Newsletter

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Ian Fitz-Gerald
Senior Portfolio Manager &
Investment Advisor

Our Monthly Morning Coffee

According to CNBC this week, the very first email ever sent was 1971 by computer programmer Roy Tomlinson… the message read like this: 'QWERTYUIOP'.

The last decade for myself as a true Montreal Canadiens hockey fan has been a tough one to endure… years of missing the playoffs while the erstwhile Toronto fan dances around me rejoicing in Maple Leaf Square. Well, after two grueling 7-game series against Tampa Bay and Buffalo, Montreal was officially the only Canadian team left to advance to the third round, only to be stifled by an extremely well-coached Carolina team which ended up claiming the Stanley Cup itself last month.

On the day of every Montreal playoff game, I carefully hung my Canadiens jersey on a tree in hopes of sending out positive vibes to 'Les blues, les Blanc, et les Rouge'! Despite the Stanley Cup finals currently being played totally south of the border, we can still dare to dream about next year…

The Energy Market: Why this Middle East conflict is hurting consumers everywhere!

The Strait of Hormuz remains a key bottleneck. According to RBC Capital Markets, even if a reopening occurs, skepticism remains around whether we will see pre-war maritime traffic return in the foreseeable future. Leading shipping industry experts have said that an Iranian-controlled reopening would not be sufficient to get traffic through the Strait back to pre-war levels, and that a clear Iranian military defeat is likely a prerequisite for a full recovery.

Oil prices have risen more than 80% year-to-date, reflecting the current strife in and around Iran. As this conflict has persisted, we are now seeing these increases gradually translate into higher consumer prices…

Firstly, we are seeing the one-time adjustments that both businesses and consumers make to absorb higher fuel costs— also, "second round" effects which occur as workers and firms respond by seeking higher wages & prices to preserve their purchasing power. These one-time adjustments are usually temporary, while the second-round effects usually tend to hang around for a lengthier period.

In markets with lower fuel taxes, such as the United States, the pass-through of oil price increases to pump prices tends to be more pronounced. In Europe however (where taxes represent a larger component of pump prices), the inflationary impact of rising oil costs is typically more muted… I would say Canada is somewhere in the middle.

Beyond obvious increases in fuel costs, higher oil and gas prices can indirectly raise other prices across the broader economy as businesses pass along expenses to customers. An example is the relationship between natural gas and electricity pricing in developed markets; in many regions, natural gas serves as a critical input for power generation. Since electricity costs are often embedded in rental agreements, elevated gas prices can ultimately contribute to higher rents for tenants. The higher the rent, the less a family living on a fixed income can spend on other items needed in a household.

Higher oil prices also increase costs for transportation services, including airlines and freight haulage – we've seen Air Canada cancel flights to NYC for the foreseeable future due to the price of fuel. However, diesel prices… the primary fuel for heavy-goods vehicles that transport merchandise… have increased substantially more. Consequently, tourism-related services and other sectors dependent on freight transportation now face heightened cost pressures, which businesses may ultimately pass along to consumers through higher prices. We could also include food in this section, as natural gas is a critical input in the production of ammonia-based fertilizers, meaning fertilizer prices are going up as well.

Suffice it to say, the resolve of this awful conflict in the Middle East will not only save lives (this is obviously the primary concern!), but it will also allow middle- and lower-class families to see their hard-earned wages to go a little further…

Last month, I heard a fascinating/disturbing explanation on the mathematical approach that the White House has been using when speaking about the reduction of drug prices. For example, we've heard numerous press conferences that have touted price cuts of 200, 300 and 500% for US consumers; now, I'm not in any way a math genius, but through my university degrees in science & finance, I did manage to take a couple of math

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courses along the way and feel I know enough to state that these numbers are absolutely impossible.

Well, I've heard a few Washington 'folk' from the White House's inner circle who have justified or explained (sort of…) this 'alternative' mode of mathematics used in these calculations. Mr R.F. Kennedy, the US Secretary of Health stated the following logic in a recent interview: '… if you have a drug that was priced at $100 to be increased in price to $600, that would then be an increase of 500%. Taking the other approach or direction if we saw that drug priced at $600 be discounted right down to $100, that would be a discount of 500%'.

When a White House reporter spoke up & stated that that was not mathematically correct and the actual discount is less than 90%, they were ignored. I honestly can't make this up… but this is the world we live in.

The Benefits of the Tax-Free Savings Account

For anybody feeling that it's too late to start the tax-free savings account (TFSA) or if you were 'late out of the gate' when this product was introduced by the Harper government, do not fear…

At this stage, the annual deposit limit for anybody who was an adult aged 18 or over in 2008 will be a figure of $109,000 worth of contribution room to work with. That would mean a household couple would carry almost $220,000 worth of useable tax-free room.

This capability makes the account a huge potential difference-maker in retirement planning, especially considering dilemmas such as how to address spending after leaving the workforce, whether to take an extra amount out of your RIF above the minimum payment, or use the TFSA as an account to address any overages in retirement.

Personally, I feel it's an ideal tool and a great compliment to the RSP accounts that we contribute to with pre-tax income. From an investment standpoint (due to the tax-free nature of the income generated in this account), I generally encourage clients to go slightly more aggressive in their chosen investment mix versus that of an RSP.

If you are just starting out, here are some tips I will offer up:

- Put a % of this capital into an equity-based ETF as a core holding (e.g., I own shares of ZQQ for broad technology exposure)
- Try to pick a Canadian bank stock… if you choose not to own a bank, try to pick another type of business that pays a dividend
- Buy share(s) in a business which you might follow and/or have a personal interest in. For example, names like Dollarama, Apple, Aritzia, etc.
- Try NOT to buy fixed income such as a bond or a GIC (be an 'owner' & not a 'lender')

Lastly, make sure to do your research - please feel free to reach out as I'm always happy to chat about this topic.

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Hey, I'm not one for carrying a huge social media presence but I do venture onto LinkedIn from time to time, partly to stay current on various investment views, but also for entertainment as well. Last week, I came about a posted online billboard that featured several 'old school rules of thumb' regarding investing and what was smart money management. I am pretty sure I recall my dad tossing a few of these at me when I started talking about buying a pick-up truck in high school (not a good idea!).

Regardless, some of these made me smile…

- 'The Rule of 72'- the # years to double your money = 72 divided by the interest rate you receive each year. The takeaway here is that at an 8% return, your wealth should double every nine years
- 'The 4% Rule' - If you withdraw 4% annually from your savings and retirement your money should last 30 years
- 'The 10% Rule' – this states that you should not exceed 10% of gross income for debt payments. The takeaway is that anything above this mark means that you're drowning financially
- 'The Six-Month Rule' - states that our emergency funds should be equal to approximately 6 months' worth of expenses
- 'The Rule of 110' – this is in relation to the stock/equity exposure you should carry in your portfolio. The formula for this = 110 minus your age. The 'takeaway' here is that investors are encouraged to adjust their allocation in later years in life for the purpose of reducing risk.
- 'The 30 Day Rule' - If you wait 30 days before making a luxury purchase, the desire for this will likely disappear.

… some of these still make sense today, having stood the test of time. If you know any others, please send them my way!

A Big 'Thumbs Up' on Amazon… c/o RBC's Portfolio Group

All I need to do is walk down my block on 'garbage day' and view the Amazon cardboard that hangs out of each blue box I pass. Obviously, it is a well-used service, but is it investible at this level…?

Well, for some portfolio 'watchers' our research team is making a statement regarding the durability of Amazon shares as a long-term investment. The group is suggesting the weighting of AMZN shares within the model US portfolio be increased from 5% to 7.5%.

Why?! We still believe the company possesses considerable operational momentum going forward. On the retail side, we continue to see runway for long-term margin expansion as the company leverages its unmatched distribution infrastructure to expand into more categories and drive continued growth in its advertising business while it also leverages its investments in AI and robotics to drive greater efficiency in its operations. On the Amazon Web Services side of the business, Amazon is well positioned to benefit from the growth of AI workloads and to anticipate near-term acceleration in the business as new datacenter capacity comes online. We currently view the shares as attractively valued given Amazon's leadership in attractive growth end markets, solid execution, and strong balance sheet. Risks to the thesis include underwhelming AI capex return on invested capital and economic weakness pressuring the retail business.

Last month, I made a trip to Ottawa, partly for the purpose of sitting down with clients I have in the area. The main reason however for my visit was to honour a good friend and former college teammate Val St Germain who was inducted into the Ottawa Sports Hall of Fame. I had the pleasure of playing with Val @ McGill before he was the first player to be selected in the 1992 CFL Draft. Val went on to play 14 seasons in the CFL and was a league all-star 3x as well as a Grey Cup winner in 2007 with Saskatchewan. His name now joins a very elite club that includes names like Steve Yzerman, Russ Jackson, Elizabeth Manley & Daniel Alfredson.

Part of what made the evening was the fact that no fewer than 60 former teammates travelled from all over the globe to be there in person. An extremely special evening for an extremely special guy - thanks for your friendship over the years, Val. Hang in there, kid!!

That's it from me… enjoy your summer!

Ian

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