RBC Dominion Securities Inc.

Frameworks For Successful Investing

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A note on context:

The examples and observations in this document reflect market conditions at the time of writing.
Markets evolve, data changes, and headlines move on.

Introduction

The purpose of this document is not to make predictions or offer tactical guidance, but to share the frameworks I use to stay oriented as conditions change. These frameworks are designed to remain useful across market cycles, even as specific circumstances evolve.

I wrote *Frameworks for Successful Investing* to share my perspectives on investing in today's world. In my many years in the business, and before that, watching my father manage his wealth advisory business, I have witnessed and lived through numerous market cycles.

One of my primary roles is to understand the markets—specifically the cycles and trends that affect them. That allows me to deliver results for my clients, aligned with their timelines and objectives.

To help me successfully manage my clients' portfolios, I've developed several frameworks, or ways of thinking, that I am sharing here. You may find them helpful in thinking about your portfolio.

Fundamentally, there are three critical factors for investors:

1. Being aware of the various market cycles and being prepared for their potential impact on your portfolio
2. Your personal timelines (they're very different if you're in your 40s versus your 70s)
3. Your investment objectives (e.g., build a nest egg, generate income, create generational wealth)

Habits of Mind – How to React When Conditions Change

As an investor—not a gambler or day trader—I look at longer-term market conditions and cycles.

So, when I think of habits of mind, I'm focused on staying oriented as conditions change. I'm not looking to improve forecasting accuracy on any specific holding, but rather to reduce portfolio fragility and support adaptability over time.

Any equity can go up or down on a given day. It's a fool's game trying to predict daily moves. I'm looking at longer-term changes, specifically the cycles that affect markets.

In any portfolio, my focus is on balance and resilience so it can withstand and adapt to sudden shocks, longer periods of change, and cyclical transitions.

Why Balance Over Optimization

Thinking about balance in a portfolio can lead to some interesting realizations. For example, most portfolio stress doesn't come from being wrong about a single asset.

It comes from being right about one thing for too long. When an idea works, it tends to grow—not just in size, but in psychological importance. This can lead to assumptions that completely undermine the portfolio's intended balance.

It's very tempting to keep going with a "winner", to let it run, and even look for more in the same category, while assuming everything will work out for the best. It's easy to convince yourself that current conditions will continue forever.

However, this assumption quickly introduces portfolio fragility. Markets evolve. Sentiment shifts and whole categories fall out of favour. One sudden shock could bring significant damage to an unbalanced portfolio.

This is why discipline is so important. Many investors find it difficult to “take some winnings off the table” to rebalance their holdings, but history shows this is the best way for serious investors to manage over the long term.

It’s one of the reasons I developed PRFER™—the Pearlstein Relative Fixed Equity Ratio. PRFER isn’t a formula or a timing tool, but rather a discipline for maintaining balance and managing risk. More on PRFER in the following pages.

Market Conditions Affect Equities

Equities are affected by their environment, which is why simple labels can be misleading.

Don’t Be Misled—Look For Function Over Labels

People like to create labels for investments, and sometimes whole categories of them. For example, certain equities may be labelled “safe” or “conservative.” Others might be deemed “risky”.

But it’s important to consider that assets that behaved one way under a specific set of conditions can behave very differently when those conditions change.

For example, some assets do well in a low-interest-rate environment. But what happens when interest rates rise? They lose their power. What was once “safe” is now “risky” because conditions have changed.

This is why assets that appear stable for years can become sources of risk when their optimum environment quietly disappears.

Rather than asking whether an asset is popular or how it has performed recently, I focus on what job it is meant to do within the portfolio and under which specific conditions. I’m also very aware that conditions often change gradually rather than suddenly, which means that regular reviews and potential adjustments are critical.

Learn to Compress Information – Filter Signal From Noise

Every day, investors have access to far too much information, so it's critical to compress and filter signal from noise.

Realistically, that means ignoring 99% of the information coming at us and focusing on the 1% that's important to our portfolios and goals.

How do I get the most relevant information to manage portfolios? Here are some thoughts:

I follow the earnings and other reports issued by companies I hold and those I'm interested in. If there's important news, I dig further. Has the company hit one of my targets? Is it enough to influence a buy or sell decision?

I subscribe to and follow a few newsletters from strategists with a proven track record of analyzing markets and seeing just over the horizon. The newsletters aren't free, and they're not cheap, but you get what you pay for. Generally, these newsletters influence my big-picture thinking. I'm not looking for buying or selling tips.

I read relevant newspapers, but primarily for entertainment. Sometimes a piece leads me to research further, but very rarely does anything influence an immediate buy or sell decision.

I don't have "always on" information drips such as social media, Bloomberg, or other services. I check them periodically, but don't want to be interrupted by constant notifications—far too much noise.

Most importantly, I know why I bought what I hold in my portfolios. Each holding serves a purpose. I have targets for them, and review them periodically based on research.

Pattern Recognition – I’ve Seen This Movie Before

There’s a famous saying, “history doesn’t repeat itself, but it rhymes”. The same is true for the financial markets.

We can apply some historical causes and effects to today’s market. This is one of the few benefits of being older and in the game for decades.

Patterns become familiar. The most obvious examples are manias or the introduction of new technologies or markets. The oft-quoted Dutch tulip mania is an obvious starting point.

More recently, the introduction of the broad-based Internet brought thousands of companies to the forefront, only to fade away in the dot-com bust.

In Canada, the change in marijuana laws gave us companies with unrealistic multiples. Many have disappeared, while others have come down to earth.

And today, we have AI. We’ve seen this movie.

Typically, in these scenarios, there are a few winners and dozens of losers. Usually, it takes years for the winners to surface. And then, there is still time to participate.

If we think about the Internet, it took years before we knew that Alphabet (Google), Meta (Facebook), or Amazon would be solid companies, worthy of consideration. For investors, there was no rush to jump in early.

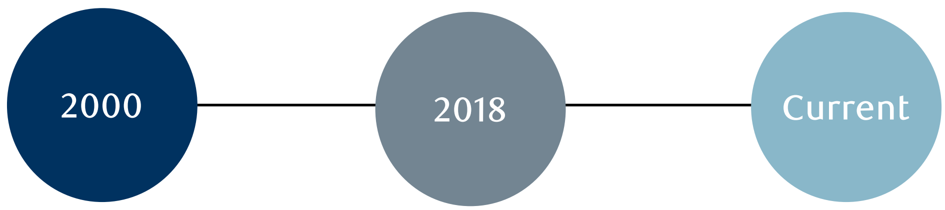
All of these companies went through many changes and iterations before they found a profitable model. For example, in their early days, neither Google nor Facebook knew how they would generate revenue. In hindsight, it seems obvious that it would be advertising. It wasn’t obvious to begin with, and it took time to make those decisions, build the technology, and create the teams to manage the revenue sources.

Sometimes people ask, “But wouldn’t you have profited more if you’d gotten in earlier?” Perhaps, but at that point, those companies were highly speculative, and you likely might have chosen something else entirely. There were similar companies that could have been successful, but for various reasons, crashed and burned.

If you’re a speculator or day trader, sure, there were many opportunities. But as investors, we consider the risks involved in buying and holding for years.

Speculative Cycles and Valuation Multiples

A valuation multiple (e.g., "60x earnings") means investors were paying roughly $60 for every $1 a company earned.



	Internet Bubble	Marijuana Stocks	AI / Mega-Cap Technology
Peak Valuation	~60x earnings	Elevated valuations despite limited or inconsistent earnings ~80–85% peak-to-trough decline	~35–40x earnings
Post-Normalization	~25x earnings	Multiples reverted toward more conventional ranges	—

New categories of business often lead to highly speculative valuations for companies in those sectors, as we've seen in previous cycles.

Sources: Nasdaq 100 historical valuation ranges (2000 peak and subsequent normalization).
Canadian-listed cannabis sector valuation conditions during the 2018 cycle (HMMJ ETF proxy).
Current (Spring 2026) Nasdaq 100 valuation ranges (rounded).

PRFER—The Pearlstein Relative Fixed Equity Ratio

I developed the Pearlstein Relative Fixed Equity Ratio (PRFER) to create portfolios that are appropriate for clients' goals, and provide flexibility and resilience while managing risk.

PRFER creates a portfolio framework designed to remain viable across long periods of uncertainty and to remain intact long enough for cycles to resolve.

The three goals of PRFER are:

1. To grow and protect your capital
2. To provide a reasonable rate of return based on acceptable risk
3. To build in flexibility to take advantage of market opportunities

It's important to note that PRFER provides the guardrails for the portfolio but doesn't dictate the individual choices within it.

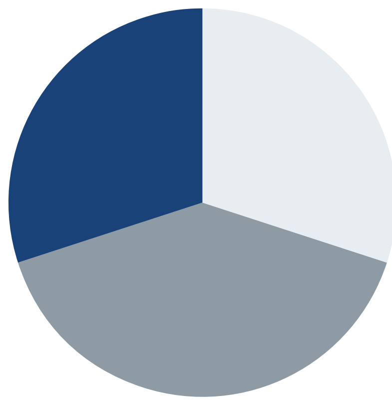
PRFER simplifies how you view the risk allocations in your portfolio. I have found it worthwhile to have these discussions before considering any portfolio choices.

Starting with a foundation of 30% Fixed, 30% Equity, and 40% Vary, opens the discussion for your overall direction, acceptable risk, and timelines.

By considering various scenarios for the 40% Vary, you can create a framework for many types of portfolios, and then discuss the benefits and potential risks associated with each.

PRFER Provides Flexibility and Resilience and Manages Risk

Three buckets of a typical PRFER portfolio



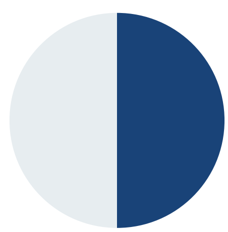
30% Fixed

30% Equity

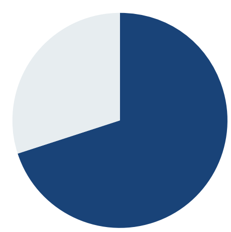
40% Vary

The "40% Vary" in PRFER allows us to weight the portfolio more aggressively or conservatively.

70% Equity
30% Fixed



50% Equity
50% Fixed



30% Equity
70% Fixed

By considering various scenarios for the 40% Vary, you can create a framework for many types of portfolios, and then discuss the benefits and potential risks associated with each.

Function, Incentives, Constraints, and Cycles (FICC)

In my professional and personal life, I have often used acronyms to help define and remember various concepts.

I created FICC, which stands for Function, Incentives, Constraints, and Cycles, to help me orient my thinking around the systems, incentives, and constraints that influence the financial markets.

Although in general, FICC is meant to be “behind the curtain”, I decided to share it here because I know it will be of interest to many investors.

My FICC Monitoring Targets

Here is how I use FICC. I monitor and analyze seven key “systems” that have the greatest impact on markets. These are:

1. The U.S. Stock Market
2. The U.S. Economy
3. The Global Bond Market
4. Institutional Capital Allocation
5. Social Cohesion (Advanced Economies)
6. Global Trade & Security
7. The Status of Hard Assets

I look at each of these systems in terms of Function, Incentives, Constraints, and Cycles. As an example, let’s look at the U.S. stock market:

Function
To provide liquidity and capital to grow businesses and support innovation

Incentives
Growth is rewarded under abundant liquidity and borrowing

Constraints
Inflation, rates, policy shifts, shocks

Cycles
Extended expansions supported by liquidity eventually give way to corrections and resets

The U.S. Stock Market

Using this foundation, I can analyze this particular system. For example, if the incentives for the U.S. stock market are abundant liquidity and borrowing, what happens if interest rates increase and lending tightens? Reduced liquidity is often the first warning sign of a negative change. We've seen concerns about inflation and rates. There have been significant policy shifts, such as the broad implementation of tariffs.

Regarding cycles, at the time of writing, the U.S. market has been in a mature bull cycle. History shows that extended bull markets eventually give way to corrections and resets, particularly when liquidity conditions tighten.

The current bull market revolves around the top seven tech and AI companies, all trading at record multiples. Narrow leadership in a market is also a critical warning sign.

From my perspective, numerous red lights are flashing regarding the U.S. market. Being invested in this market requires ongoing vigilance.

Let's consider another system:

The U.S. Economy

Function:	To generate growth, employment, and income
Incentives:	Consumption, leverage, expansion
Constraints:	Debt levels, rates, demographics
Cycles:	Growth phases alternate with slowdowns as constraints reassert themselves

Several markers deserve attention when examining an economy. It's also important to keep in mind that critical indicators often lag at a broad level, such as an overall economy. So, for example, an incremental rise in interest rates seems bearable, but one slight rise after another brings us to the "boiling frog" analogy. Everything is fine until one day, it isn't.

When we speak of growth, consumption, and debt, we can review that at three levels: government, corporate, and personal.

If the incentives are consumption, leverage, and expansion, then how are the three levels faring?

Critically, debt is at an all-time high for all levels. Government debt is in the stratosphere. Large corporations are laying off thousands of workers to cut costs. Many individuals are feeling strapped, especially those affected by corporate layoffs or increasing healthcare costs. Food prices continue to rise. Mortgages are renewing at higher rates, adding to household debt.

And yet the economy continues to grow. However, the debt bubble may burst, and amid political chaos, tariffs, and mass extraditions, the U.S. economy warrants close scrutiny.

My FICC Definitions For the Remaining Systems

The Global Bond Market

Function:	To preserve capital and provide income through capital gains
Incentives:	Safety, predictability, income
Constraints:	Inflation erosion, rising rates, credibility stress
Cycles:	Stability alternates with repricing as conditions normalize

Institutional Capital Allocation

Function:	To allocate capital efficiently across the economy
Incentives:	Benchmarking, career risk management
Constraints:	Regulation, political pressure, public scrutiny
Cycles:	Confidence phases give way to intervention and reset

Social Cohesion (Advanced Economies)

Function:	To maintain cooperation and legitimacy
Incentives:	Stability, security, social trust
Constraints:	Inequality, inflation, political polarization
Cycles:	Periods of consensus alternate with fragmentation

Global Trade & Security

Function:	To enable global exchange and security
Incentives:	Efficiency, scale, cost reduction
Constraints:	Geopolitics, chokepoints, security risks
Cycles:	Integration phases alternate with regionalization

The Status of Hard Assets

Function:	To act as financial insurance and a store of value
Incentives:	Inflation protection, diversification
Constraints:	Volatility, sentiment, allocation limits
Cycles:	Often strengthen later as monetary and fiscal pressures build

The Role of Gold in a Portfolio

Gold has historically behaved differently—and often inversely—to global equities during periods of market stress.

If you have followed me for any length of time, you'll know that I recommend that most portfolios include gold and, to a lesser degree, silver, as 10%–25% of the portfolio value.

In my PRFER portfolio model, this would be held in the 40% Vary bucket.

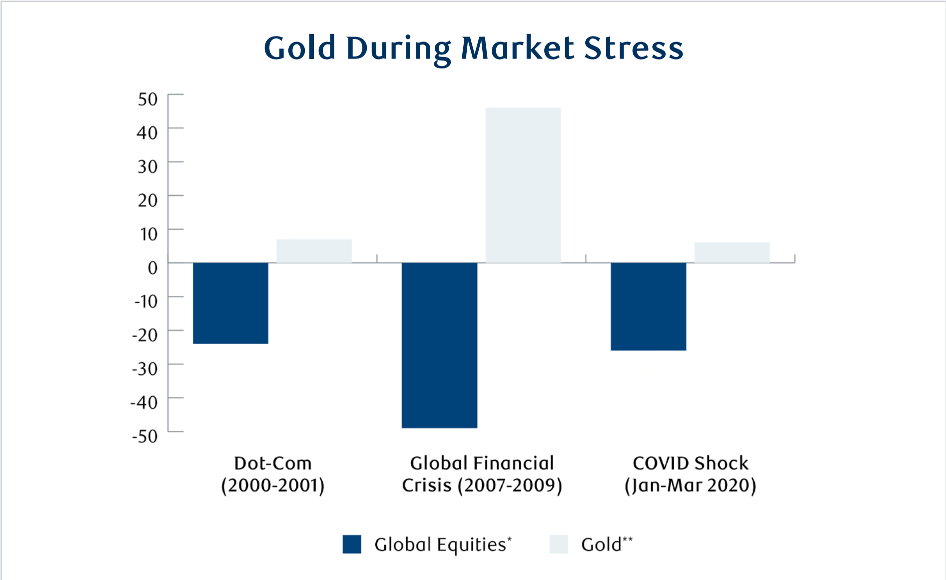
I think of precious metals as insurance. Historically, they have acted as a counterweight to market uncertainty and global disruptions. Think of them as counter-market.

For example, here is an excerpt from a January 2026 article in the Globe and Mail:

"Gold charged past $5,000 an ounce for the first time as geopolitical tensions pounded the U.S. dollar."

There are a few ways to own gold. One of the easiest and most popular ways is through an exchange-traded fund such as GLD, or through equities of companies that own gold mines. Canada is well served by gold companies with solid track records.

Others prefer to own the actual bullion in bars and wafers. You can do this through a variety of reputable dealers, using verified custody and storage options.



*Global Equities: FTSE All World Index
**Gold: LBMA Gold Price PM (London Bullion Market Association Gold Price, afternoon fixing)

Source: World Gold Council, Gold as a Strategic Asset (latest edition). Returns shown in U.S. dollars using WGC-defined peak-to-trough stress windows.

Buying Physical Gold—A Real-World Example

Some time ago, a former colleague reached out with a simple question: he wanted to buy physical gold. The concern wasn't about returns, but about the size of the cash and money-market balances sitting at the bank.

The question wasn't how to add risk, but how to reduce dependence on a single financial system.

What surprised him most wasn't the price of gold, but how unfamiliar the process felt. Like many people, he assumed gold was something owned through markets rather than held directly. We talked through reputable dealers, standard bar and coin formats, custody and storage options, and verification.

As one dealer put it simply: "If you don't hold it, you don't own it."

That line stuck. It captured the difference between exposure and ownership better than any chart could. In this case, gold wasn't a substitute for equities or bonds. It was a complement—a way to rebalance cash risk rather than market risk.

Once held, gold doesn't require constant monitoring or tactical decisions. It simply is. In that sense, it behaves less like a trade and more like insurance—rarely discussed during calm periods, but quietly reassuring when conditions become less certain.

Why Don't Most Investment Advisors Recommend Gold?

Many investment advisors avoid talking about owning physical gold. Why? Because they're more accustomed to recommending equities.

So, if you talk gold with your broker, you'll likely hear about gold stocks or ETFs backed by physical bullion, and that's fine. Equities and ETFs are reasonable stand-ins for physical gold and an easy way to get exposure.

But, if for whatever reason, you want to hold physical gold, you probably wouldn't get much help there. I can help you with that.

Why Hard Assets Now

We seem to be living in a virtual world. We have AI to data-mine much of the world's information. We can meet on-screen—no need to travel. We send each other electronic documents, very rarely printing and delivering them. When we drive, we can choose an electric vehicle, which eliminates the need for oil and gas.

And yet, underpinning all of this activity are hard assets. Consider that, as of this writing, there are 12,000 data centres worldwide, with many more mega-centres under development to handle AI requirements. Those data centres consume an extraordinary amount of copper and electricity.

Let's deconstruct electricity. We generate most of our electricity using natural gas or uranium. While solar and wind are making greater contributions, they're nowhere near meeting daily demand, much less the power required for data centres.

Similarly, although electric vehicles (EVs) are gaining popularity, they currently account for only 2.5–3% of the global passenger car fleet. Sales for EVs are robust, especially in China and Europe, and are projected to reach approximately 15% of vehicles on the road by 2030. While this is admirable, that leaves 85% of vehicles using oil and gas.

As we cheer the electrification of vehicles, we also realize it places additional demands on our electric grids. And that means more copper, steel, aluminum, and other hard assets.

Also, travel has become more common. So, we'll be needing jet fuel and the assets to build more airplanes and airports for the foreseeable future.

Overriding everything is the world's population, which continues to increase. Everyone needs somewhere to live, so we'll need building materials worldwide.

In the markets, hard assets were out of favour as we focused on (were distracted by) the Internet and now, AI.

Although many of our interconnections have become virtual—Zoom, FaceTime, etc., we still live in a real world, and that requires hard assets.

Digital Economy
AI, Cloud, Data Centres, EVs

Primary Energy

Electric Grid

Physical Resources
Copper, Steel, Uranium, Hydrocarbons

We Are Entering an Era of Physical Constraint

Like most other market sectors, hard assets are cyclical. But there comes a time of reckoning, when we realize we need more silver, copper, or steel if we want to continue growing.

Consider silver for a moment. It's an important metal. In November 2025, the U.S. added silver to its strategic metals list, reflecting its growing prominence in energy infrastructure, electrification, and national security.

Silver is used in:

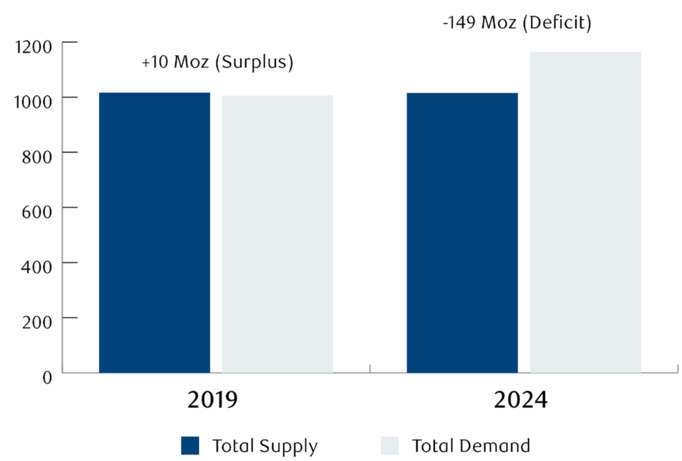
- Solar panels (one of the largest and fastest-growing sources of demand)
- Electronics and semiconductors
- Electric vehicles and charging infrastructure
- Medical applications and antimicrobial coatings
- Data centres and high-performance computing hardware

Silver is also increasingly scarce. Supply has fallen short of demand for several consecutive years, drawing down inventories. Unlike gold, most silver is consumed in industrial processes and is not economically recoverable once used.

Silver supply was broadly balanced in 2019. By 2024, demand exceeded supply by nearly 150 million ounces, marking several consecutive years of deficit and a shift to sustained structural deficits.

Silver: Structural Deficits in Supply and Demand

(Moz = Million ounces)



Source: Silver Institute source attribution (World Silver Survey 2024, published 2025) for silver data cited for Sources For Charts and Graphics.

Timing and Politics Play a Role

The challenge is that it takes years to bring a new silver or copper mine to market or start up a steel mill. And so, it becomes a matter of timing. No one wants to pay too early or pay the price of being too late.

Another growing challenge is the impact of political decisions. What if one country needs materials but other countries refuse to trade with them, or simply slap on punishing tariffs?

Where does it leave us as investors? We need to pay attention to hard goods and related services. We should also look beyond the obvious markets for undervalued companies. Is it time for Brazil, Chile, and Argentina to step into the spotlight? What about the African continent?

We need to broaden our horizons and keep cash ready to take advantage of opportunities.

This is a relatively new phenomenon after many years of reasonably open and expanding global trade. The world's largest countries and regions—the USA, China, India, Russia, and Europe—are jostling for control.

Cold War 2.0 – Using Trade as Weapons

Global trade is no longer driven solely by efficiency—it is increasingly shaped by strategy, security, and leverage.

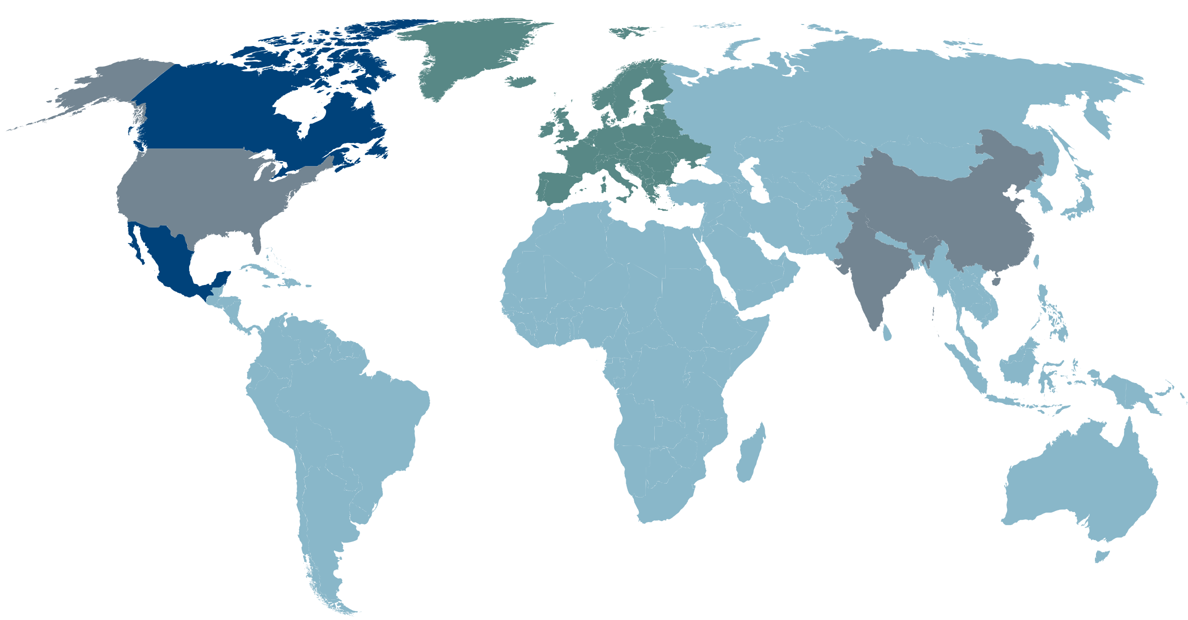
This can be both dangerous and an opportunity for smaller economies such as Canada, Australia, the individual European countries, the Pacific, and African countries.

While the larger countries often feel that they “hold all the cards”, that is usually not the case. Countries such as Canada are rich in oil and gas, minerals, grains, various foodstuffs, electricity, and water. Europe is a centre for pharmaceutical manufacturing. These can be offered or withheld in trade negotiations.

The most recent example, at the time of writing, was China’s refusal to buy Canadian grains because Canada had imposed a 100% tariff on Chinese electric vehicles.

The USA, in particular, is frequently imposing (and then retracting) tariffs at the whim of the White House.

For investors, markets most directly affected by trade and tariffs are quite volatile and subject to unpredictable changes. From my perspective, they bear watching, but it’s too early to take significant positions.



Passing On Investment Lessons

You may know that in his time, my father was very well-known on Bay Street and enjoyed a long and fruitful career. I admired him all his life.

While he had a downtown office, he also had a home office in the den where he did his reading and research. He would let me join him in the office so long as I understood he had to read, and that this wasn't play time.

As I grew older, I started reading some of the publications in his office. That reading and conversations with my dad were the start of my love for this business.

When I started my advisory business, and my father was "retired", he joined my team, and I benefited greatly from his observations and guidance.

Today, I try to pass my knowledge forward, often to next-generation adult children who haven't had the benefit of an investment education. They're starting to invest their own money, usually with the immediate goal of saving up for a home. In some cases, they will also one day inherit funds from their parents.

I've created presentations that cover topics such as what investing is and isn't, where returns come from, the role of risk, and diversification as a core tool. I also go over common investor mistakes, what a sensible portfolio looks like, and the importance of process over prediction.

I hope to shape their thinking to help them build a strong financial foundation and avoid the common pitfalls young investors often fall into.

If you have children or close relatives who would benefit from this, please get in touch.

Everything in Balance: Your Goals, Your Life, Your Family

At Mark Pearlstein Wealth Management, we work closely with you to listen and understand your goals and requirements before making any investment recommendations.

Our team recognizes the importance of growing your wealth, protecting it, and then converting it into a tax-efficient income stream. We can also help you plan your estate and create your legacy for family and charity.

The world will keep changing—faster than we expect.

But the things that helped us make sense of it in the beginning still matter in the end: physical resources, trusted relationships, and clear judgment.

And maybe that's enough.

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