

# ODLUM BROWN REPORT

## 02 2024



**ODLUM BROWN**  
Investing for Generations®

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### COMPOUND ANNUAL RETURN (Including reinvested dividends, as of December 31, 2023)

	1 YEAR	3 YEAR	5 YEAR	10 YEAR	15 YEAR	20 YEAR	INCEPTION <sup>1</sup>
Odlum Brown Model Portfolio*	11.7%	10.4%	12.1%	10.3%	12.4%	10.9%	13.8%
S&P/TSX Total Return Index	11.8%	9.6%	11.3%	7.6%	9.0%	7.8%	8.4%
S&P 500 Total Return Index (\$CDN)	23.3%	11.2%	15.0%	14.5%	14.6%	9.8%	10.3%

<sup>1</sup> December 15, 1994.

## Why Not Own the S&P 500?

▲ The Odlum Brown Model Portfolio closed out 2023 and its 29<sup>th</sup> year with a gain of 11.7%. That was in line with the 11.8% advance in the Canadian equity benchmark, but less than half the 23.3% Canadian dollar gain in the U.S. S&P 500 Total Return Index.

Over three, five and 10-year horizons, U.S. stocks have outperformed Canadian equities and our Model. For example, U.S. stocks have grown at a compound annual rate of 14.5% over the last 10 years, almost double the 7.6% annualized return from Canadian stocks and better than the 10.3% compound annual growth in our Model.

The superior performance of the U.S. market has been driven by a small group of very large businesses commonly referred to as the Magnificent Seven, which includes Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla. Their growth has outpaced other stocks by so much that the group now accounts for close to 30% of the market-capitalization-weighted S&P 500 Index.

In Canadian dollar terms, the Bloomberg Magnificent 7 Total Return Index more than doubled in 2023, with a gain of 102.1%. Without the Magnificent Seven, the so-called “S&P 493” would have been up an estimated 12.7% last year.<sup>1</sup>

While legitimate excitement regarding the profit potential from artificial intelligence was rocket fuel for the Magnificent Seven in 2023, most of the gains merely offset a huge 41.5% loss in 2022. After all, a 100% gain is needed to recover from a 50% loss. Nonetheless, the Magnificent Seven returned 18.2% in 2022 and 2023 combined. Over the two-year period, the S&P 493 gained 5.3%, while the Canadian S&P/TSX Total Return Index and our Model were up 5.4% and 6.6%, respectively.

Given the superior performance of U.S. stocks in general, and the Magnificent Seven in particular, some investors naturally wonder why they should own Canadian stocks or follow our Model, which is currently balanced 45% and 55% between U.S. and Canadian-listed securities, respectively.

### Why not own a low-fee S&P 500 Index fund instead?

We don't think the S&P 500 is an attractive index at this juncture. It is dominated by large growth stocks, which are considerably more expensive than they were a decade ago.

Over the last 60 years, there have been two lengthy periods when U.S. stocks failed to advance higher. The first was a 12.5-year period from November 1968 to April 1981 and the second was a 13-year stretch from March 2000 to March 2013. The one-two punches that undermined the market in the 1970s were excessive valuations going in and surging inflation. The market was held back in the 2000s once again because of excessive valuation and then by deflation fears after the Global Financial Crisis. In both periods, the market was dominated by very large companies, much like it is today. In the early 1970s, it was the Nifty Fifty (including Coca-Cola, IBM and Polaroid), and at the turn of the century it was technology stocks.

The enthusiasm Canadians have toward U.S. equities is reminiscent of investor attitudes in the late 1990s and early 2000s. At that time, and as is the case today, the rear-view track record meaningfully favoured U.S. stocks. The point is illustrated in the chart on the next page. Note the symmetry between the 1990s on the left and the 2010s and 2020s on the right. U.S. stocks trounced Canadian stocks in both periods. Those who were enticed by the superior U.S. returns in the 1990s were very disappointed. U.S. stocks lost one-third of their value in the 2000s. The Canadian market didn't do that well either because our technology darling, Nortel

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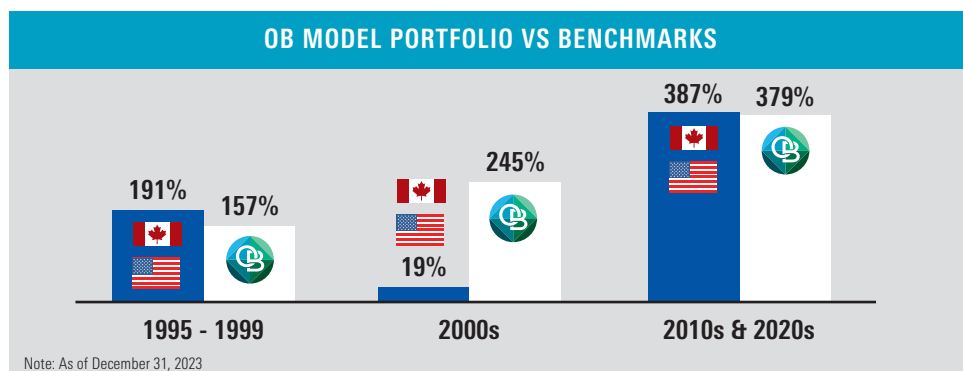
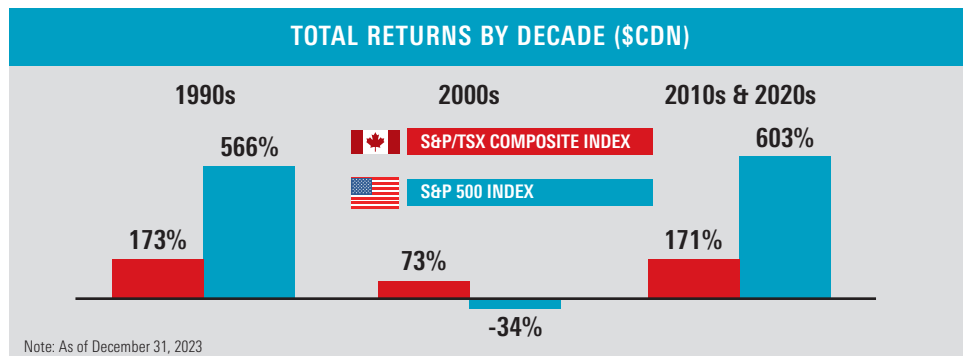
CHINESE  
CANADIAN  
MUSEUM  
華裔博物館

Odlum Brown is proud to be a Founding Patron and Gold Mountain Fellow of the Chinese Canadian Museum.

In July 2023, the Chinese Canadian Museum had its grand opening and became Canada's first and only museum dedicated to showcasing the Chinese Canadian experience to the public. Housed in Vancouver's Chinatown's oldest building – the Wing Sang Building – the Chinese Canadian Museum aspires to provide an invigorating and transformative experience for present and future generations through its exhibitions and programming throughout British Columbia and Canada.

This impactful museum is a testament to the Chinese Canadian experience, and through our ongoing support we look forward to seeing them fulfill their mission to elevate Chinese Canadian voices, enrich their legacy and engage with diverse communities.

For more information on the Chinese Canadian Museum, visit [chinesecanadianmuseum.ca](http://chinesecanadianmuseum.ca).



Networks, went bankrupt. It accounted for more than one-third of the Canadian market at the peak of the technology mania in 2000. We are not predicting that the S&P 500 will perform as poorly over the next 10 years, but we do think there is a good chance it will underperform relative to some of the better-priced alternatives.

A lot of stocks did well in the 2000s, despite the poor performance of the main equity benchmarks. Our Model prospered simply by avoiding or underweighting the popular and pricey stocks. Beneath the surface, there were many attractively priced stocks. Our Model appreciated 245% in the 2000s versus just 19% for a 50/50 blended benchmark of Canadian and U.S. stocks.

Note the set-up for that market-beating performance. We didn't keep pace with the blended benchmark in the second half of the 1990s (the Model was inceptioned in December 1994). Achieving good long-term returns requires patience, and sometimes that means underperforming in the short term. Being value-conscious, we have struggled to keep pace with the market in recent years. Since the end of 2009, and through to the end of 2023, our Model appreciated 379%, slightly less than the 387% gain in the blended benchmark.

We continue to own four of the Magnificent Seven – Apple, Amazon, Alphabet and Microsoft – and they are truly wonderful businesses. But their magnificence is well appreciated by investors and reflected in their premium valuation multiples. The forward price-to-earnings multiples for Apple and Microsoft, for example, are more than double what they were in 2013. We still like the Magnificent Seven businesses we own, but we don't love them like we did when they were cheaper. Our combined exposure to the seven businesses is roughly 12%, less than half their representation in the S&P 500 Index.

While the opportunities to make a difference by being different are not as plentiful as they were at the turn of the century, we believe the odds are good that our Model will outperform the Canadian and U.S. equity benchmarks over the long run. That's primarily because we believe the stocks in our portfolio have better risk and return characteristics than the growth stocks that currently dominate the S&P 500 Index.



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Executive Vice President and Director, Investment Research  
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<sup>1</sup>We used the Bloomberg U.S. Large Cap ex Magnificent 7 Index as a proxy for the performance of what we call the "S&P 493," which is the S&P 500 Index without the Magnificent Seven group of stocks.

<sup>\*</sup>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.

# New Trust Reporting Requirements – Bare Trusts and Other Updates

**For taxation years ending on or after December 31, 2023, trusts have expanded reporting requirements.**

Previously, a trust resident in Canada generally only filed a T3 return if it had tax payable, disposed of capital property or made a distribution to its beneficiaries during the year. Disclosure of personal information was limited to beneficiaries that received an allocation of income or capital.

## Under the new rules, there are three main changes:

1. All trusts, unless certain conditions are met, are now required to file an annual **T3 return**,<sup>1</sup>
2. Trusts that are required to file a T3 return, other than listed trusts (see below), must report additional beneficial ownership information when filing their annual T3 return by completing **Schedule 15**.<sup>2</sup>
3. Arrangements where a trustee can reasonably be considered to act as an agent for its beneficiaries, commonly known as **bare trusts**, are subject to the new reporting requirements.

On December 1, 2023, the Canada Revenue Agency (CRA) published a list of frequently asked questions (FAQ)<sup>3</sup> that will be updated with additional questions and answers as they become available.

## Which trusts are now required to file a T3 return?

There are a number of conditions that result in a requirement to file a T3 return, as outlined in **FAQ 2.1**.

Added to the list of conditions is a trust that receives any income, gain or profit that is allocated to one or more beneficiaries and has:

- total income from all sources of more than \$500,
- income of more than \$100 allocated to any single beneficiary,
- made a distribution of capital to one or more beneficiaries, or
- allocated any portion of the income to a non-resident beneficiary.

## Which trusts are required to include Schedule 15 with their T3 return?

**FAQ 2.2** indicates that except for listed trusts, generally every trust that is required to file a T3 return is required to provide the additional beneficial ownership information by completing the new **Schedule 15**, which is a part of the T3 return package.

## What is a listed trust?

**FAQ 2.3** provides an extended list of trusts exempt from the additional disclosure requirements, including trusts:

- that have existed for less than 3 months;
- with holdings valued at no more than \$50,000 throughout the year, holding assets restricted to money, bonds, publicly traded securities, mutual funds or segregated funds. Gold or silver coins are not exempt;
- that are a Graduated Rate Estate (GRE) or a Qualified Disability Trust (QDT).

## T3 Schedule 15 – Beneficial Ownership Information of a Trust

Schedule 15 asks for information on settlors, trustees, beneficiaries and any person who can exert influence over trustee decisions regarding allocating income or capital. The CRA requires the name, address, date of birth, country of residence and tax identification number (i.e., social insurance number, business number) for each of these “reportable entities.”

### Example:

The ABC family trust only holds assets consisting of money with a fair market value less than \$20,000 throughout the taxation year ending December 31, 2023, earning \$700 in interest income, which is retained in the trust. In this situation, the trust is considered to be a listed trust. Although the trust is a listed trust, and therefore does not need to include **Schedule 15**, it would still be required to file a **T3 return** because it earned more than \$500 in income during the taxation year as outlined in **FAQ 2.1**.



This month, we look forward to welcoming clients and friends to Odlum Brown's 30<sup>th</sup> Annual Address, an opportunity to hear timely commentary on the markets and economy, enjoy refreshments with the Odlum Brown team and learn more about how our firm helps clients achieve their financial goals.

Speakers will include our firm's leader, Debra Doucette, Odlum Brown President and CEO, and Murray Leith, Executive Vice President, Director, Investment Research, whose commentary is a “must-hear” for established and aspiring investors alike.

For information on our eight events across BC and to RSVP, visit [odlumbrown.com/rsvp](https://odlumbrown.com/rsvp).

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### What is a bare trust?

Defined in **FAQ 3.1**, a bare trust is a trust arrangement under which the trustee can reasonably be considered to act as agent for the beneficiaries with respect to the trust's property, evidenced by the trustee having no significant powers or responsibilities, or ability to take action without instructions from the beneficiaries, and where the trustee's only function is to hold legal title to the property.

Two common examples of situations in which a bare trust arrangement can exist include transferring property into joint ownership with an adult child and the use of in-trust-for (ITF) accounts.

### Joint ownership

When a parent adds their adult child as a joint owner of their house, bank account or non-registered investment account, their intention might only be to simplify their future estate administration or minimize probate fees, not to immediately alter the beneficial ownership of the property. The legal presumption in these cases may be that such assets are held in trust. This presumption may be rebutted if there is evidence to support that the transfer of ownership to joint tenancy reflects an immediate gift to the adult child rather than a trust arrangement. This may result in other tax, legal and estate consequences.<sup>4</sup>

### In-trust-for (ITF) accounts

In-trust-for accounts can be agency arrangements, true trusts or neither, in that the assets remain the property of the transferor. Whether or not a true trust relationship exists depends on all the circumstances and, absent a formal trust deed or other documentation, requires a tax or legal opinion.

### Reporting

A bare trust would report income of "NIL" on its **T3 return**, and the beneficial owners of the property are required to report any income earned or taxable capital gain realized on that property on their own tax return. A bare trust is now also required to complete Schedule 15 annually, unless it is a listed trust.

### When is the filing and disclosure deadline?

The filing and disclosure deadline for trusts is generally 90 days after their year-end. Since March 30, 2024, falls on the Saturday of a long weekend, the filing deadline is extended to April 2, 2024.

### What are the consequences of non-compliance?

Non-compliance penalties accrue at \$25 per day with a minimum penalty of \$100 and a maximum of \$2,500. If failure to file was done knowingly or due to gross negligence, the penalty is equal to the greater of \$2,500 and 5% of the highest amount at any time in the year of the market value of all the property held by the trust.

### Administrative Relief for Bare Trusts

Limited to **bare trusts** and only for the **2023 tax year**, the CRA will waive the late-filing penalty for T3 returns and Schedule 15s filed after the filing deadline. This temporary relief does not apply to missing information nor to a failure to file that was made knowingly or due to gross negligence.

### Next Steps

If you are a trustee, please contact your Odlum Brown Investment Advisor or Portfolio Manager for assistance in gathering relevant year-end information based on your trust's year-end (such as asset values and trust income). Please consult your legal and tax advisor before the filing deadline to assess how these changes may impact you.



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Odlum Brown Financial Services Limited

<sup>1</sup> CRA: Who should file a T3 return: <https://www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/who-should-file-a-t3-return.html>

<sup>2</sup> CRA: T3 Schedule 15: [www.canada.ca/en/revenue-agency/services/forms-publications/forms/t3sch15.html](http://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t3sch15.html)

<sup>3</sup> CRA: New trust reporting requirements (including guidance on reporting for bare trusts): [www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/new-trust-reporting-requirements-t3-filed-tax-years-ending-december-2023.html](http://www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/new-trust-reporting-requirements-t3-filed-tax-years-ending-december-2023.html)

<sup>4</sup> Whether a bare trust arrangement exists is a legal determination and depends on case facts. Joint ownership with adult children has been the subject of significant estate litigation. For more information, ask for our article "Joint Ownership in Estate Planning."

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