Lorne Steinberg Wealth Management

QUARTERLY NEWSLETTER

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> *"The real key to making money in stocks is not to get scared out of them"*
> *– Peter Lynch*

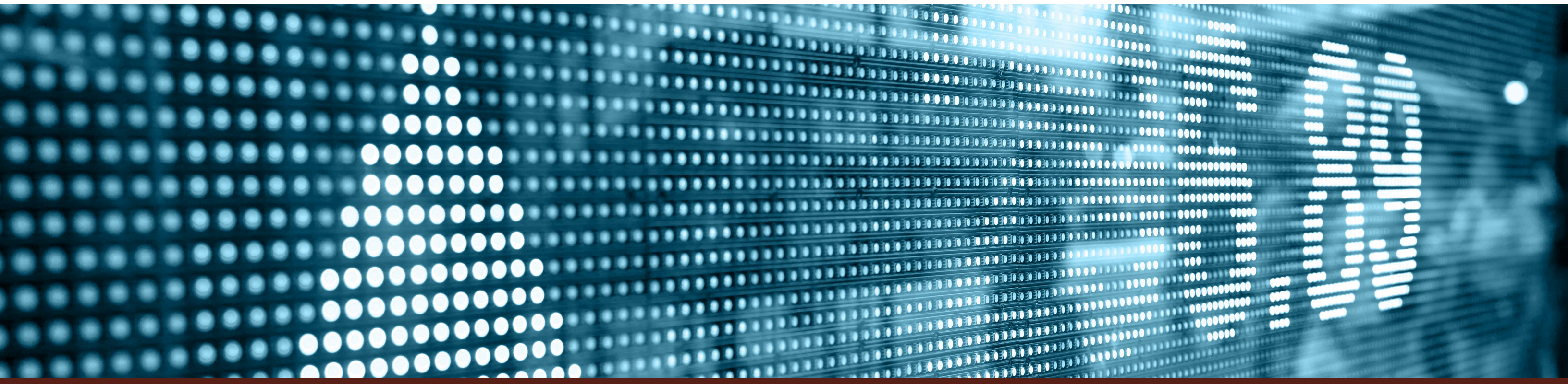
Lorne Steinberg,
MBA CFA
CO-PRESIDENT

The Facts of Life

It is always essential for long-term investors to remember that successful investing is about owning great businesses at reasonable prices — regardless of headlines, political cycles, payroll numbers, or economic forecasts. These companies have the financial strength and managerial expertise to adapt to the challenges of the day — and there are always challenges.

April served as a clear reminder that reacting emotionally to policy shifts or sensational headlines can be costly. The geopolitical environment at present is volatile, while trade negotiations between most countries and the U.S. have been chaotic and unpredictable — making it difficult for businesses and governments to plan for the future.

Investors should be prepared for this kind of 'on-again, off-again' policymaking and not be thrown off course by it. In today's environment of heightened noise and constant hyperbole, the wisest course is to tune it all out and stay committed to a disciplined, long-term approach which has served us well for many years.



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Section 899

The recent U.S. budget bill proposed by the White House — titled “The One Big Beautiful Bill” — included a provision, Section 899 (Enforcement of Remedies Against Unfair Foreign Taxes), which, if enacted, would have negatively impacted investors in countries deemed to impose “unfair” taxes on U.S. entities. On Wall Street and in Washington, this became known as the “Revenge Tax.”

Specifically, Canadian investors would have faced an increased withholding tax on dividends received from U.S. companies, raising concerns about whether it would still be worthwhile to hold U.S. equities. Under a “worst-case scenario,” returns on U.S. equities for Canadian investors would have been approximately 0.4% lower per year (assuming the maximum 20% rate was applied to a 2% dividend yield).

Fortunately, late in June, Republican senators agreed to remove the Revenge Tax provision after mounting pressure from Wall Street firms, who argued that Section 899 risked deterring significant foreign investment and ultimately harming U.S. companies.

At the time of writing, negotiations between Canada and the U.S. remain ongoing. While the recent removal of the Digital Services Tax — a major sticking point for the Trump Administration — appears to have put a trade and security deal back on track, investors should stay prepared for the possibility of future penalties on Canadian investments if negotiations fall through. Throughout the Section 899 uncertainty, our message has been clear: while a potential reduction in returns of around 0.4% is far from ideal, it is not reason enough to abandon some of the world’s best businesses, many of which may be domiciled in the U.S. but have substantial global revenues.

Administrations and policies come and go, but owning exceptional companies with durable competitive advantages, strong free cash flow generation, sustainable and growing dividends, and compelling long-term growth prospects remains a winning strategy.

Below are a few examples of U.S. companies held in our Global Value Equity strategy — holdings we would not have parted with, even if Section 899 had come into effect.

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Alphabet

Best known as the parent of Google, Alphabet is an advertising juggernaut with a 90% share in global search, as well as being a dominant player in video (YouTube), and mobile (Android). The core advertising business is still growing nicely, with secular tailwinds from digitization and increasing ad budgets shifting online.

Its cloud hosting business is the third largest (trailing only Amazon Web Services and Microsoft's Azure) but is growing faster and gaining share, as well as experiencing increasing margins. YouTube (which was acquired for more than $2 billion in 2006) now has revenues on a par with Netflix. The company also has massive optionality in what it describes as "Other Bets" including driverless cars (Waymo), quantum computing, medical technology (Verily), augmented reality / virtual reality, and machine learning. In all, Alphabet has nine distinct businesses that each have more than 1 billion active users, several of which they have yet to monetize in any meaningful way.

While so-called "large language models" may potentially pose the first ever real threat to parts of their search business, the company is not sitting idle, spending $50 billion per year on R&D. This has led to the development of Gemini (their AI tool) as well as increasingly embedding AI across its suite of products.

The company is hugely profitable, with annual free cash flow approaching $80 billion, and with plenty of excess cash available for product development and acquisitions.

JPMorgan Chase (JPM)

Although its roots can be traced back to 1854 and his father, Junius, John Pierpont Morgan founded what many still call the "House of Morgan" in 1871. Today it is the largest bank in the United States and the most valuable bank in the world. With an extensive global presence, JPM provides a diverse array of financial services, including retail banking, commercial banking, investment banking, and asset management. They are a leader in almost every area in which they choose to operate, while maintaining a 'fortress balance sheet', the latter being one of the most important attributes one should look for when investing in this sector.

Having managed through the global financial crisis (GFC) extremely well, they have more than doubled the size of the business since then, while regularly increasing dividends and buying back shares. A notable fact is that they maintain enough capital and reserves today so as to be able to weather the losses the entire US banking industry suffered during the GFC. Despite maintaining that level of reserves, the company generates high returns on equity (over 17% in 2024) and remains a core financials sector holding for us.

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VISA

Visa operates the world's largest electronic payments network, processing some 250 billion transactions annually in over 200 countries and connecting over 100 million merchant locations. Despite being classified as a financial business, Visa is not a lender, takes no credit risk and has no direct relationship with either the merchant or the consumer (unlike American Express, one of our other holdings, which does all of that).

Rather they earn a "toll" on every transaction, of approximately one - tenth of the typical 2.5% interchange fee on credit card transactions. As a result, the company commands very healthy operating margins, regularly above 60% and, by operating an "asset - light" business model, the vast majority of earnings are converted into free cash flow.

Visa's unmatched scale creates a self-reinforcing competitive advantage, with broader merchant acceptance attracting more cardholders which, in turn, draws in more merchants.

The secular shift from cash to digital payments remains a powerful tailwind, particularly in emerging markets where penetration is low, and the group continues to expand its offering by introducing business-to-business payments, cross-border remittances, data analytics and related services, suggesting there is ample room for growth. With minimal debt and significant cash reserves, its exposure to global commerce and the absence of credit risk makes it a compelling long-term investment

Final Thoughts

Despite the uncertainty and volatility of the first half of 2025, markets have proven surprisingly resilient, buoyed by investor optimism about the broader economic outlook. As of this writing, equity indices are hovering at or near all-time highs. Yet investors remain concerned about the possibility of a major market correction due to the daily barrage of negative news.

For equity investors, it's important to remember that market volatility is, indeed, a fact of life, and from time to time markets suffer steep declines. However, it is worth noting that the U.S. stock market has had a positive return in seventy-four of the past one hundred years. This clearly suggests that investors are far better off sticking with great companies through the occasional down market, rather than trying to predict the next downturn. The quote at the top of this letter captures this mindset perfectly.

As professional stewards of capital, our mandate remains clear: to grow and protect client wealth through all market cycles. Peace of mind comes from knowing that portfolios are built with discipline, diversification, and an unwavering commitment to quality. When the cycle turns, it's the companies with strong balance sheets, consistent free cash flow, and durable competitive advantages that not only weather the storm—but emerge stronger.

Sincerely,

Lorne Steinberg
Co-President

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