July 4, 2022 Nadeem Kassam, MBA, CFA

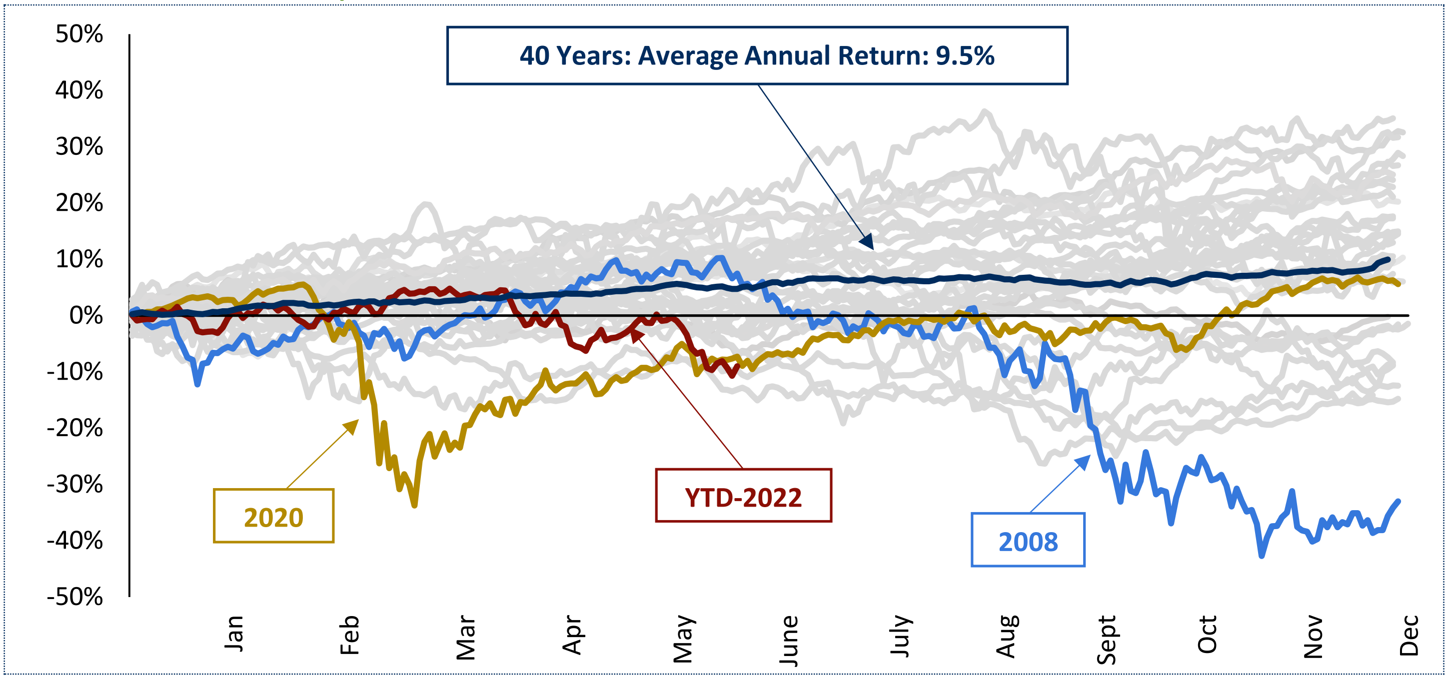
No Pressure, No Diamonds

In the 1953 film Gentlemen Prefer Blondes, Marilyn Monroe sang it best, *"….but square-cut or pear-shaped, these rocks don't lose their shape, diamonds are a girl's best friend"*. Since then, men and women alike have been splurging on jewellery with diamonds to celebrate everything from engagements and weddings to birthdays and so much more. However, while many appreciate the beauty of a flawless diamond, few truly understand the extreme pressures required to create such diamonds in nature. To keep it simple, diamonds are formed hundreds of miles below the earth's surface in the mantle, where temperatures can reach as high as 3700° Celsius (or 6692° Fahrenheit). It is here where carbon atoms bond together to form crystals, which over the course of many hundreds and even thousands of years, grow into the transparent, beautiful diamonds which many of us gift to our loved ones each year. While these extreme pressures are absolutely necessary to create diamonds (which as a reminder, is the hardest natural material on earth), this process is quite similar to what is necessary when it comes to investing and especially as it relates to building diamond-like investment portfolios (i.e., high pressure + long-term time horizon).

And while it may be difficult for many of us to see the bigger picture and maintain a long-term investment perspective given the volatile start to the year, which we acknowledge is especially difficult when the news flow is dominated by a long list of worrisome headlines (e.g., calls for an imminent recession/hard-landing, job losses, market collapse, etc.), **we remind investors, that some of the most beautiful and flawless diamonds on earth were formed under very extreme pressures and over very long periods of time!**

In comparison and as we demonstrate below, the S&P/TSX index over the very long-term (i.e., since the 1980s) has managed to generate returns of ~9.5% per year on average, despite facing many volatile/high pressure years since then.

Annual Returns for the S&P/TSX Index since the 1980s

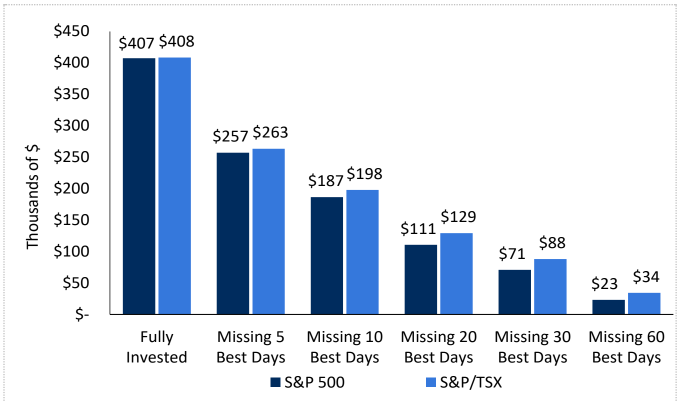


Source: FactSet; Raymond James Ltd.; Data as of June 24, 2022.

An Evolving Wall of Worries…

While it may be tempting to avoid all periods of volatility/sharp sell-offs in the market cycle by selling when the going gets tough and re-entering when things improve, we remind investors that this strategy of "timing the market" has proven to be rather difficult for even the smartest and most experienced minds to execute effectively. Moreover, we believe a more prudent strategy is to **stay invested** and **seek out opportunities to buy at more attractive valuations** – historically this has been a much better strategy to deploy for investors over the long-term.

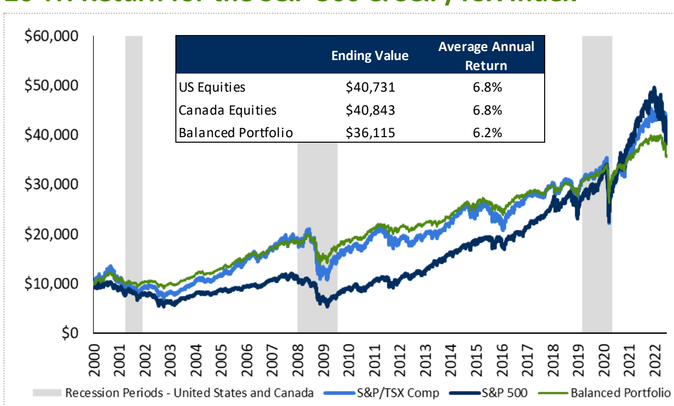
Markets Have Rewarded Long-Term, Patient Investors



Source: FactSet; Raymond James Ltd.; Data as of June 27, 2022. Illustration is based on S&P 500 Total Return Index and S&P/TSX Composite Total Return Index from January 1, 2000 to June 27, 2022. Does not take into account income taxes payable by the investor that would have reduced returns.

For example, excluding the impacts of buying low amid market sell-offs, which many astute investors typically do, both the S&P 500 and the S&P/TSX indices have generated total returns of ~7.0%, on an annualized basis over the past ~20 years.

20 Yr. Return for the S&P 500 & S&P/TSX Index



Source: FactSet; Data as of June 27, 2022. For illustration purposes only. Start investing on January 1, 2000 with an initial investment of $10,000. S&P 500 TR Index (US Equities); S&P/TSX Composite TR Index (Canadian Equities); The asset allocation of the Balanced Portfolio is 60% S&P/TSX Composite TR Index and 40% FTSE Canadian Government Bond.

We also remind investors that this 20-year period was not all "sunshine and rainbows". Rather, it consisted of the Dot-com bubble and subsequent burst, the 9/11 terrorist attacks, the 2007-2008 financial crisis, plus the deep recession which followed, the annexation of Crimea in 2014, and more recently, the COVID-19 pandemic and the Russian invasion of Ukraine. While the outlook remains unclear today, we continue to suggest investors ignore the noise and utilize periods of volatility, including periods of heightened uncertainty, to add to their portfolios. Maintaining well diversified portfolios can also help to minimize the drawdowns in portfolios during periods of heightened volatility.

Market Moving Headlines Over the Past 20 years

Year	S&P 500	S&P/TSX	Headline
2000	$1,320.28	$8,933.68	Y2K aftermath | Tech bubble
2001	$1,148.08	$7,688.41	Recession, 9/11
2002	$879.82	$6,614.54	Corporate Accounting Scandals
2003	$1,111.92	$8,220.89	Bush Jr. declares War in Iraq
2004	$1,211.92	$9,246.65	U.S. has massive trade & budget deficit
2005	$1,248.29	$11,272.26	Record oil & gas prices
2006	$1,418.30	$12,908.39	Housing bubble bursts
2007	$1,468.36	$13,833.06	Sub-prime loan crisis
2008	$903.25	$8,987.70	Banking and credit crisis
2009	$1,115.10	$11,746.11	Jobs Recession
2010	$1,257.64	$13,443.22	Sovereign debt crisis
2011	$1,257.60	$11,955.09	Eurozone crisis
2012	$1,426.19	$12,433.53	U.S. fiscal cliff
2013	$1,848.36	$13,621.55	Federal Reserve begins to taper
2014	$2,058.90	$14,632.44	Ebola outbreak I Annexation by Russia
2015	$2,043.94	$13,009.95	Commodity sell off
2016	$2,238.83	$15,287.59	Brexit
2017	$2,673.61	$16,209.13	Oil Price Decline
2018	$2,506.85	$14,322.86	Equity Markets Sell Off
2019	$3,230.78	$17,063.43	U.S.-China Trade War
2020	$3,756.07	$17,433.36	COVID-19 Pandemic
2021	$4,766.18	$21,222.84	Record Inflation

Source: Raymond James Ltd.; Date as of December 31, 2021.

Final Thoughts for Investors

Remain selective and stay invested! And also remember:

- **It pays to stay invested** - avoid the temptations to time the market; it is a losing proposition for even the smartest and brightest minds.
- **Ignore the headlines/noise** and remember to be "fearful when others are greedy and greedy when others are fearful".
- **Stay rational** when markets/investors appear to be behaving irrationally (i.e., buy-low vs. selling-low).
- **Ignore your emotional tendencies and stick to your long-term plan**; otherwise, you may end up buying-high and selling-low.
- **Volatility/market sell-offs should be expected** and are normal even during broader bull market cycles!
- **Diversification + asset allocation =**

Important Investor Disclosures

Complete disclosures for companies covered by Raymond James can be viewed at: Disclosures https://raymondjames.bluematrix.com/sellside/Disclosures.action

This newsletter is prepared by the Private Client Services team (PCS) of Raymond James Ltd. (RJL) for distribution to RJL's retail clients. It is not a product of the Research Department of RJL.

All opinions and recommendations reflect the judgement of the author at this date and are subject to change. The author's recommendations may be based on technical analysis and may or may not take into account information in fundamental research reports published by RJL or its affiliates. Information is from sources believed to be reliable, but accuracy cannot be guaranteed. It is for informational purposes only. It is not meant to provide legal or tax advice; as each situation is different, individuals should seek advice based on their circumstances. Nor is it an offer to sell or the solicitation of an offer to buy any securities. It is intended for distribution only in those jurisdictions where RJL is registered. RJL, its officers, directors, agents, employees and families may, from time to time, hold long or short positions in the securities mentioned herein and may engage in transactions contrary to the conclusions in this newsletter. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this newsletter. Securities offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Financial planning and insurance offered through Raymond James Financial Planning Ltd., not a Member-Canadian Investor Protection Fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs relating to investing in these stocks will affect overall performance.

Within the last 12 months, RJL has undertaken an underwriting liability or has provided advisor for a fee with respect to none of the securities in this report.

A member of the PCS team responsible for preparation of this newsletter or a member of his/her household has a long position in Microsoft (MSFT-US), Adobe (ADBE-US), Cargojet (CJT-CA) and Waste Connections (WCN-CA). Some of the securities mentioned in this report may entail higher risk. Clients should contact their Financial Advisor to determine if the securities are compatible with their risk tolerance and investment objectives.

Clients should contact their Financial Advisor to determine if the securities are compatible with their risk tolerance and investment objectives. Some of the securities mentioned in this report may entail higher risk. Clients should contact their Financial Advisor to determine if the securities are compatible with their risk tolerance and investment objectives.

Information regarding High, Medium, and Low-risk securities is available from your Financial Advisor.