

# INCREASE YOUR FUTURE WEALTH POTENTIAL

J ZECHNER ASSOCIATES BALANCED FUND



PORTFOLIO MANAGERS: JOHN ZECHNER MA, CFA, DAX LETHAM MBA, CFA, CMA

The year 2022 in financial markets was one that most investors will want to forget as global stocks had their worst year since the financials Crisis in 2008. In Canada, the SP/TSX Index limited its loss to under 9%, but this was almost solely due to the 32% gain for the Energy sector, which accounts for about one fifth of the index value. On the other end, the Real Estate sector was down 21%, Technology dropped 48% in 2022 and the Health Care collapsed over 54%. The bigger problem for most investors in 2022 was that the bond market, which is the typical ‘safe haven’ in times of economic turbulence, had its worst year on record. The Canadian FTSE Bond Index lost 11.4% in 2022, driven mostly by the 21.2% decline in the Long-Term index. A little over a year ago, central bankers were proclaiming that they were ‘not even thinking about’ raising interest rate anytime soon. To go from that so quickly to the most aggressive rate hiking cycle in history was too much for investors to absorb

The JZAI Pooled Balanced Fund provided some downside protection in 2022, falling 5.5%, ahead of the 9.9% decline in the benchmark for the Fund, following similar outperformance during the stronger markets in 2021. The Fund continues to meet our goal of providing strong relative returns in all types of market conditions with a stable asset mix and relatively low volatility. Financial markets rebounded somewhat in the 4th quarter and the Fund registered a gain of 5.4%, ahead of the 2.8% rise in the Benchmark Index. While the asset mix of the Fund remained stable, the bond allocation was increased slightly, to 34.9% while stocks were raised slightly to 52.7%, with about 30% of that exposure in the U.S. stock market. With these purchases, the cash position in the Fund fell to just 1.2% at year end.

In terms of individual stock impacts in the quarter, the winners came from many sectors with North American Construction up 37% and Whitecap Resources rising 22% in the energy sector. In Basic Materials, Hudbay Minerals was up 23% and Torex Gold surged 52%. Among industrials, Sea-Doo maker BRP was up 21% while auto parts manufacturer Martinrea rose 32% as the supply chain shortages in the auto sector eased somewhat.

In terms of our investment outlook for 2023, we remain extremely cautious about the economic outlook for 2023 due to the lagged impact rate increases in 2022. The biggest shorter-term risk in the stock market as we enter 2023 would be from 4th quarter earnings reports and guidance. There may also be some negative momentum

early in the year as investors re-assess their risk exposures and further reduce exposure to stocks. Given the better valuations and our belief that interest rates are close to peaking, we are constructive on bond prices as well as many sectors of the stock market, including the telecom and pipeline sectors, autos, travel, leisure and energy.

Auto favourites remain General Motors, Magna and Martinrea, although we are getting more tempted to take a look at Tesla as it trades down almost 75% from its peak with earnings expectations still in excess of \$5 per share in 2023. Core energy names in Canada include Crescent Point Energy, Whitecap Resources, Suncor, Enbridge and TC Energy. In the telecom stocks we still like Rogers and BCE on valuation, dividend yield and earnings growth. In the U.S., we like the biotech sector, particularly if we are closer to a peak in interest rates. In that group, we hold the ETFs, both the IBB, which covers the major players as well as XBI, which holds some of the newer entrants, where we may see some corporate activity. We are slightly underweight technology but still have ample exposure and would add on any weakness, but would first like to see 4th quarter earnings reports and the impact of economic weakness on IT spending and if further adjustments to the cost structures need to be made. Semiconductors look particularly attractive as the ‘chip shortage’ has abated. Names such as Qualcomm, AMD and Broadcomm look attractive as do the big cloud players such as Microsoft and Alphabet. We are also looking at getting back into Apple after 18 months on the sidelines in that name. While there is earnings risk from iPhone sales in China, we continue to see strength in the services business (iOS) and ancillary devices while the earnings multiple on the stock has dropped into the low 20’s.

31 <sup>st</sup> December, 2022	INVESTMENT RETURNS		
	Quarter	1 year	3 year
<b>JZ Pooled Balanced Fund<sup>1</sup></b>	<b>+4.74%</b>	<b>-8.15%</b>	<b>+5.10%</b>
Balanced Benchmark <sup>2</sup>	+6.09%	-11.62%	+1.50%

Notes:  
 1. Returns for the current periods are NET (i.e. AFTER Management Fees)  
 2. Benchmark Index is Fundata Tactical Balanced Index.

Management Fee 1.5%

Past performance is not indicative of future results.

## Categorization: Canadian Equity Balanced

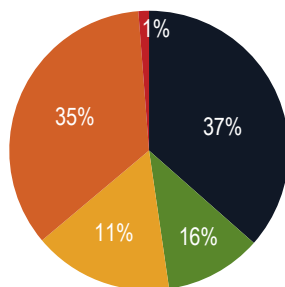
The Fund has been categorized according to the Canadian Investment Funds Standards Committee criteria.

## Fund Objective: Long-Term Growth and Income

The Fund seeks to provide capital preservation, income generation and long-term capital growth through investment in a diversified portfolio of Canadian and foreign securities. The objective of the Fund is to provide consistent above average performance commensurate with a controlled degree of risk. The Fund is suitable for investors who are looking for an actively managed balanced portfolio with a reasonable degree of risk.

## Investment Strategy: Top-Down Global Macro

The Fund Manager monitors global financial data in order to add value at three levels; Asset Allocation, Sector Rotation and Security Selection. For equities, the Manager looks for publicly-traded growth stocks which are reasonably priced relative to their prospects for earnings and cash flow. For the fixed income portion of the Fund, investment strategies are used which analyze interest rates, the yield curve and sector valuations in the bond market. The allocation between stocks and bonds is actively managed between 25% and 75% of the Fund's assets for each, depending on economic and market factors and relative asset class valuations.



### Asset Mix

- Canadian Equities
- Preferred Shares
- Foreign Equities
- Fixed Income
- Cash

## Top 5 Holdings:

Common Stocks	
Manulife Financial Corp	2.40%
Bank of Nova Scotia	2.34%
Alphabet Inc. Class C	1.97%
Canadian Imperial Bank of Commerce	1.96%
Bell Canada Enterprises	1.92%
Bonds	
Algonquin Power 5.25% 18-Jan, 2032/2082	2.72%
Canada 1.5% June 1, 2021	2.56%
Canada Housing Trust 1.9% 15-Mar-2031	2.46%
Canada RRB 4.25% December 1, 2026	2.29%
Ontario 2.15% June 1, 2031	2.20%

(as of December 31<sup>st</sup>, 2022)

## Benefits of our Pooled Funds

The J Zechner Associates Pooled Funds offer professional money management, varied investment choices, the potential for above average returns and lower management fees so you keep more of your accumulated wealth.

A pooled fund is a unit trust that operates like a mutual fund but is not required to have a prospectus under securities law. A pooled fund is sold through an Offering Memorandum.

J Zechner Pooled Funds are available only to Canadian investors and require a minimum investment of \$150,000; unless the investor is an Accredited Investor. Units of the Funds are qualified investments for certain registered plans.

## Solid Partnership Foundation

### Eligibility for Investment

The Fund will only invest in securities that will be qualified investments under the Income Tax Act (Canada) for a trust governed by a registered retirement savings plan (an "RRSP"), registered retirement income fund (a "RRIF), or tax-free savings account (a "TFSA").

### For more information please contact:

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