular and speculative areas of the market, including non-profitable technology businesses, initial public offerings, meme stocks (like GameStop) and special purpose acquisition companies (SPACs). Even the formidable FAANGM equities – Meta (formerly Facebook), Apple, Amazon, Netflix, Alphabet (Google) and Microsoft – saw their Canadian dollar values decline an average of 37% in 2022.* Home prices inflated substantially during the pandemic, and they too are starting to come down in the face of higher mortgage rates.

While nobody likes seeing values decline, the asset inflation we've experienced in recent years has created significant inequality, which in turn has fueled disturbing social unrest. We believe the unwinding of speculative excesses will go a long way to creating a better environment for investing in the long run.

In order to ensure inflation remains under control, central banks are not likely to revert to ultra-low interest rates and abundant financial liquidity. Investment discipline will be much more important over the next 10 years than it has been over the past decade. Owning high-quality businesses with competitive advantages, solid profit margins, high returns on capital and strong balance sheets will matter much more, as will the price one pays for these businesses.

We are confident that our well-diversified portfolio of high-quality, reasonably priced businesses will serve us well in both the near term and the long run.



MURRAY LEITH, CFA
Executive Vice President and Director, Investment Research
@murrayleith

*As of December 15, 2022

DISCLAIMER & DISCLOSURE

Odlum Brown Limited is an independent, full-service investment firm focused on providing professional investment advice and objective research. We respect your right to be informed of relationships with the issuers or strategies referred to in this report which might reasonably be expected to indicate potential conflicts of interest with respect to the securities or any investment strategies discussed or recommended in this report. We do not act as a market maker in any securities and do not provide investment banking or advisory services to, or hold significant positions in, the issuers covered by our research. Analysts and their associates may, from time to time, hold securities of issuers discussed or recommended in this report because they personally have the conviction to follow their own research, but we have implemented internal policies that impose restrictions on when and how an Analyst may buy or sell securities they cover and any such interest will be disclosed in our report in accordance with regulatory policy. Our Analysts receive no direct compensation based on revenue from investment banking services. We describe our research policies in greater detail, including a description of our rating system and how we disseminate our research, on the Odlum Brown Limited website at odlumbrown.com.

This report has been prepared by Odlum Brown Limited and is intended only for persons resident and located in all the provinces and territories of Canada, where Odlum Brown Limited's services and products may lawfully be offered for sale, and therein only to clients of Odlum Brown Limited. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country including the United States, where such distribution or use would be contrary to law or regulation or which would subject Odlum Brown Limited to any registration requirement within such jurisdiction or country. As no regard has been made as to the specific investment objectives, financial situation, and other particular circumstances of any person who may receive this report, clients should seek the advice of a registered investment advisor and other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies discussed or recommended in this report.

This report is for information purposes only and is neither a solicitation for the purchase of securities nor an offer of securities. The information contained in this report has been compiled from sources we believe to be reliable, however, we make no guarantee, representation or warranty, expressed or implied, as to such information's accuracy or completeness. All opinions and estimates contained in this report, whether or not our own, are based on assumptions we believe to be reasonable as of the date of the report and are subject to change without notice.

Please note that, as at the date of this report, the Research Analyst responsible for the recommendations herein, associates of such Analyst and/or other individuals directly involved in the preparation of this report may hold securities of the issuer(s) referred to directly or through derivatives.

No part of this publication may be reproduced without the express written consent of Odlum Brown Limited. Odlum Brown Limited is a Member-Canadian Investor Protection Fund.

Odlum Brown Limited respects your time and your privacy. If you no longer wish us to retain and use your personal information preferring to have your name removed from our mailing list, please let us know. For more information on our Privacy Policy please visit our website at odlumbrown.com.



MAKING A DIFFERENCE
FOR CLIENTS FOR

100 YEARS

YOU'RE INVITED TO ODLUM BROWN'S

**ANNUAL
ADDRESS**

We are pleased to invite you and your guests to attend our signature investment presentation and celebrate our 100th anniversary together. Join **Debra Doucette**, President and Chief Executive Officer, and **Murray Leith**, Executive Vice President, Director, Investment Research, as they share our independent approach to helping generations of clients achieve their financial goals.

COURTENAY

Monday, February 6, 2 PM

Crown Isle Resort, Ballroom
399 Clubhouse Drive
RSVP to Chani at 250-703-0637 or
odlumbrown.com/rsvp by January 30.

SOUTH SURREY

Tuesday, February 7, 7 PM

Morgan Creek Golf Course
3500 Morgan Creek Way
RSVP to Emma at 604-844-5336 or
odlumbrown.com/rsvp by January 31.

VICTORIA

Wednesday, February 8, 2 PM

Delta Victoria Ocean Pointe Resort, Ballroom
100 Harbour Road
RSVP to Monica at 250-952-7775 or
odlumbrown.com/rsvp by February 1.

KELOWNA

Thursday, February 9, 2 PM

Coast Capri Hotel, Ballroom
1171 Harvey Avenue
RSVP to Valerie at 250-861-5700 or
odlumbrown.com/rsvp by February 2.

CHILLIWACK

Monday, February 13, 2 PM

Coast Chilliwack Hotel, Rosedale Room
45920 First Avenue
RSVP to Carlee at 604-607-7508 or
odlumbrown.com/rsvp by February 6.

VANCOUVER

Tuesday, February 14, 2 PM

The Fairmont Waterfront, Waterfront Ballroom
900 Canada Place Way
RSVP to Emma at 604-844-5336 or
odlumbrown.com/rsvp by February 7.

WEST VANCOUVER

Wednesday, February 15, 7 PM

Kay Meek Centre, Main Stage Theatre
1700 Mathers Avenue
RSVP to Emma at 604-844-5336 or
odlumbrown.com/rsvp by February 8.

LANGLEY

Thursday, February 16, 2 PM

Langley Events Centre, Banquet Hall
7888 200 Street
RSVP to Carlee at 604-607-7508 or
odlumbrown.com/rsvp by February 9.

Register early and electronically at odlumbrown.com/rsvp, as space is limited.

We hope to see you there!