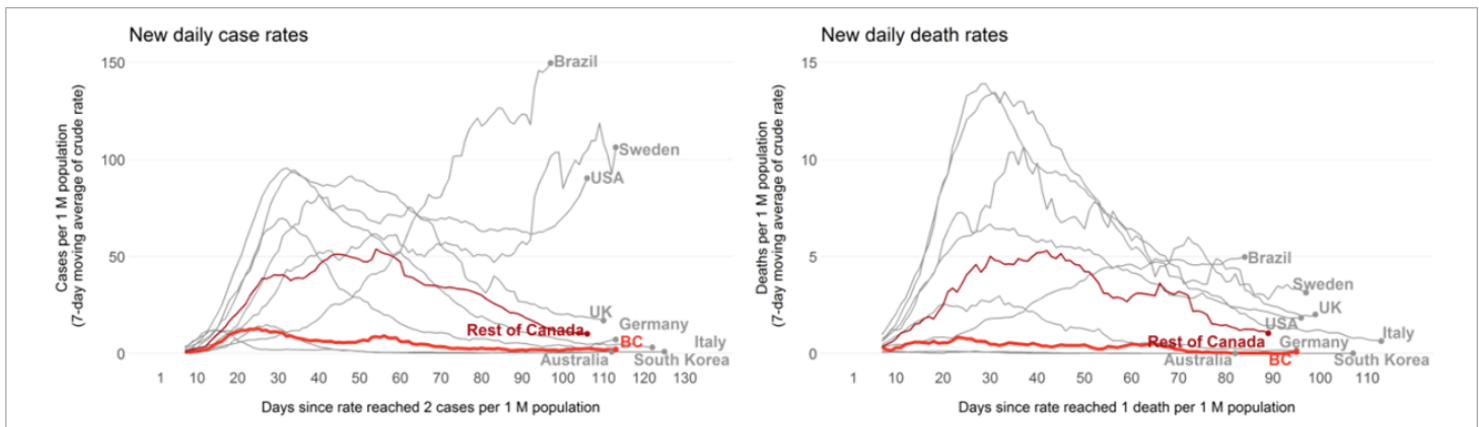




JUNE 2020 NEWSLETTER

ROAD TO RECOVERY

As the Coronavirus has spread across the world, BC and Vancouver Island have been in a relative bubble of safety. The Nanaimo Parkway is busy again and many of us have been eating in restaurants and socializing in an almost normal way. However much of the world has not been so fortunate. One of our clients has two sons working as nurses in Arizona who have both caught the virus, with moderate symptoms. His son in law, a 70 year old doctor in Texas, has also caught the coronavirus and had severe symptoms requiring a ventilator. He is recovering gradually after receiving excellent healthcare. One of Ian's university friends caught the virus while on a shopping trip south of Bellingham in early March, but had mild symptoms and recovered after a few days on the couch.



Source: BC Centre for Disease Control

Scientists and medical researchers around the world have been given close to a blank cheque book to find a cure or vaccine, and we are seeing progress on both of these fronts.

World news has become more chaotic with protests and in some cases riots in major cities. There have been a number of bankruptcies, including well-known companies such as Hertz Corporation, JC Penny, Neiman Marcus, J.Crew, Chesapeake Energy, and Cirque du Soleil (a private company). Most of the bankruptcies were in the oil and gas, aviation, and retail industries. In spite of dark headlines and apocalyptic warnings from some high profile investors and economists, the second quarter of 2020

Douglas Duncan Wealth Management
 Raymond James Ltd.
 #1-5767 Turner Road,
 Nanaimo, BC V9T 6L8
 Toll free: 1-866-729-2830
www.douglasduncanwm.com

was kind to investors. The Canadian stock market has bounced back 38.2% from its March 23 low, and the US market has bounced back 38.6%.

	<u>Jun 28/19</u> <u>Close</u>	<u>Mar 31/20</u> <u>Close</u>	<u>Jun 30/20</u> <u>Close</u>	<u>90-Day %</u> <u>Change</u>	<u>1-Year</u> <u>% Change</u>
S&P 500	2,942	2,584	3,100	20.0%	5.37%
S&P/TSX Composite	16,382	13,378	15,512	16.0%	-5.31%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	-9.09%
S&P 500	-4.05%
NASDAQ	12.1%
Dow Jones	-9.55%
Russel 2000	-13.6%
iShares S&P/TSX Preferred Index ETF	-14.3%
DJ Stoxx 50	-13.6%
FTSE 100	-18.2%
HANG SENG	-13.3%

As of June 30, 2020 (all in local currency)

Source: Thomson One

Canadian T-Bills and Bonds Yields

	<u>Dec 31,</u> <u>2019</u>	<u>Mar 31,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>
90-day	1.66%	0.25%	0.19%
180-day	1.72%	0.33%	0.21%
1 year	1.74%	0.36%	0.27%
2-year	1.696%	0.419%	0.245%
5-year	1.686%	0.585%	0.361%
10-year	1.699%	0.696%	0.522%
30-year	1.762%	1.306%	0.986%

Source: Thomson One

International 10-Year Bond Yields

	<u>Dec 31,</u> <u>2019</u>	<u>Mar 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
Japan	-0.03%	0.00%	0.01%
U.S.	1.92%	0.67%	0.65%
Germany	-0.19%	-0.48%	-0.46%
Canada	1.70%	0.69%	0.52%
U.K.	0.81%	0.35%	0.17%
France	0.11%	-0.03%	-0.12%
Spain	0.46%	0.67%	0.46%
Italy	1.41%	1.52%	1.25%
Portugal	0.43%	0.85%	0.47%
India	6.55%	6.13%	5.88%

Source: Bloomberg.com

EARNING AN INCOME BELOW THE POVERTY LINE IN CANADA

There are many ways to have low income in Canada, including insufficient education, unfortunate health issues, substance abuse, and a number of other reasons. There is another way of earning a low income in Canada that we never thought we would see:

Firstly, work incredibly hard and save \$9,000,000.

Secondly, invest in guaranteed Canada bonds and live off the interest.

$\$9,000,000 \text{ earning } 0.361\% \text{ (5-year Government of Canada bond rate)} = \$32,490 \text{ per year}$

In 2018 in Canada the official poverty level for a family of two was \$34,200, not a great reward for \$9,000,000 of capital.

This is a simplistic calculation and is not intended to be a political or social commentary in any way. The intended message is that while bonds and GICs guarantee interest and principal, they currently yield significantly less than the rate of inflation. We feel that some guaranteed investments are needed for liquidity and to reduce volatility, but the painful reality is that they will not contribute to your return.

Another risk is if rates rise in the future:

*Example: Canada bond issued at par yielding 1.25% (maturing on June 1, 2030)
Current price 107.20 per 100.00 to yield 0.5% per year*

In this real life example, a Canada bond was issued yielding 1.25% to mature on June 1, 2030.

Due to interest rates falling in this crisis, the bond has appreciated 7% to 107.20 to yield 0.5% per year.

The problem looking forward is that the most the investor can possibly earn is 0.5% equaling a total of 5% over 10 years.

If rates go back to 1.25% in the future, hardly an insignificant possibility, the bond's price goes back to 100.00, and the investor has lost 7% where the maximum upside over 10 years is 5%. If yields rise higher than 1.25% the bond will trade below par, for a larger loss.

While very few investors would purchase these bonds if recommended as individual securities they are often holdings in ETFs and mutual funds, where there is more opaqueness as to what the holdings are. Buyer beware!!!

WHAT HAS BEEN WORKING

In our March newsletter we recommended some high profile companies that we believed would thrive even during tough economic times, but due to their popularity don't become cheap very often. While most stock purchases made in late March would have done well, these companies have recovered more than most.

<u>Security</u>	<u>Mar. 31/20</u> <u>Close</u>	<u>Jun. 30/20</u> <u>Close</u>	<u>% Increase</u>
Amazon (AMZN)	\$ 1,949.72	\$ 2,758.82	41.5%
Microsoft (MSFT)	\$ 157.71	\$ 203.51	29.0%
Alphabet (GOOGL)	\$ 1,161.95	\$ 1,418.05	22.0%
Visa (V)	\$ 161.12	\$ 193.17	19.9%
Starbucks (SBUX)	\$ 65.74	\$ 73.59	11.9%

With the benefit of hindsight we should have also suggested Apple at the time.

<u>Security</u>	<u>Mar. 31/20</u> <u>Close</u>	<u>Jun. 30/20</u> <u>Close</u>	<u>% Increase</u>
Apple (AAPL)	\$ 254.29	\$ 364.80	43.5%

By comparison, most high quality "core holding" companies have not recovered as strongly.

<u>Security</u>	<u>Mar. 31/20</u> <u>Close</u>	<u>Jun. 30/20</u> <u>Close</u>	<u>% Increase</u>
CN Rail (CNR)	\$ 110.03	\$ 120.11	9.2%
Royal Bank (RY)	\$ 87.17	\$ 92.11	5.7%
Fortis (FTS)	\$ 54.27	\$ 51.63	-4.9%

While CN Rail, Royal Bank, and Fortis are incredible companies and belong in equity portfolios, we believe that most investors should also own some of the best companies in the technology sector. Technology companies tend to be winners of the "stay home more" economy and most have excellent balance sheets and dominant industry positions. While it is hard to say that they are currently at "once in a decade" prices like three months ago, they continue to outperform more economy sensitive companies and provide very good diversification in a portfolio, particularly if the economy does not bounce back as quickly as hoped.

PRODUCING INCOME

While dividend yields of most companies have risen due to depressed stock prices, we have experienced three dividend cuts among our larger positions. H&R REIT (#17), Suncor (#28), and Freehold Royalties (#47) cut their dividends by 50%, 54.8% and 71.4% respectively. All of these companies have decent balance sheets but with offices and malls being shut down the real estate business is under pressure, and oil going to negative prices in the last quarter was tough on oil producers. We have been holding these companies for a recovery but would rather sell these underperformers than winners should anyone need cash from their portfolio. The daily interest accounts had greater percentage drops in yield, from 1.70% a few months ago to 0.25% currently.

On the positive side Johnson & Johnson increased its dividend 6.3% this quarter, as the healthcare business has been resilient. Unfortunately for investors the best performing companies now (Google, Amazon, Apple, Visa, Microsoft, etc.) have zero or negligible yields.

STRATEGY GOING FORWARD

Our balancing act now is to make sure that we have the right amount of cash on the sidelines earning very little but providing safety, the right amount of technology companies providing growth but little income, and the right amount of banks, utilities, and telecoms producing good income but currently underperforming the technology companies. While news on coronavirus vaccines has been positive, no one knows exactly when they will be available, how effective they will be, or how quickly and completely the population can get vaccinated. For this reason we recommend the highest quality securities and diversification so that everyone can participate in the eventual recovery without taking too much portfolio risk. Meghan and Mark can help you decide which mix is best for you.



If you have friends who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thank you!

A handwritten signature in black ink, appearing to read 'Mark Duncan'.

Mark Duncan
Financial Advisor

A handwritten signature in black ink, appearing to read 'Meghan Douglas'.

Meghan Douglas
Financial Advisor

A handwritten signature in black ink, appearing to read 'Ian Douglas'.

Ian Douglas
Senior Vice President
Financial Advisor

A handwritten signature in black ink, appearing to read 'Lisa Cajolet'.

Lisa Cajolet
Administrative
Assistant

This newsletter has been prepared by Ian Douglas. It expresses the opinions of the writer, and not necessarily those of Raymond James Ltd. ("RJL"). Statistics, factual data and other information are from sources believed to be reliable but accuracy cannot be guaranteed. It is furnished on the basis and understanding that RJL is to be under no liability whatsoever in respect thereof. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. RJL, its officers, directors, employees and their families may from time to time invest in the securities discussed in this newsletter. It is intended for distribution only in those jurisdictions where RJL is registered as a dealer in securities. Distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person residing in the USA. Securities-related products and services are offered through Raymond James Ltd., member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a member-Canadian Investor Protection Fund.