



SEPTEMBER 2020 NEWSLETTER

CORONAVIRUS BLUES

As we enter the nine month of coronavirus awareness, the economic “winners” and the “losers” are becoming clearer. While some sectors of the economy including technology companies, beer and wine stores, grocery stores and online retailers have been immune or actually benefit from the new reality, others are still shut down with no restart imminent. Airlines, cruise ships, bars, real estate companies, fitness facilities, sports teams, and International tourism are among the most negatively effected.

The summer has been relatively uneventful for many Vancouver Islanders, as we get used to wearing masks in stores, washing our hands more often, and standing six feet apart in public. This preventative behaviour has been tough on some of the population, as we read stories about crowded houseboat parties in Kelowna and occasionally run into grumpy people in the grocery store.

The rapid stock market recovery, let by technology stocks starting March 23, has stumbled a bit, but continues to be positive. The nature of the recovery has been very selective with very few companies contributing to the gains.

	<u>Mar 31, 2020</u>	<u>Sept 30, 2020</u>	<u>% Gain</u>
	<u>Close</u>	<u>Close</u>	
S&P 500 Index	2,584	3,363	30.15%
S&P / TSX composite index	13,378	16,121	20.50%
Vanguard CDN High Dividend Yield Index EFT (VDY)	\$27.73	\$29.00	4.58%

Source: Thompson ONE

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

The Canadian examples are particularly telling. If you owned the index you had a very nice recovery from the March lows, if you had a portfolio of high-quality dividend paying companies your recovery is less than 1/4 of the index. Over a multi-year period the high quality dividend payers usually perform better, but not in this six month period. Our expectation is that when a coronavirus vaccine is finally distributed to the population, and the economy recovers, these companies will perform well again.

TODAY'S MONSTER DEFICITS ---- TOMORROW'S MONSTER TAXES?

“Just because you’re paranoid doesn’t mean they aren’t after you.” - Joseph Heller (Catch-22 author)

“The Internal Revenue Service is the real undefeated heavyweight champion.” - George Foreman (heavyweight boxer)

It is no secret that the Canadian government and many others have gone on a spending and borrowing spree in response to the Coronavirus pandemic, and this has been layered onto past chronic deficits when the world was at the peak of the business cycle. The wisdom of this spending and borrowing is not for us to determine, our role is to prepare our clients for potential future tax increases.

The elephant in the room is the top marginal tax rate, currently at 53.5% for regular income above \$220,000 for BC residents. While only about 1% of taxpayers pay this rate, the key is that they aren’t the same people each year. For example if someone passes away with a RRIF in excess of \$220,000, a very average income individual will have part of their RRIF taxed at 53.5%, with their loved ones getting the remaining 46.5%. This could get worse as governments look for ways to fund their spending.

Planning to reduce this tax burden is quite tricky, particularly with the OAS claw-back which starts at a taxable annual income of \$79,054.

If you have any questions on what you can do to shield yourself and your heirs from potentially higher taxes call Meaghan or Mark. There may be opportunities that are worth looking at.

We apologize in advance if we have raised anyone’s blood pressure for addressing this subject!

RAYMOND JAMES TRUST COMPANY

In a perfect world we are happy in our first marriages and have children who are competent, willing and able to act as power of attorney when we can no longer make decisions for ourselves.

In the real world we see second and third marriages, blended families, and children who are not suited or able to be powers of attorney. (We have stories that would curl your hair!)

As conservative advisors we feel that trusts should be used in rare cases. However we have seen children of hard-working diligently saving parents squander large inheritances over short periods of time. For these situations trusts can be effective tools to ensure that these children can enjoy a stable income over their lifetimes rather than extravagant living and reckless decisions for a short period of time followed by impoverishment for the rest of their lives.

Raymond James Ltd. has purchased a trust company to provide the services below. If you think that this may apply to you, contact Meaghan or Mark and they can see if you could benefit from these services. If it looks like there is a need we will introduce you to a Raymond James trust officer to go over the offering below:

- Executor appointment (joint / sole appointment of the trust company by will)
- Trustee services (joint / sole appointment for a trust)

- Executor / trustee support services for executors / trustees who need assistance with their administration
- Attorney appointment under a continuing / enduring / general power of attorney for property (joint / sole appointment of the trust company in the document; can include or be limited to agency services, e.g., bill payment)
- A wills bank will be available to Raymond James clients. This will allow for secure storage of clients' wills or other relevant legal documents in a safe fireproof location, while providing the advisor with the opportunity to review and ensure the information indicated is still relevant.

THE PETER LYNCH METHOD OF MAKING MONEY

Peter Lynch was the extraordinarily successful manager of Fidelity's Magellan fund from 1977 to 1990, during which time the fund earned an average return of 29% per year. By Peter Lynch's own calculations, the average Magellan fund owner only earned 7% per year by buying high and selling at the lows, but that is another story. Perhaps the most important lessons that we got from Peter Lynch's two books are as follows:

1. Invest in something that makes sense and you understand; and
2. Invest where you spend money yourself.

Everyone has different spending habits, but a good place to start when building a portfolio should include companies that have products and services that we use. Costco, Google, Microsoft, Amazon, Telus, BCE (Bell Media), the Canadian banks, healthcare companies and hydro utilities are sometimes available at attractive prices and sometimes not, but at least they are companies that have a good chance of being part of the economy for the next decade. We significantly added to our technology holdings after the March market meltdown which worked quite well. In the future we will be recommending that clients increase their healthcare allocation. We are not getting any younger and there is always a huge demand for healthcare services.

A specific investment to participate in the growing healthcare industry is the iShares US Medical Devices ETF, with the symbol IHI on the US market. This ETF owns companies that are not household names but are very relevant in the production of various medical devices, including artificial hips and knees. While we often try to find the best companies in a sector rather than an ETF, this ETF has shown much smoother performance than most of the underlying companies. The sector has done very well for years, so is more appropriate for a long term investment at this point rather than a tactical trading opportunity.

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	-3.2%
S&P 500	13.0%
NASDAQ	39.6%
Dow Jones	3.2%
Russel 2000	-1.0%
iShares S&P/TSX Preferred Index ETF	-3.3%
DJ Stoxx 50	-10.5%
FTSE 100	-20.8%
HANG SENG	11.2%

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

Source: Thomson One

Canadian T-Bills and Bonds Yields

	<u>Mar 31,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>	<u>Sept 30,</u> <u>2020</u>
90-day	0.25%	0.19%	0.13%
180-day	0.33%	0.21%	0.17%
1 year	0.36%	0.27%	0.21%
2-year	0.419%	0.245%	0.248%
5-year	0.585%	0.361%	0.357%
10-year	0.696%	0.522%	0.562%
30-year	1.306%	0.986%	1.110%

Source: Thomson One

International 10-Year Bond Yields

	<u>Mar 31,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>	<u>Sept 30,</u> <u>2020</u>
Japan	0.00%	0.01%	0.01%
U.S.	0.67%	0.65%	0.68%
Germany	-0.48%	-0.46%	-0.52%
Canada	0.69%	0.52%	0.56%
U.K.	0.35%	0.17%	0.23%
France	-0.03%	-0.12%	-0.25%
Spain	0.67%	0.46%	0.24%
Italy	1.52%	1.25%	0.86%
Portugal	0.85%	0.47%	0.26%
India	6.13%	5.88%	6.02%

Source: Bloomberg.com

As of September 30, 2020 a 10-year Canada bond pays 0.562%. Recently the CEO of the Canada Pension Plan Investment Board, Mark Machin, told CNBC’s “Squawk Box Asia” that the Canada pension plan is reviewing their bond holdings in consideration of the low interest rates. We have already made this decision and do not feel that longer term bonds make sense for any investors.

OUR TOP 30 POSITIONS (not including cash or daily interest accounts)

<u>Position</u>	<u>Investment</u>	<u>Mar 31/20 Close</u>	<u>Sept 30/20 Close</u>	<u>Semi- Annual Income</u>	<u>Performance</u>
28	Amazon**	\$1,949.72	\$3,148.73	\$0.00	52.94%
9	Brookfield Renewable Energy LP	\$47.20	\$70.00	\$1.16	50.76%
30	Invesco QQQ Trust Unit**	\$190.40	\$277.84	\$0.83	38.60%
17	Brookfield Renewable Energy Corp.	\$59.19	\$78.12	\$1.16	33.94%
4	Canadian National Railway Co.	\$110.03	\$141.81	\$1.15	29.93%
27	Brookfield Renewable Preferred M	\$17.89	\$22.47	\$0.63	29.12%
18	Microsoft Corp.**	\$157.71	\$210.33	\$1.12	26.97%
15	Brookfield Infrastructure LP	\$51.10	\$63.49	\$1.30	26.79%
26	Vanguard S&P 500 Index	\$64.35	\$79.41	\$0.54	24.24%
21	S&P 500 Trust ETF**	\$257.75	\$334.89	\$2.84	24.08%
20	Alphabet Inc. Cl A (Google)**	\$1,161.95	\$1,465.60	\$0.00	19.45%
29	Power Corporation of Canada	\$22.64	\$26.09	\$0.90	19.21%
23	Costco Wholesale Corp**	\$285.13	\$355.00	\$1.40	18.37%
22	Bank of Montreal	\$71.06	\$77.84	\$2.12	12.52%
16	H&R REIT	\$8.93	\$9.67	\$0.35	12.21%
3	WSP Global Inc.	\$79.92	\$87.44	\$0.75	10.35%
10	Raymond James Financial Inc.**	\$63.20	\$72.76	\$0.74	10.13%
24	Russel Metals 6% 19APR22 Call	\$96.50	\$100.00	\$6.00	9.84%
1	Royal Bank of Canada	\$87.17	\$93.49	\$2.16	9.73%
25	Bank of America Corp**	\$21.23	\$24.09	\$0.36	9.06%
7	Johnson & Johnson**	\$131.13	\$148.88	\$2.02	8.98%
13	Manulife Financial Corporation	\$17.67	\$18.52	\$0.56	7.98%
8	Telus Corporation	\$22.25	\$23.43	\$0.58	7.91%
5	Brookfield Asset Management Inc.	\$41.59	\$44.06	\$0.32	6.71%
2	Toronto Dominion Bank	\$59.83	\$61.65	\$1.58	5.68%
11	JP Morgan Chase & Co**	\$90.03	\$96.27	\$1.80	3.16%
6	Fortis Inc.	\$54.27	\$54.44	\$1.01	2.17%
	10 Year Government of Canada Bond				0.56%
	5 Year Government of Canada Bond				0.36%
12	Bank of Nova Scotia	\$57.47	\$55.32	\$1.80	-0.61%
19	BCE Inc. (Bell Media)	\$57.73	\$55.22	\$1.67	-1.46%
14	TC Energy Corp	\$62.55	\$55.90	\$1.62	-8.04%

**Performance in CAD March 31 \$0.7110, September 30 \$0.7508 / For illustrative purposes only as we do not own these bonds

Source: Thomson One

The performance of our top 30 positions since the March low has been significantly positive, but with a very wide variation. The best performers have been technology companies and renewable energy companies, and the worst performers have been oil and gas companies.

A trip on BC highways indicates that people continue to drive cars, and we expect that air travel and cruise ships will be booked solid when an effective vaccine is available. What is more uncertain is the degree that renewable energy sources grow naturally as new applications become commercially viable, versus the degree that government policy diminishes the use of oil and gas. The current behaviour of the oil stocks indicates that the market thinks that the latter will happen. The challenge to the oil stock owner is how much of a recovery we will see when the vaccine is available and life returns to normal. We have been reducing our oil and gas stocks to some extent and adding to our renewable energy positions.

SUMMARY

Due to government policies of printing money to lower interest rates, and running deficits to keep household spending up, the markets have support as there are no alternatives to earn a decent return. While experts have different opinions as to when life will return to normal with a coronavirus vaccine, Bill Gates' estimate of the summer of 2021 is probably as good as any. The highest uncertainty in the market is likely to be between now and next spring, as the markets digest the ability of the private sector to cope with the challenges brought upon us by new coronavirus cases and potentially different political leadership.

Given the choice of buying beaten down stocks that will benefit from the eventual recovery, and companies that are well situated for the next five to ten years of change in society, we still favour ensuring that we have a sufficient weighting in “new economy” companies who should thrive with most economic outcomes.

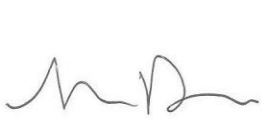
If you have any questions about your financial situation, call Meaghan and Mark and they can help make sure that you are aware of potential options to keep you on the right track.

WELCOME SARA



Sara Bessant is a new member of the Douglas Duncan team. Her background is in insurance and investments having worked with independent financial advisors for the past 12 years. Sara excels in prioritizing tasks, problem solving and exemplary client service. She is working on her Canadian Securities Course and looks forward to being licensed in order to provide this service to our clients. Originally from Vancouver, Sara moved to Nanaimo three years ago and enjoys all that island life has to offer.

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. Thanks!



Mark Duncan

Financial Advisor



Meaghan Douglas

Financial Advisor



Ian Douglas

Senior Vice President
Financial Advisor



Lisa Cajolet

Administrative
Assistant



Sara Bessant

Administrative
Assistant

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