RAYMOND JAMES® | DOUGLAS DUNCAN wealth management

DECEMBER 2020 NEWSLETTER

MARKET REVIEW

2020 was a challenging year for many people, particularly those who had family members who contracted Coronavirus, businesses that were shut down, employees who were laid off or furloughed due to virus contagion concerns, and people who were not able to visit friends and family. Among the families and friends of our clients we are aware of about 10 cases, one being very critical, a couple requiring ventilators, and the rest having minor flu-like symptoms.

As you are all aware, the market had a sharp drop in March, but recovered very quickly. The Canadian market, with its heavy oil and gas weighting, still had a positive return for the year, and the US market, with its significant technology weighting, had a great year.

We were fortunate to be underweight oil and gas and to have identified the opportunity that the March correction brought us. That being said we had four dividend decreases this year, Riocan REIT, H&R REIT, Suncor and Freehold Royalties.

	Sept 30/19 Close	Dec 31/19 Close	Dec 31/20 Close	90-Day % Change	1-Year % Change
S&P 500*	2,976	3,230	3,756	26.2%	16.28%
S&P/TSX Composite	16,658	17,063	17,433	4.65%	2.17%

**US Dollars*

Source: Thomson One

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OPTIMISM

Regardless of your political persuasion, it was hard to get a positive view of the world from watching CNN, FOX News or the like last year. We saw Governments of all stripes competing for who could spend and borrow the most money, and chaos and protectionism becoming the norm in the US.

Less attention was paid to the extraordinary breakthroughs accomplished through international cooperation in the Scientific and Medical communities.

On January 11th, 2020 when there were only 41 known cases and one death, Chinese scientists released the Gene Sequencing data of Coronavirus to the world. At that point scientists and researchers could analyze the virus without having a live sample. The race was on to discover the vaccine.

On January 25th, a German company called BioNtech, created a vaccine using messenger ribonucleic acid (mRNA). According to its CEO Dr. Ugur Sahin this was accomplished over a couple of hours on a weekend. By April 9th, BioNtech entered into a partnership with the large US drug company Pfizer, who brought its testing, regulatory, manufacturing, and distribution skills to the table.

On February 7th, Moderna, a US company announced that they had created the first clinical batch of their mRNA vaccine. On May 1st they announced a partnership with Lonza, a Swiss company. Lonza is a similar partner as Pfizer, providing the testing and mass production for the vaccine that Moderna created.

Also, in January 2020 Oxford University began research on a vaccine using DNA rather than mRNA. By April 23rd, they started phase 1 and 2 trials in Britain, and on April 30th they partnered with the UK drug company AstraZeneca to work on trials and eventually mass production.

Johnson and Johnson (our seventh largest stock position) expects vaccine approval soon, and Russian and Chinese vaccines are already being distributed. While the latter may not be met with enthusiasm in the West, third world countries who may be last in line for western vaccines will be the biggest customers.

At the time of this writing the Biontech/Pfizer vaccine and the Moderna/Lorza vaccines have been approved in Canada and most western countries. The Oxford/AstraZeneca vaccine has been approved in the UK.

At the main street level, businesses around the world have ramped up production of face masks and hand sanitizers to meet the demand, and businesses such as restaurants have developed practices to keep operating at a limited level.

We would like to thank all of our clients for your optimism this year, we had no panic selling in March and had lots of clients willing to pick up the bargains.

DIVIDEND INVESTING

Traditionally we have been focusing on dividend paying securities, so that we can receive steady income while participating in the upside of the equities. These will continue to be an important part of our portfolios, but we feel that they should be augmented by some of the incredibly strong growth companies that don’t currently have a dividend.

Below are two examples of Canadian dividend ETF's indicating the lack of performance this year.

	Dec 31, 2019 Close	Dec 31, 2020 Close	Dividend	% Gain/Loss
iShares S&P/TSX Canadian Dividend Aristocrats ETF (CDZ)	$28.57	$26.60	$1.07	-3.48%
Vanguard FTSE Canadian High Dividend Yield Index ETF (VDY)	$34.87	$32.75	$1.303	-2.34%

Source: Thompson ONE

While these are low cost diversified Canadian dividend portfolios, they lost money in 2020. In order to make a positive return we had to be less diversified in Canada (primarily underweight oil and gas), and more diversified internationally (primarily US technology and dominant large cap companies). If an investor will only purchase dividend paying Canadian companies, that is an acceptable strategy but we would expect the portfolio to underperform over time.

Canadian T-Bills and Bonds Yields

	June 30, 2020	Sept 30, 2020	Dec 31, 2020
90-day	**0.19%**	**0.13%**	**0.09%**
180-day	**0.21%**	**0.17%**	**0.07%**
1 year	**0.27%**	**0.21%**	**0.18%**
2-year	**0.245%**	**0.248%**	**0.15%**
5-year	**0.361%**	**0.357%**	**0.39%**
10-year	**0.522%**	**0.562%**	**0.68%**
30-year	**0.986%**	**1.110%**	**1.21%**

Source: Thomson One

International 10-Year Bond Yields

	June 30, 2020	Sept 30, 2020	Dec 31, 2020
Japan	**0.01%**	**0.01%**	**0.01%**
U.S.	**0.65%**	**0.68%**	**0.92%**
Germany	**-0.46%**	**-0.52%**	**-0.58%**
Canada	**0.52%**	**0.56%**	**0.68%**
U.K.	**0.17%**	**0.23%**	**0.19%**
France	**-0.12%**	**-0.25%**	**-0.35%**
Spain	**0.46%**	**0.24%**	**0.04%**
Italy	**1.25%**	**0.86%**	**0.54%**
Portugal	**0.47%**	**0.26%**	**0.02%**
India	**5.88%**	**6.02%**	**5.87%**

Source: Bloomberg.com

FIXED INCOME

We have been crying wolf for a while on fixed income valuations. We didn't think that 10 year Government bonds yielding 2% were good value and now 10 year Canadas are yielding .68%, and France and Germany have negative interest rates. That being said buying fully taxable bonds yielding .68% for 10 years, with inflation likely around 2% doesn't seem to be a winning investment. We will continue to avoid this asset class unless we see much higher interest rates.

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

Position	Investment	Dec 31/19 Close	Dec 31/20 Close	Annual Income	Performance
16	Brookfield Renewable Energy Corp.*	$38.67	$74.26	$1.48	95.86%
8	Brookfield Renewable Partners L.P.	$32.05	$54.95	$1.48	76.06%
28	Amazon**	$2,399.97	$4,146.72	$0.00	72.78%
18	Microsoft Corp.**	$204.82	$283.19	$2.66	39.56%
2	WSP Global Inc.	$88.67	$120.59	$1.50	37.69%
26	Costco Wholesale Corp.**	$381.74	$479.71	$16.23	29.92%
19	Alphabet Inc. Cl A (Google)**	$1,739.60	$2,231.46	$0.00	28.27%
5	Canadian National Railway Co.	$117.47	$139.94	$2.30	21.09%
21	Algonquin Power & Utilities	$18.37	$20.95	$0.79	18.36%
22	S&P 500 Trust ETF**	$418.03	$476.02	$7.24	15.60%
27	Vanguard S&P 500 Index	$74.43	$84.77	$1.15	15.44%
24	Vanguard Health Care ETF**	$249.03	$284.85	$2.50	15.39%
29	Brookfield Renewable Preferred M	$23.17	$24.22	$1.25	9.93%
7	Johnson & Johnson**	$189.46	$200.38	$5.07	8.44%
	Vanguard Canadian Aggregate Bond Index ETF	$25.86	$27.38	$0.57	8.07%
11	Raymond James Financial Inc.**	$116.19	$121.81	$1.88	6.45%
4	Brookfield Asset Management Inc.	$50.02	$52.62	$0.61	6.42%
1	Royal Bank of Canada	$102.75	$104.59	$4.29	5.97%
9	Telus Corporation	$25.14	$25.21	$1.17	4.91%
3	Toronto Dominion Bank	$72.83	$71.92	$3.11	3.02%
17	Brookfield Infrastructure Partners L.P.	$64.86	$62.98	$2.48	0.92%
20	Bank of Montreal	$100.64	$96.78	$4.24	0.38%
6	Fortis Inc.	$53.88	$52.00	$1.94	0.11%
12	Bank of Nova Scotia	$73.35	$68.80	$3.60	-1.30%
	iShares S&P/TSX Canadian Dividend Aristocrats Index ETF	$28.57	$26.51	$1.07	-3.48%
25	BCE Inc. (Bell Media)	$60.16	$54.43	$3.29	-4.06%
10	JP Morgan Chase & Co.**	$181.05	$161.79	$4.58	-8.11%
13	Manulife Financial Corporation	$26.36	$22.65	$1.12	-9.83%
23	Bank of America Corp.**	$45.74	$38.60	$0.92	-13.60%
14	TC Energy Corp.	$69.16	$51.75	$3.18	-20.58%
15	H&R REIT	$21.10	$13.29	$0.92	-32.65%
30	Suncor Energy Inc.	$42.56	$21.35	$2.24	-44.56%
	US/CAD exchange rate Dec 31, 2019 $1.2988				
	US/CAD exchange rate Dec 31, 2020 $1.2732				
	*BEPC started trading July 24, 2020 @ $38.67				
	**Canadian Dollar Equivalent, dividends assume Dec 31, 2020 FX				

2020 PORTFOLIO MANAGEMENT

With 2020 being a volatile year in the markets, we have been more active than usual and there have been eight new positions in the "top 30" with eight dropping off.

First we stopped including the three daily interest accounts that were in our top 30 ranking table. They do not fluctuate in value and due to the currently very low returns their only purpose is a source of liquidity, safety, and asset allocation. They are a nuisance when the market is going up, but much appreciated when the markets are going down.

One position was eliminated completely from our portfolios, Russel Metals 6% bonds were called by the company early at 100 cents on the dollar. The other positions that fell off the top 30 include Parkland Fuels (now #32) Power Financial (now #33) Riocan REIT (now #36) and Freehold Royalties (now #45). These lost their place in the top 30 mostly due to underperforming the other positions, the lack of buying on our part, and their use as a source of cash in case a client needed cash for spending or a better investment idea.

Positions added to the top 30 list include Brookfield Renewable Power Corp (clean energy), which was a spin-off from Brookfield Renewable Power Limited Partnership, Microsoft, Algonquin Power (clean energy), Vanguard Healthcare ETF (an efficient way to own a basket of healthcare companies), Costco, the Vanguard S&P 500 Index (an efficient way to own the US market in Canadian dollars), Amazon, and Brookfield Renewable Power preferred shares M.

Our additions were focused on technology and healthcare which represent a growing part of the economy and renewable energy, which is a growth industry due to technological improvements and voter demand to reduce carbon. Other additions that didn't quite make the top 30 include Invesco QQQ ETF, the NASDAQ index fund (#31), and Apple (#38). These were added as we liked the sector and they enjoyed good performance once they were purchased. One company that didn't make the top 30 list was Starbucks at #60, which did exceptionally well after our March 30th recommendation but didn't capture the interest of many of our clients.

We do not hold positions of Vanguard Canadian Aggregate bond Index ETF or the iShares S&P/TSX Canadian Dividend Aristocrats Index ETF, but have included them to indicate the performance of Canadian bonds and dividend paying equities for the year.

OUTLOOK FOR 2021

2021 brings us opportunities and risks.

Opportunities:

1) The seemingly extraordinarily effective vaccines available will start to be widely administered in the first quarter of 2021.

2) The savings rate around the world has increased sharply, as many people who have had steady employment income or a secure financial position in retirement have not been able to travel, go out for dinner, or attend live entertainment such as sports games and concerts. Once a successful rollout of the vaccines takes place we expect the pent up demand to come back as people go back to the activities they enjoyed.

We believe that this will lead to very strong economic growth, and expect it to lead to positive markets.

Risks:

1) There is the chance that the virus may mutate and limit the effectiveness of the current vaccines.

2) There may be bureaucratic miss-steps that delay the roll-out of the vaccines beyond what the markets have factored in.

3) There is a chance that President Trump will order a "scorched earth" military blunder prior to the end of his term on January 20th.

4) In the event of the Democrats holding the two Georgia Senate seats, there is a chance of higher US corporate taxes, which would lower the after tax earnings of the S&P 500.

5) Since March 23rd of 2020 the markets have been "hot" with speculative companies performing the best. Bitcoin, Tesla and the like put the rest of the markets to shame this year, and we could see a reversal.

6) Interest rates are artificially low due to governments buying their own bonds with borrowed money. If this situation corrects suddenly we could see a correction.

Balancing the opportunities and the risks we believe that investors should continue to own their core positions, and make sure that they are participating in today's leading companies (Microsoft, Google, Amazon, etc.). Due to the terrific returns of the last nine months we don't suggest going "all in," and would leave some dry powder in case these risks, or others that we didn't anticipate materialize.

SUMMARY AND STRATEGY FOR 2021

Our expectation for 2021 is that the best performers will be the currently beaten down economically sensitive companies. This would include oil and gas, real estate, airlines, and financial companies.

That being said some of these sectors are too risky for many clients, and have significant downside if our expectations for an economic recovery are too optimistic.

Our strategy is to continue to have an overweight in the financial sector which we believe will have very decent returns with limited risk, and to continue to add the leading technology and healthcare companies for clients who are underweight. They may not match the returns of the riskier sectors mentioned above, but should produce positive returns for 2021 and over the next five years.

We would like to thank you for your good spirits and kind words during 2020, and look forward to speaking with you soon regarding TFSA contributions and your plans for 2021.

Mark Duncan	**Meaghan Douglas**	**Ian Douglas**	**Lisa Cajolet**	**Sara Bessant**
Financial Advisor	Financial Advisor	Consultant	Assistant	Assistant

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!