Wise Investor

VSI | Wealth Management Group

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Wise Investor – May 2026

Executive Summary

If you've spent any time reading the financial headlines lately, you could be forgiven for wanting to turn off the news entirely. Geopolitical flare-ups in the Middle East, a persistently wobbly U.S. dollar, yo-yo precious medals prices, and the ever-present drum beat of "AI bubble" concerns — it can feel like a lot. And yet, here we are: most major indices are testing fresh highs. As Russell often reminds us, markets have a long history of climbing exactly this kind of wall of worry.

In this quarter's publication, we'll cover:

- **What's happened with gold, tech and the broader market this quarter**
- **Whether the noise is worth worrying about, or just noise**
- **Why we remain bullish on Canada — and why we believe that matters for your portfolio**
- **How we're thinking about positioning through the rest of 2026**
- **Travel tips from the team**

The bottom line: the fundamentals that support this long-term bull market remain largely intact. Volatility may be our companion for a while, but volatility and danger are not the same thing. A wise investor knows the difference.

What's Happened Lately?

It has been a quarter of contradictions. Drone and missile exchanges in the Middle East captured headlines for weeks. The Strait of Hormuz at time of writing remains disrupted. Trade negotiations between the U.S. and major partners continued their familiar on-again, off-again rhythm. And yet, Mr. Market largely shrugged. Most indices pushed into new high territory. It is one of those moments that tests an investor's patience — and their conviction.

A few specific stories dominated our Advisory Circle discussions this quarter:

Gold: It's All About Flows

Gold has long been the go-to "crisis asset" — the thing you'd expect to soar when geopolitical risk spikes. So many investors were puzzled to see it actually decline during the recent Middle East tensions, falling roughly 12% from its peak before stabilizing. What happened?

The short answer: gold had already run extraordinarily hard. It rose 27% in 2024, 65% in 2025, and a further 23% in the first two months of 2026 — all before a shot was fired in the latest conflict. At those levels, we believe gold was being driven not by crisis, but by investor flows chasing performance. When those momentum investors started selling to raise cash during the tensions, the price dropped — exactly the opposite of what most people expected.

The good news: gold holdings are starting to appear to have bottomed and prices have stabilized. We believe that trust in financial systems globally remains low, and that underlying demand for alternatives to paper currency is real. We remain selectively exposed to gold and precious metals — it remains a useful diversifier, even if its behavior has become harder to predict in the short run.

Tech & AI: Narrative Whiplash

The software sector has had a tough few months. Fear that artificial intelligence will disrupt traditional software business models — everything from legal research to credit ratings to logistics — pushed the S&P 500 Software index down more than 30% from its highs. Meanwhile, broader market earnings estimates for 2026 and 2027 continued to rise throughout the selloff. Prices fell; the fundamentals didn't.

As we've noted in previous letters, this is a narrative-driven market. The story around AI goes from "limitless revolution" to "existential threat to existing companies" and back again within the span of a few weeks. The underlying fundamentals — cash flows, earnings growth, real-world adoption — move in a much steadier line. History says: pay attention to the fundamentals, not the headlines.

Markets have also shown a fascinating pattern of diminishing sensitivity to major events. The initial tariff announcements generated enormous market swings. Subsequent rounds generated smaller and smaller reactions. The market is learning to process the noise faster — and that, on balance, is a healthy sign.

Why Should We Care?

As always, our Advisory Circle has been meeting regularly to pressure-test our thinking. One of the genuine advantages of having Russell and Anthony as colleagues, both with over 30 years in this industry, combined with my 19, is that we've seen versions of almost everything the market throws at us. Below are highlights from our recent discussions:

Marley: *With markets hitting new highs despite tensions in the Middle East, tariff uncertainty, a weakening U.S. dollar and tech volatility — what does your gut tell you? Are we getting too comfortable?*

Russell: *Overall, we still believe we're in a longer-term secular bull market, even though short-term pullbacks can and do happen along the way. After several strong years, some consolidation or a market correction wouldn't be unusual, especially given signs of rotation and waning momentum in parts of the market. The key point, however, is that corrections within a secular bull market tend to be relatively short-lived — and if one occurs, it should be viewed as a healthy and potentially attractive buying opportunity rather than a reason to be alarmed. That's why we thought it was prudent to move portfolios back to neutral equity from overweight earlier this year.*

Anthony: *I'd agree with that view and would add that periods of uncertainty often create opportunity for disciplined investors. While short-term volatility can feel uncomfortable, staying focused on fundamentals, diversification and each individual portfolio's longer-term objectives have always helped us navigate choppier markets. At times like these, patience and an understanding of the emotions that drive market sentiment matter just as much as market timing.*

Marley: *What keeps you up at night today?*

Anthony: *Well, I wouldn't say it keeps me up at night, as it's normal and expected, but the potential for increased short-term volatility. Historically, U.S. mid-term election years and changes in Fed leadership (May) tend to be bumpier as markets work through uncertainty around policy and direction. That said, history also shows that this uncertainty often fades with time, allowing markets to refocus on fundamentals like earnings, inflation and economic growth. Therefore, I think we could be back into the historical trend of a choppy summer and early fall with confidence returning once we're through mid-terms.*

Marley: *Does that change how you think about the portfolio?*

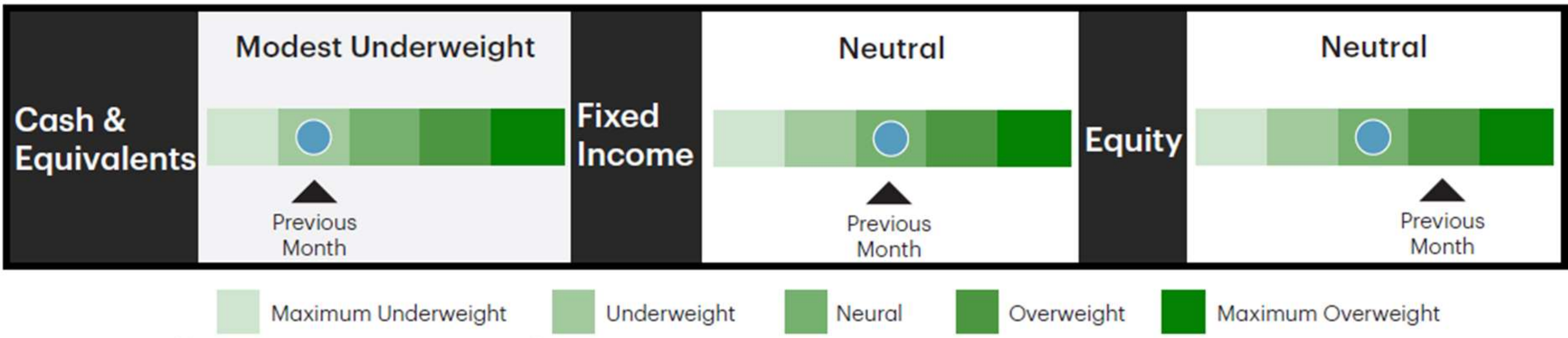
Anthony: *It reinforces something we've believed for a while now — that Canada continues to be in a strong position. First, we're politically stable. Second, we have resources. If the world is fragmenting, Canada's natural assets become more valuable, not less. So paradoxically, the things that worry us in the short-term, are some of the strongest arguments for why we're overweight Canada.*

Russell: *Despite the potential for some volatility this year, the market data still looks supportive to me over the coming years. We've seen a real broadening of market breadth — it's not just the Magnificent 7 carrying the load anymore. More companies are participating in earnings growth. That's the hallmark of a maturing, healthy bull market, not a bubble about to pop.*

Our collective view remains cautiously optimistic. The secular bull market that began in 2009 is aging, but age alone doesn't kill a bull market. What ends these cycles is typically a combination of irrational valuations across the entire market, a genuine credit crisis, or a monetary policy mistake. We are watching all three carefully, and none of those conditions are clearly present today.

That said, we do expect volatility to remain elevated. Our technical indicators are starting to suggest the market could be modestly overbought in the near term. A 10%–15% correction at some point would be completely normal — in fact, historically, a 10% pullback happens roughly every 14 months on average, and markets typically recover to new highs within three to four months.

Figure 1: Core Asset Class Allocations



Source: VSI Wealth Management Group, as at March 2026

What Should We Do? — Investment Strategy

We've brought equities back to neutral through the first quarter but our investment philosophy at VSI Wealth Management Group has not changed: we focus on owning high-quality, large blue-chip individual stocks and investment-grade bonds in portfolios that are built to last through cycles. We don't chase narratives; we follow fundamentals.

Our Positioning

We hold approximately 40% of our equity exposure in Canadian companies — a deliberate and, we believe, increasingly timely choice. The rest is diversified across U.S. and international markets. Within fixed income, we remain focused on quality bonds that provide income and ballast.

The Canada Opportunity

We are genuinely excited about Canada's prospects over the coming years, perhaps more so than at any point in the past decade.

Here is why: Canada sits on some of the most strategically valuable natural resources in the world at a time when the world desperately needs them. Base metals — copper, nickel, lithium — essential to electrification, grid expansion and the energy transition. Gold and precious metals act as an alternative store of value in an era of fiat currency skepticism. And energy — both conventional and clean — that the world continues to need. Uranium to fuel the global nuclear renaissance.

New trade agreements with Europe covering energy, defense and critical minerals have quietly opened significant new markets for Canadian exporters. Proposed data infrastructure investment from the UAE within Canada signals global confidence in our regulatory stability and technical capacity. And Prime Minister Carney's government has made deregulation and capital investment a central policy priority. TD Economics estimates that excessive business regulations have suppressed Canadian investment by as much as 9% relative to its potential — meaning there is real economic upside if even a portion of that red tape gets cut.

Financials: Our Largest Sector Exposure

The largest sector in the TSX Composite is financials — Canadian banks and insurance companies — and we hold a meaningful weight here. Our rationale: First, the macro environment favours financials. A steepening yield curve, continued interest rate stabilization near neutral, declining credit concerns and robust consumer spending all support bank profitability. Canadian banks are among the best-capitalized and most conservatively managed in the world. Second — and this is a theme we are particularly excited about — Canadian financial institutions stand to be a large beneficiary of AI-driven productivity gains. These are among the most data-intensive businesses in the economy: loan underwriting, fraud detection, client service, regulatory reporting, compliance and portfolio management all have enormous potential for AI-enhanced efficiency. We are already seeing early indications in earnings calls, with several major Canadian banks citing 15%–20% reductions in processing costs in AI-piloted programs. As this adoption broadens from experimentation to enterprise-wide implementation, the profit impact could be significant and sustained.

Beyond Canada

We are not abandoning our U.S. and international exposure — a portfolio without the world's largest equity market is not a diversified portfolio. However, we are increasingly intentional about where we choose to own U.S. equities: leaning toward quality large-cap companies with genuine earnings power, strong balance sheets and reasonable valuations, rather than momentum plays or speculative AI positions. International diversification continues to make strategic sense. Europe has quietly benefited from a combination of fiscal stimulus and reasonable valuations. Japan continues to reform its corporate governance and shareholder return culture. Emerging markets with commodity exposure are looking more interesting. None of this is at the expense of our core Canada conviction — it is complementary to it.

Personal Note

Spring is finally here in Vancouver, which means the mountains are still white at the top and the cherry blossoms are finishing their brief but glorious run. It's a good reminder that beautiful things don't last forever — but they do come back every year. So does the back pain from the relentless pursuit of a freshly planted garden which requires a lot of shoveling.

Russell and Bodhi took spring break abroad this year with Russell in Italy and Bodhi in Japan.

Bodhi's Takeaways from Japan: First off, a visit to Nagano for the snow monkey tour is an absolute highlight. Watching Japanese macaques lounge in natural hot springs, surrounded by snowy mountains, is a magical experience. It's perfect for families and adventurous solo travelers alike, and the scenery is nothing short of spectacular. And, for anyone hoping to capture Japan's natural beauty, a tour to see Mount Fuji is a must. Whether you're viewing it from Hakone, climbing partway up, or admiring it from the lakes nearby, the mountain is breathtaking and adds a touch of awe to any itinerary.

Russell's Tuscan Takeaways: It's the kind of place where you naturally slow down and enjoy the simple things, rolling vineyards, hilltop villages, and incredible food and wine. Whether you're wandering through historic towns or lingering over long meals with local wine, it's effortlessly relaxing. A perfect destination if you want beauty, culture, and a great place to learn to cook.

While Bodhi and Russell were away, the rest of us held down the fort and kept things moving along as usual. I did manage to sneak in one truly magical day fly fishing on the Squamish River, which felt like a pretty great reminder of why we're lucky to call this place home.

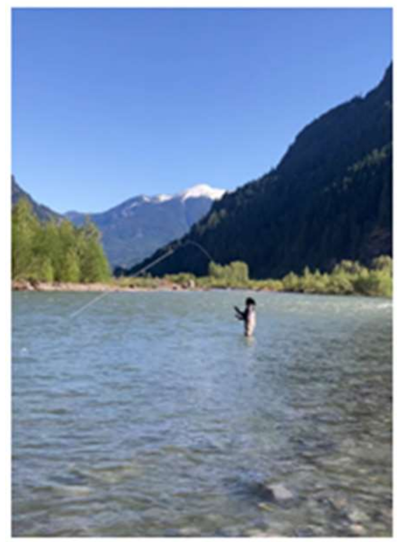
As always, thanks for reading and for the continued trust you place in our team.

Enjoy the spring sunshine and leave the market watching to us,

Marley.

Tuscan Cooking Class

Mount Fuji



Squamish River

"Wealth is not his that has, but his that enjoys it."

Benjamin Franklin

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