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THE TIMELESS PROCESS FOR FINANCIAL FREEDOM

Michael Preto, CFP®, CIM®

IN THIS ISSUE

Manufacturing and maintaining your financial freedom are what we do. Freedom isn’t getting any cheaper, its price is rising with inflation just like everything else. This is key to remember; it dictates where we need to invest your long-term capital and where not to. GICs, cash, short-term bonds, or any other instrument with fixed cash flows, are great for short term needs, but destroy the purchasing power of your financial future. Read Jason’s section for a detailed explanation on why this is the case.

A portfolio of exceptional businesses is the ticket to financial freedom. And so, the price we all must pay is volatility- it’s part of the deal. The first step is to become aware of this, the second is to accept it and the third is to embrace it. None of this comes easily, and we’re here to support you through it all.

The process we’ve developed to deliver financial freedom is straightforward:

1. **Set your targets/goals** and develop a plan to reach them.
2. Invest your portfolio in **exceptional companies**.
3. **Track your plan’s progress** annually and measure the level of your Dreampool.
4. Figure out how to **spend your Dreampool**.

Simplicity, discipline, and focus go a long way in buying financial freedom. All three elements are in our wheelhouse- we’re built for this.

Perhaps the trickiest part of the process is step 4. To help with the process we teamed up with Tammy Vigue. Her **Curated Retirement™ Program** course is designed to inspire a post career life, a perfect complement to our ***Dreamscaping Process***. I’ve participated in and benefited from the course; it’s been a fantastic experience. Taking the time to reflect on your past and contemplate your future is crucial in discovering your dreams. We’re grateful to have Tammy on the team.

As we approach the end of 2023, we’re pleased with how things have gone. The last few years have brought challenging conditions which we’ve successfully navigated, and we are ready for whatever comes next. **The process is timeless.**

As this is our last letter of the year, we want to thank you for your continued confidence and trust. We’re grateful to have a meaningful role in your life. We wish you and your loved ones the very best over the holiday season.

PORTFOLIO UPDATE

Jason Del Vicario, CFA®

Mike has asked me to help provide some data to the GIC v equities debate. Let's first forget the descriptors 'equity' and 'GIC' and compare the features and benefits of both investment vehicles.

Vehicle	Principal guarantee?	Value fluctuates?	Income Stream?	Can income/ value grow?	Tax preferred and tax deferral?
Equity	No	Yes	Yes	Yes	Yes
GIC	Yes	No	Yes	No	No

When owning an equity, ***you own a piece of a business*** and thus a share of its economic return. As we've covered, that business can choose to pay a dividend, re-invest in the business or repurchase shares. Our preference, always, is for the business to re-invest its excess cash flow at high rates of return. If that is not possible, we'd then prefer they buy back shares at reasonable to cheap prices or return the capital to us in the form of a dividend. Equities are the only vehicle where the profit stream can grow. A GIC, does not have that ability. Worse, if rates continue to rise while you're locked in at x%, this means that inflation is rising, the real return can quickly turn negative and there's nothing the holder can do as the capital is locked in for the term. On the flip side, if rates drop while owning the 5-year GIC, holders then face re-investment risk… meaning that in 5 years holders are presented with lower rates for the next 5 years. Are GICs useless? Not at all. For example, for clients who take monthly income from their investments, we set aside 24 months of payments in something very similar to a GIC: a high interest savings account. The rate is similar to GICs but we can access the money when we choose. It's all about matching timelines with the appropriate investment vehicle. This is precisely why we have our 'Hillside Rules'.

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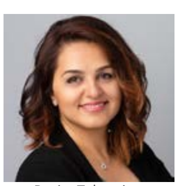

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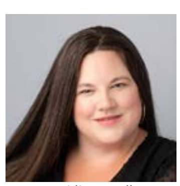

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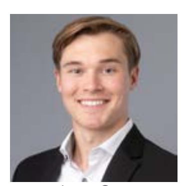

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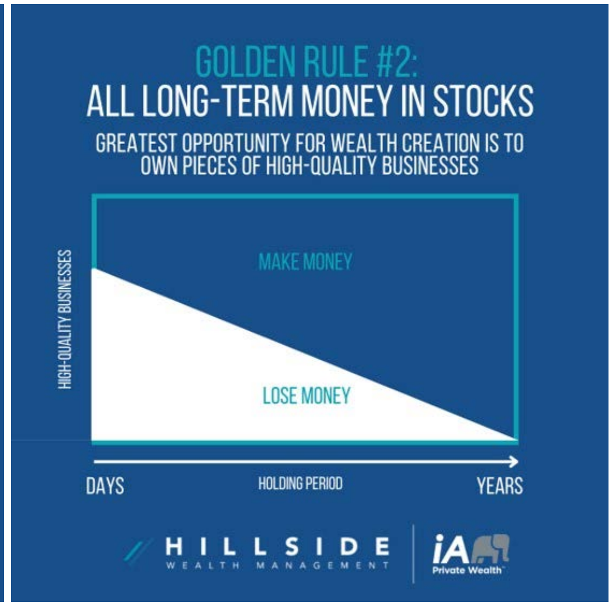


I also think about GICs in terms of who issues them: banks. Rather than lend money to a bank (GIC) you'd be far better off holding shares in the banks and earning the profit they make lending out this money! We don't own shares in the banks because frankly, they don't meet our criteria, but I can assure you they don't run a charity and you'd be better off holding shares in the bank than lending them money!

As we often quip: ***data drive decisions*** so let's now look at some hard data:

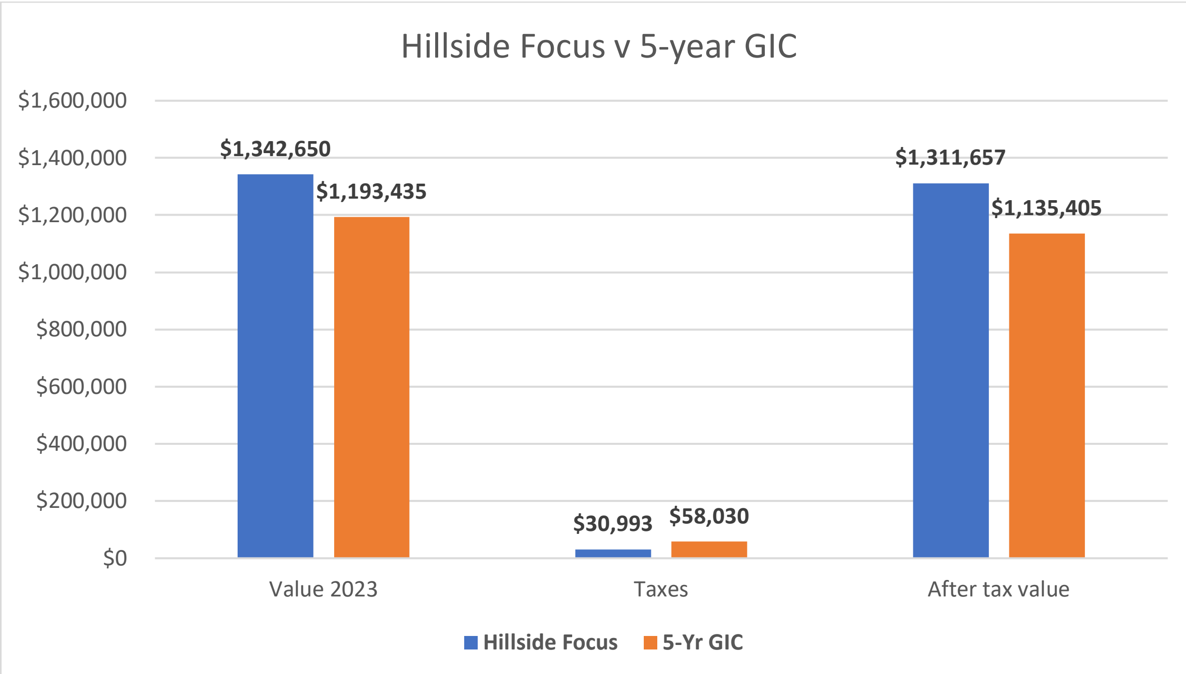
- The period in question will be the past 5 years: Oct 31, 2018 – Oct 31, 2023
- The net of fee performance of the **Hillside Focus Model** during this period has been **6.07%.**
- A 5-year GIC in October 2018 paid **3.6%.**

Vehicle	Return	Value Oct 2018	Value Oct 2023	Taxes**	Net Value
Hillside Focus*	6.07%	$1,000,000	$1,342,650	$30,993	$1,311,657
5-year GIC	3.60%	$1,000,000	$1,193,435	$58,030	$1,135,405

*data taken from actual client account. Returns are net of 1.25% advisory fee and 0.39% average annual performance bonus fee.

**Taxes calculated at 30% tax bracket on actual realized gains/losses for Hillside Focus and GIC interest income

The difference between these two scenarios is $176,252. That is a huge price to pay for the comfort of a 'guaranteed' investment. I put 'guaranteed' in paratheses because what a GIC really guarantees is that one barely keeps pace with inflation. When inflation is high, nominal rates are high, but one's real return is always near 0. For example, in 2018 inflation was 2.3% so the real pre-tax return was 1.3%. Fast forward to 2023 you can get a GIC at 5% but inflation is 4% and thus the real pre-tax return is still 1%.



Sadly, we don't live in a tax-free world and GICs unfortunately pay interest income which is taxed 100% when received. The return from equities is received in the form of dividends (tax preferred) or capital gain/loss (only 50% of gain is taxed and only when triggered). Above, we see the GIC holder paid nearly double the amount of tax on nearly half the return!

For a broader picture, I have included a 52-year chart of various asset classes. During this time, equities have compounded by 10-13% while a 5-year GIC has produced returns of 6%. The difference between GICs and Canadian stocks (9.7% long-term) was 12 times… $100 invested in the TSX in 1950 grew to $80k at the end of 2022 while the same $100 invested in 5-year GICs was worth $7k.

So, next time you see the bank flogging a GIC or an article in the Globe and Mail questioning whether one should sell stocks and buy GICs, hopefully now you feel more empowered to critically assess both options.

THE HILLSIDE FACTOR(Y) FOCUS: NEVER SAY NEVER

"Never Invest in Anything Made of Metal"

This is an old adage in the business world. The main rationale behind is that durability may delay the replacement of the goods especially during economic downturns and may discourage continuous engagement from customers (are you in close touch with that dealer selling you the last car?), thereby reducing predictability for business owners.

When it comes to stock picking (read "business picking" here), we tend to favor predictable business models. But we would not rule out the possibility of owning companies selling durable goods, as long as the risk is well managed (and we usually do so through a higher required rate of return - namely, a low valuation, and hence, a greater margin of safety - and a limit on portfolio exposure). This is because durability poses challenges for everyone in the industry, which could in turn benefit market leaders that are highly profitable, cash-generative, and financially sound. Plus, durability is solely one factor in the total investing formula that gauges business quality holistically. Would napkins necessarily be better than jewelleries, contact lens better than glasses, electricity better than smartphones? It all depends.

Calnex, the UK-based network test/measurement equipment maker, is a good example here. The company had been consistently generating good profits on invested capital year in year out till only recently when the global telecoms industry saw a significant delay in capital spending (which drives sales for Calnex's equipment). To us, market downturn has been a known risk factor that could cause some glitches at Calnex at some point. However, with plenty of cash and no debt on the balance sheet and its role of essentially setting de-facto standards for the global telecoms ecosystem, the company is well positioned to endure the industry "winter," which probably no one would anticipate to be permanent if we believe in faster and better network connectivity over time. So, we decided to take advantage of Mr. Market's panic moment.

It is worth noting that we would be particularly careful with heavily-indebted businesses selling durable goods. High cyclicality (due to durability of products sold) and an inflexible balance sheet can be a deadly combination for long-term shareholders.

DEEP DISH PUMPKIN PIE WITH DULCE DE LECHE WALNUT STREUSEL

YIELDS ONE 9-INCE PIE

This is a huge, but yummy dessert. You can substitute almonds for the walnuts, or even leave the nuts out completely.

Walnut streusel:

- 1/2 cup firmly packed light brown sugar
- ¼ cup all-purpose flour
- ½ teaspoon ground cinnamon
- Pinch of salt
- 6 tablespoons cold unsalted butter
- 1 cup chopped walnuts

UPCOMING EVENTS

We're switching things up for our next presentation to a topic that isn't limited to only business owners.

If your family has a cabin, cottage or other recreation property, you'll want to tune into our next webinar: **Keeping the Cottage in the (Happy) Family**

Passing property on to the next generation isn't always straightforward.

Join us on Wednesday, December 6th 12 pm noon PT | 3 pm ET where we will discuss capital gains, taxes and strategies to help you plan a family legacy that lasts many years to come!

REGISTER TODAY!

If you have any questions, please feel free to get in touch.

Combine sugar, flour, cinnamon and salt. Cut in butter until crumbly. Stir in nuts. Cover and store in refrigerator until ready to use.

Crust:

- 1 cup unsalted butter
- 6 oz. cream cheese, softened
- 2 cups all-purpose flour
- 1/4 cup granulated sugar
- Pinch of salt

In a stand mixer fitted with the paddle attachment, beat butter and cream cheese at medium speed until creamy. Gradually add flour, 1/4 cup of sugar and salt. Mix until a soft dough forms.

Turn dough onto a well-floured surface and knead together until smooth. Roll dough with a floured rolling pin to ¼-inch thickness. Gently lay dough inside spring-form pan and press up the sides. Allow a little of the crust to overhang the edges of the pan. Place dough-lined pan in the freezer and freeze until dough is stiff.

Preheat oven to 400F.

Pumpkin Pie Filling:

- 1 1/4 cups packed light-brown
- sugar
- 3/4 teaspoon fine salt
- 2 teaspoons ground cinnamon
- 1/2 teaspoon ground nutmeg
- 2 teaspoons pumpkin pie spice
- 4 eggs, lightly beaten
- 29 ounces (one large can) pure pumpkin puree
- 12 ounces (one can) evaporated
- milk
- 1/2 cup heavy cream
- 2 teaspoons pure vanilla extract

In a large bowl, whisk together brown sugar, salt, cinnamon, nutmeg and pumpkin pie spice. Whisk in eggs, then pumpkin; beat until smooth. Slowly whisk in milk, cream, and vanilla. Pour filling into frozen pie crust. Cover edges of pie crust with aluminum foil or a pie crust shield if you have one.

Reduce oven temperature to 350 degrees. Bake pie for 1 hour, then top with walnut streusel.

Bake for 25 minutes more, then tent a piece of aluminum foil over the pie so the streusel does not overbrown. Bake for an additional 20 minutes, or until the pie is set but still slightly wobbly in the center. Cut away overhand crust if desired.

Allow pie to cool completely then thoroughly chill in the refrigerator overnight.

To Serve:

- 16 oz. prepared dulce de leche

Just before serving, warm dulce de leche in the microwave or in a saucepan on the stovetop until loosened. Drizzle about ½ cup over the top of the pumpkin pie. Transfer the remaining dulce de leche to a gravy boat and serve alongside pie.

Download a print-friendly version of this recipe and send us a photo when you get a chance to make this dish!

OCTOBER 2023 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to October 31, 2023	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**6.93%**	**-1.01%**	**-3.57%**	**12.66%**	**4.01%**	**5.74%**	**6.30%**
HCG Benchmark[1]	*1.54%*	*-0.70%*	*-3.27%*	*3.06%*	*0.20%*	*3.05%*	*3.12%*
Hillside Balanced Growth*	**8.65%**	**-2.44%**	**-4.63%**	**16.27%**	**6.62%**	**7.19%**	**8.33%**
HBG Benchmark[2]	*3.18%*	*-1.02%*	*-3.10%*	*4.95%*	*2.93%*	*4.78%*	*4.27%*
Hillside Focused Growth*	**14.84%**	**-2.37%**	**-2.59%**	**25.34%**	**10.75%**	**8.69%**	**8.84%**
HFG Benchmark[3]	*6.17%*	*-1.42%*	*-1.84%*	*8.38%*	*8.48%*	*7.92%*	*6.65%*

Past performance is not an indication of future returns.

* Performance is presented gross of fees. **Inception: Sept 2, 2014. Results beyond 1 year are annualized.

[1] Hillside Conservative Growth Benchmark: 100% Vanguard Conservative ETF

[2] Hillside Balanced Growth Benchmark: 100% Vanguard Balanced ETF

[3] Hillside Focused Growth Benchmark: 100% Vanguard All-Equity ETF

Source: SIACharts.com

The performance presented in this portfolio report is hypothetical and does not represent a specific client account. Details regarding actual returns of an investment account are available from the client's advisor.

Performance is calculated using month-end market values of the model portfolio. Since we use a model portfolio to calculate performance there are no client-initiated cash flows (deposits/withdrawals) to account for. Performance is calculated by dividing the change in the model portfolio's market value by the model portfolio's market value at the beginning of the performance period. Also, all income generated by the portfolio's holdings are held within the model portfolio in cash and is accounted for in the portfolio's month-end market value - this results in a total return measure of the model's performance.

Returns for periods less than 1 year are shown as periodic returns while returns for periods greater than 1 year are annualized. Returns do not include fees and actual returns experienced by an investor may differ from those shown. Past performance is not a guarantee of future results.