ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

INSIDE THIS ISSUE

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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 Odlum 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 Odlum 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 Odlum 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 Odlum 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 Odlum 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.

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.

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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 RETURNS[1] (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

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

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!

DISCLAIMER & DISCLOSURE

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