



GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q2-25 Investment Letter (No. 72)

July 28, 2025

OVERVIEW

Dear Clients & Friends,

We are pleased to provide this quarterly report for the period ended June 30, 2025. This report will be divided into three sections: (1) What's New, (2) Market Recap and (3) Commentary.

WHAT'S NEW

In our efforts to ensure the highest level of privacy and security for your data, mandatory two-factor authentication (2FA) will be rolled out to any users that are not already enrolled. All accounts will still have a user ID and password as the first method of verifying your identity. Under the new 2FA process, you will automatically receive a text to your cell phone when you try to log in with a one time code to enter. This change will be applicable to our firm's client portal, accessible [here](#). Please be aware that a member of our team will reach out to you if you do not currently use this service. As another security precaution, any online access that has not been used for an excessively long period will be deactivated. Access can easily be restored by contacting our office. Aviso Financial Inc. should be rolling out separate two-factor authentication (2FA) for their online portal accessible [here](#) in the coming months.

MARKET RECAP

The S&P 500 Index (in USD) gained 4.93% in the quarterly period ending June 30, 2025.



The S&P/TSX Composite Index gained 8.53% in the quarterly period ending June 30, 2025.



The Canadian Dollar quoted in USD (CADUSD) rose by 5.18% for the quarterly period ending June 30, 2025.



COMMENTARY

We have broken down this quarter's investment letter into 4 parts. We've been meaning to discuss the information value from the corporate bond market, particularly the publicly traded bonds. The bond market in Canada is reasonably well developed but it's nothing like the U.S.'s, which is a huge market with very sophisticated players. In fact, The U.S. bond market is the broadest, deepest and most liquid market in the world.

We then discuss how to mitigate downside risk in market panics. A solidly built portfolio can still go down, but we want to be set up ahead of time to survive and prosper after the downturn event.

Our third topic discusses *valuation*, and we will explain what we mean when we say a security is "expensive" or "cheap".

Finally, since we are now halfway through the year, we'll try to cut through the noise and give an outlook for the rest of 2025.

Part 1 – Watch the Bond Market

President Bill Clinton's chief strategist, James Carville, once talked about reincarnation. *"I would like to come back as the bond market. You can intimidate everybody."*¹ He speaks about something long known by credit analysts, and it should be a truism for anyone studying the stock market.

¹ James Carville: https://www.azquotes.com/author/2584-James_Carville

We'd like to share with our clients the importance of looking at interest rates. In this case, it is something called corporate bond "credit spread", as it relates to the equity markets. We almost never see it discussed in general financial media even though we think it is an important attribute to consider.

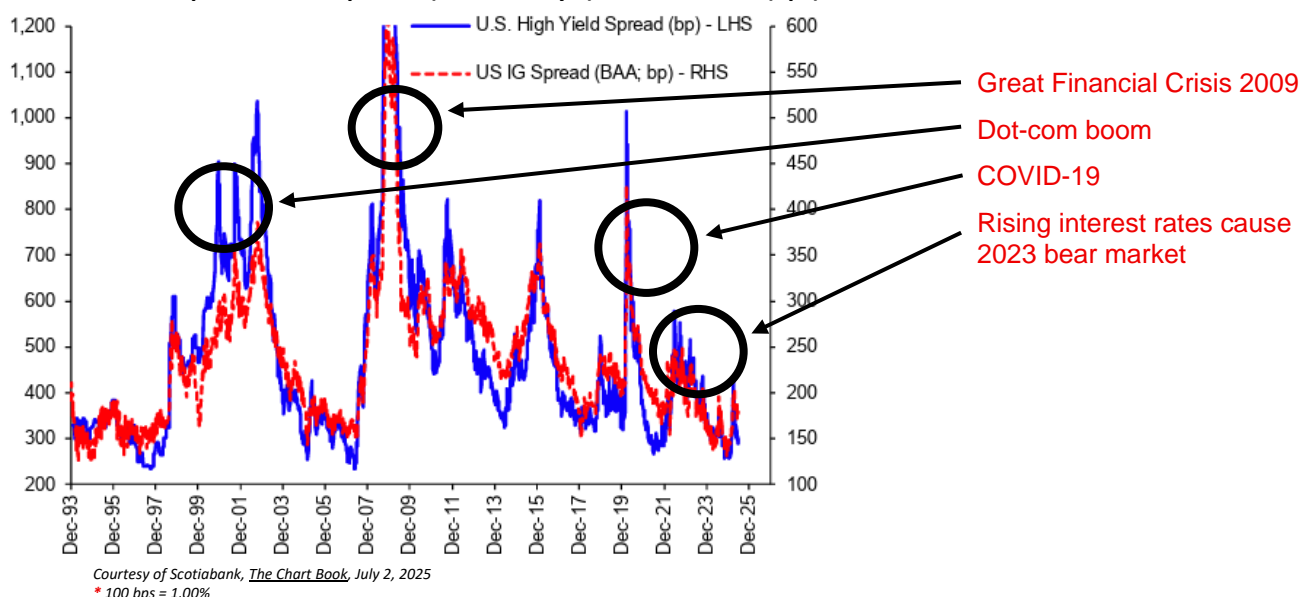
Credit signal: It is not only governments that issue debt (bonds). Businesses and corporations also issue debt that is publicly traded. The difference in yield between low/zero risk bonds like U.S. Government Treasuries and riskier corporate bonds is called a "credit spread" or "spread". *When this spread widens or is very large, it signals there is risk in the stock market. When this spread begins to narrow, it is a bullish sign for the stock market.* Chart 1 shows this spread for the entire corporate bond market in the U.S.

It is much simpler to remember: a corporate bond gets cheap when spreads widen, and it gets expensive when spreads narrow.

When spreads widen for the entire corporate bond market, it signals credit analysts are worried about the whole market, which is typically a bad sign for stock markets. When the spreads begin to narrow, the level of fear drops, and it is a bullish sign for stock markets.

Chart 1 shows spikes in bond spreads just prior to, or coincident with, deep drops in the stock market. We highlight a few of the spikes to make our point.² The chart clearly shows this pattern is true for all types of corporate bonds, both investment-grade bonds (high quality) and below-investment-grade bonds (also called high yield or junk bonds).

Chart 1 – U.S. Corporate Bond Spreads (vs. Treasury's) in Basis Points (bps)*



Summary. Credit spreads are not exactly a secret in the world of institutional investors but we rarely, if ever, see it discussed in mainstream media. We believe educated clients are the best clients so we illustrate why credit spreads can be a useful tool for investing.

A warning sign is the *direction* of the spread between government and corporate bond yields. A widening spread means bond investors are getting worried and are demanding greater compensation to own a corporate bond. Quite often widening spreads occur before or coincident with equity bear markets. Conversely, a narrowing spread means the credit market is less concerned about risk, a bullish sign for stock markets.

We caution readers that we do not recommend using only bond spreads for investment decisions. This is just one signal, although an important one in our opinion, for judging the markets. Additionally, it does not look at the unique characteristics of individual securities as it is a market barometer. Nor does it consider other factors that need to be taken in context of the current market environment.

² Scotiabank, *The Chart Book*, July 2, 2025

Part 2 – Mitigating Equity Market Panics

We wish to be clear that our response to rising credit spreads is not to “go to cash” immediately. That is market timing, and we have written multiple times in previous letters that we do not think that is the best strategy.

What we will consider doing is maintaining or increasing the quality of our holdings. *When there is a waterfall drop of the stock markets, namely - a panic, blue chips will outperform lower quality securities.*

For example, when COVID-19 struck and the markets panicked, higher quality stocks outperformed lower quality stocks. This is clearly seen in the next chart which compares the S&P500 ETF (**SPY**, high quality) to low quality small capitalization stocks, as seen in the S&P 600 small-cap ETF (**SPSM**, low quality). Lower quality names fell further than blue chips and had a deeper pit to climb out of when the recovery started. We use the ETF versions of the indexes as these are investable by anybody.

Chart 2 – COVID Panic, January 1– July 31, 2020
S&P500 (SPY** high quality) vs S&P600 (**SPSM** low quality)**



Like the Covid panic, earlier this year we saw the exact same pattern. The stock market dropped in a panic when President Trump’s worldwide tariffs on “Liberation Day” were announced late April 2. Blue chip names fell, but came down less than lower quality small capitalization stocks. On the rebound, blue chips recovered more quickly. Year-to-date to July 4, 2025, for price movement, the S&P500 is +6.3% while the S&P600 small cap index is still underwater at -3.5%.

Chart 3 – Trump Liberation Day Effect, January 1 – July 4, 2025
S&P500 (SPY** high quality) vs S&P600 (**SPSM** low quality)**



Conclusion. During bullish phases of the stock market, low quality often outperforms blue chips as investors do not care much about risk. When an unexpected event invariably occurs, the stock market can drop suddenly like a waterfall, leaving investors little opportunity to react.

Investors who invest in higher risk securities bull phase often realize the impact of the riskier strategy if they see their holdings plunge more than blue chips. They often have to wait longer for a recovery to the previous peak price. We believe that the vast majority of

investors cannot successfully jump in and out of the market over multiple cycles. Successful timing can happen once, even twice, but we think that it involves an element of luck. Frankly we think luck should only be used at the casino. We are investing, not gambling.

Gold Investment Management will not market time by going to cash as it violates our investment policy with our clients. We will *mitigate* the risk by maintaining exposure to high quality stocks and bonds. Blue chip securities may go down, but they usually go down much less than riskier names, which means when the recovery starts there is a smaller hole to step out of – we think this is a significant advantage.

Part 3 – What Does Valuation Mean?

Our local Sobey's supermarket has a sale once a month when everything is 15% off. Shoppers load up their carts on that day. When the investment markets drop by 10%, some investors run for the hills, but they should be doing the opposite.

Our attitude during wide bond credit spreads is contrarian. When spreads widen, we get excited as this gives us the ability to cheaply buy stocks and bonds that we want to own. This section will explain our reasoning.

Valuation: The fundamental reason why we want to buy in market dips is *valuation*. There are many ways to conduct a valuation of a company. We will focus on a common valuation metric, the P/E ratio. We will use the real example of The Bank of Nova Scotia (BNS) common shares.

We have specifically written about BNS in 2 previous newsletters. We use it for continuity.

P/E is the ratio of a stock's share price / annual earnings per share. We are going to use a recent research piece courtesy of Desjardins Securities Inc., which is a nicely done summary of the recent earnings of the 6 biggest Canadian banks.³ This was done by our friend, Doug Young, who is their Canadian bank analyst, and we have the highest regard for his work.

Table 1 – Valuation Big 6 Canadian Banks on May 30, 2025

Company (symbol)	Share Price May 30	P/E 2026 earnings	Dividend Yield
CIBC (CM)	\$ 93.43	11.1x	4.1%
RBC (RY)	\$173.94	12.4x	3.5%
TD Bank (TD)	\$ 94.77	11.1x	4.4%
Bank of Montreal (BMO)	\$147.37	11.4x	4.4%
National Bank (NA)	\$135.07	11.8x	3.5%
Scotiabank (BNS)	\$ 73.43	9.5x	6.0%

Source: Desjardins Securities, 2Q FY25 postview – cannot stop the bank-ery!, June 2, 2025

Context. BNS had a P/E of 9.5x, on May 30, 2025. What does this mean in plain English? If you own a share of BNS then you own the net profit per share. This is the “E” in P/E. “P” is the share price. So, P/E is simply the share price divided by earnings per share.

A P/E of 9.5 means that if you became a shareholder of Scotiabank and if the earnings stayed exactly the same every year, then theoretically **you have to own the shares for 9.5 years** to get your original money back. Over those 9.5 years however, you will receive a 6% annual dividend while you wait.

Compare BNS to the most expensive bank, RBC. If you own RBC at a P/E of 12.4 and there is no earnings growth, you have to wait 12.4 years to get your principal back and you will only be paid 3.5% a year in dividends over those 12.4 years.

Additional considerations. Let's assume that earnings do not grow at BNS. Is getting 6% over the next 10-ish years a good deal? To answer this question, we look at the yield of 10-year Government of Canada bonds, which are lower risk. As of this writing, it is 3.34%⁴ – meaning that you get an interest rate of 3.34% for the next 10 years and then you get your principal back from owning the bond.

The stock market is far riskier than risk-free Government of Canada bonds. However, shares of the Big 6 Canadian banks are what we regard as the bluest of the blue-chip names, and Scotiabank has been paying dividends since 1833. That's a track record of 192 years! So even though BNS is a stock, we think it has much less risk than the average Canadian stock over the long term.

Therefore, in our opinion, getting 6% from BNS over the next 9.5 years, as compared to 3.34% from a Government of Canada 10-year bond is more than acceptable – we get a premium of 2.66% for taking on equity risk versus sovereign Canada risk, at the same tenor.

³ Desjardins Securities, 2Q FY25 postview – cannot stop the bank-ery!, June 2, 2025

⁴ Source: Scotiabank, July 4, 2025

When you consider tax, the argument becomes even more compelling. Interest income is taxed at up to 48% in Alberta, whereas eligible dividends are taxed at 34.31%. This means you would need a GIC or bond yielding 7.6% to match the 6% BNS dividend yield on an after-tax basis. Hint: In a world of sub-4% interest rates, that's impossible to find.

As a couple of additional bonuses, (i) 6% yield is higher than the rate of inflation which provides income protection against the cost of living and (ii) we are not factoring in dividend increases, which BNS has regularly done over the decades. We don't think BNS is going to cut its dividend, and we will happily clip a 6% cash dividend for owning the stock.

Investors can also sign up for Scotiabank's Dividend Reinvestment Plan (DRIP) through their broker/custodian. This is where quarterly dividends are used to buy shares with no commission. Recently, when the shares pulled back to below \$65, it was a great opportunity to automatically pick up shares cheaply and with a greater than 6% yield. As a piece of icing on the cake, Scotia's DRIP program currently offers a 2% discount to the market price.

Finally, assuming banks will not grow their earnings is unrealistic. Desjardins Securities' estimate of BNS earnings for 2026 is \$7.73/share. If earnings grow by a modest 5% to \$8.12/share, then the P/E ratio becomes even more attractive at 9.0x – meaning you will only need to own the shares for 9 years to get your original money back.

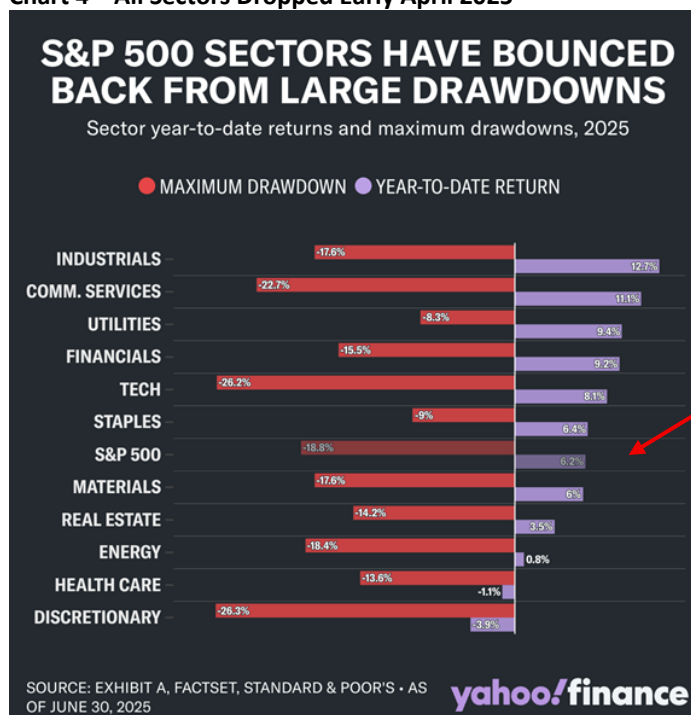
Earnings at risk? The reason we used the analogy of a supermarket's once a month 15% discount is because of **value**. The same food item that is 15% cheaper is of tremendous value.

Likewise, if the stock market panics and the shares of BNS drop by 15%, we find that to be of tremendous value. This is because we don't think the earnings will drop if it is a market panic. So, a 15% discount on the current price is \$62.42, when applied to earnings of \$7.73, we get a P/E of 8.0x. The original 9.5 years has now fallen to 8 years and furthermore, based on this lower price, the dividend yield leaps to 7%. So, below \$65, the shares have outstanding value.

Our breakdown of P/E begs the question, did the stock market's downturn cause a fundamental change in BNS' earnings so that they would be adjusted downwards?

With the benefit of hindsight, the answer is an emphatic "no". The stock markets dropped on President Trump's Liberation Day after April 2, 2025, and it has since powered back. The chart below is courtesy of Yahoo Finance and Matt Cerminaro on X, on July 3, 2025.⁵ The S&P500 gained over 6% in the first 6 months of 2025, but the drawdown in early April was bad for every industry sector, with the maximum drawdown of the S&P500 at -18.8%.

Chart 4 – All Sectors Dropped Early April 2025



Yahoo Finance, *Morning Brief*, July 3, 2025; Matt Cerminaro on X

S&P500 up 6.2% first half 2025.

- All sectors fell dramatically on "Liberation Day" announcement but recovery also extremely quick. S&P max drawdown - 18.8%.
- Entire market on sale.
- We believe market has assessed earnings fundamentals as remaining intact, which means the drawdown was a buying opportunity.

⁵ Yahoo Finance, *Morning Brief*, July 3, 2025
<https://x.com/mattcerminaro/status/1940111409897251096/photo/1>

Summary. At Scotiabank's price of \$74.95 on July 4 we still find the shares attractive when we consider management quality, business mix, geographic concentration, and comparison to peers. Its record of continuous dividends for 192 years is also a consideration for our clients who require income – it is longer than Canada has been a country.

We caution readers BNS is not a specific investment recommendation. It is used to illustrate what P/E valuation actually means and its relationship to dividend yield. Scotiabank is suitable for only those accounts who have the ability and willingness to accept a certain level of investment risk, which will be derived through annual reviews and portfolio discussions.

Part 4 – Outlook For Rest of 2025

The fact that all industry sectors fell in April 2025 gives us the first clue that the drawdown included an element of panic selling. The rebound happened almost immediately which suggests to us the market quickly reached the conclusion that earnings were not at material risk – see Chart 5 below.

In other words, the April drop was an incredible buying opportunity when high quality technology, industrial, and communications companies were on sale up to 18-26% off (Chart 4). Likewise, high quality financials could be had on sale up to 15% off.

Chart 5 – S&P500 & TSX Price Change Year-to-Date July 4, 2025

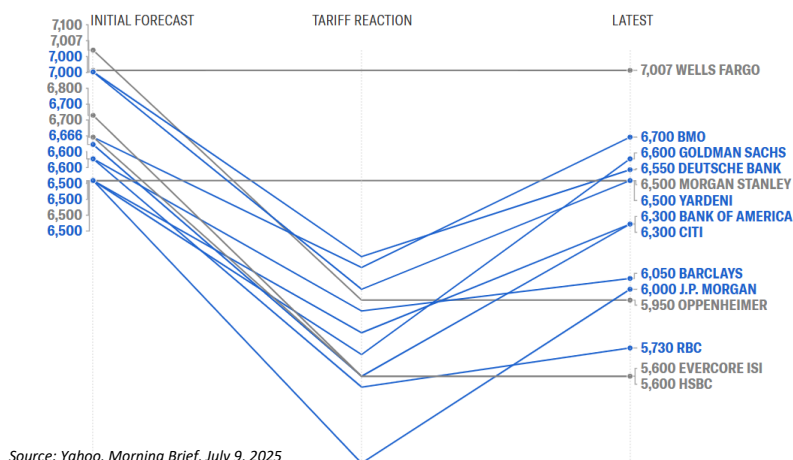


Despite the rebound of the markets in the second quarter of 2025, Chart 6 shows that even into July the major Wall Street and Bay Street investment firms still have not changed their S&P 500 year-end targets back to their initial January 2025 levels.⁶

We think this is bullish because it is a contrary indicator. An old investment saying is *“the market climbs a wall of worry”*. The more pessimism, the more the market will claw its way upward.

Chart 6 – Wall Street Forecasts Haven't Fully Recovered from Tariff Turmoil

S&P 500 year-end 2025 price targets



Investment strategists still cautious. A bullish indicator – markets climb a wall of worry.

⁶ Yahoo, Morning Brief, July 9, 2025

Summary. We believe Wall Street and Bay Street strategists are handicapping their projections for the S&P 500 for 2025. They are engaging in the art of under-promising and over-delivering.

Part 5 - Conclusion

Bond market signals. Equity investors would behoove themselves to pay attention to the corporate bond market. Bonds are *loans*. Like any loan, the lenders (bond holders) provide money up front and get paid annual interest for a period of time. At the end of that time period, the original principal gets returned to the lender.

Bond investors, therefore, do not have a lot of upside, but they have maximum downside to zero if the borrower defaults and cannot pay interest and principal. We sometimes think like credit managers and focus on understanding the company and management sufficiently to be confident we can get our money back.

We admit we are biased, but we believe corporate bond investors often pay close attention to the fundamentals of a company with a greater view for downside risk than equity investors. GIM manages both equities and bonds for clients, and we consider credit spreads very closely.

Valuation ratios. The P/E ratio is but one of many indicators used by investors to gauge the worthiness of a stock. If you own even one share of a company, then in theory you own the per share net income.

The P/E ratio is a measure of how cheap or expensive that company is. Assuming there is zero earnings growth from the time of purchase, the bigger the P/E ratio, the longer it takes to theoretically earn your original principal back.

This is why when you may hear professional investors say a stock is expensive, they are not referring to the actual share price, they are likely talking about the valuation.

Buying when others selling. Chart 3 tells us that President Trump's unsettling of the markets in early April was temporary and all industry sectors fell. We had great buying opportunities especially in industrials, telecom, technology and financials – which have all rebounded nicely since April 3, 2025.

One of the best times to make a lot of money is to buy when *everyone* is selling *everything*, regardless of the quality of the companies. These opportunities happen time and time again because human nature is not going to change in our lifetimes.

In our view, seizing these moments in of themselves is not particularly risky once the context is understood and the specific event is analyzed. We quote Sam Stovall, Chief Investment Strategist of CFRA, who recently stated the adage "*rarely does one injure themselves falling out of a basement window*".⁷

Sometimes the best wisdom is folk wisdom.

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Thank you for entrusting us with your investments. As always, we welcome your questions and comments. You can [contact](#) GIM by telephone: 1.888.436.9955, fax: 1.866.541.7947 or email: invest@gold-im.com

Yours truly,

GOLD INVESTMENT MANAGEMENT LTD.

⁷ CFRA, *The Outlook*, July 7, 2025

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