



DECEMBER 2021 NEWSLETTER

MARKET REVIEW

2021 was a challenging year for society, but the stock market has been terrific for diversified investors. The TSX was up 21.74% over the year and the S&P 500 was up 26.89%.

There continues to be challenging sectors, such as travel and hospitality, but overall GDP, corporate profits, and employment levels are all improving.

Our strategy has always been to build your portfolios with the most resilient companies to reduce risk and volatility. This strategy worked very well this year and most of you had your best rates of return since the 2003 and 2009 recoveries.

	<u>Sept 30/21</u> <u>Close</u>	<u>Dec 31/20</u> <u>Close</u>	<u>Dec 31/21</u> <u>Close</u>	<u>90-Day</u> <u>Change</u>	<u>1-Year</u> <u>Change</u>
S&P 500*	4,308	3,756	4,766	10.6%	26.9%
S&P/TSX Composite	20,070	17,433	21,223	4.7%	21.7%

*US Dollars

Source: FactSet

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FIXED INCOME

Canadian T-Bills and Bonds Yields

	<u>June 30, 2021</u>	<u>Sept 30, 2021</u>	<u>Dec 31, 2021</u>
3-Month	0.15%	0.13%	0.17%
6-Month	0.18%	0.17%	0.40%
1-Year	0.24%	0.30%	0.78%
2-Year	0.44%	0.53%	0.96%
5-Year	0.98%	1.11%	1.26%
10-Year	1.40%	1.51%	1.43%
30-Year	1.84%	1.99%	1.68%

Source: FactSet

MEME STOCKS

We all would have liked to purchase Apple, Google, Amazon, or similar stocks 10 or 20 years ago and made lifestyle changing profits far above a normal investment return. As investors search for the next lifestyle changing profit opportunity there has been a frenzy of buying in certain stocks. This has led to elevated prices supported not by measurable sales and profits, but by chat rooms and media pundits

2021 was a year that many of these stock prices collapsed, not necessarily because anything bad happened to the companies, but because the prices were not supported by the company fundamentals.

A few examples are below.

PELOTON INTERACTIVE (PTON-USA)

Peloton is the producer of stationary bicycles that uses technology to provide the user with fitness classes and community experience in the comfort of their homes. This was particularly popular when much of the world was in Covid lockdown and people still wanted to connect and exercise. Investors piled into this stock but the stock got ahead of the fundamentals. The stock is now down -78.6% from the January high.

Peloton Interactive 2021 (1 Year)

Source: FactSet

BEYOND MEAT INC. (BYND-USA)

Beyond Meat produces and sells plant-based burgers and sausages designed to taste like meat. Some new competitors entered the market, but the -66.1% price collapse since the high in January 2021 seems more likely due to overvaluation.

Beyond Meat 2021 (1 Year)

Source: FactSet

ZOOM VIDEO COMMUNICATIONS INC. (ZM-USA)

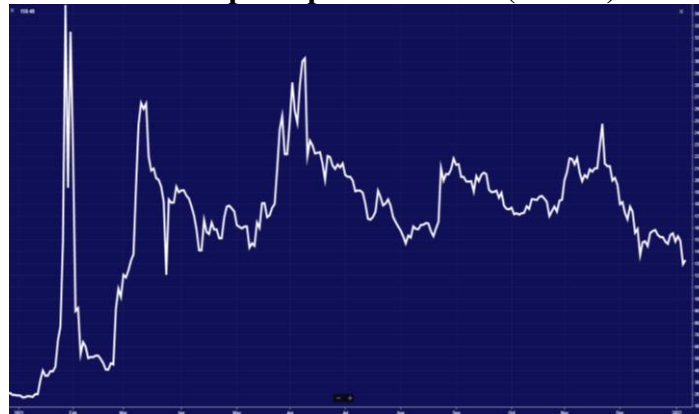
Many of us used Zoom to talk with friends and family early in the pandemic, but it is much nicer to meet in person. Zoom became overbought in 2020 and is now down -67.4% as of December 31, 2021 from the high during October 2020.

ZOOM Video Communications 2021 (1 Year)

Source: FactSet

GAMESTOP CORP. (GME-USA)

GameStop is a retailer specializing in video games. This stock was promoted by someone on the internet calling themselves “Roaring Kitty”. While early investors did well, the unfortunate person who bought at the peak of January 2021 is down -57.3%. We thought that this stock was extremely overpriced at the peak and still believe so even with current prices.

GameStop Corporation 2021 (1 Year)

Source: FactSet

This is by no means a complete list, and we were fortunate not to have recommended these companies. While we do not take any pleasure in others losing money, it is positive that the markets are working and correcting excess valuations before they get too extreme.

We have not escaped this completely. One of our positions Brookfield Renewable Partners was an amazing performer for years when more investors started to focus on ESG investing (environmental, social, and governance). This year the stock corrected and the income trust version is down 31.7% from its 2021 high. At the current price this now has a 3.35% dividend yield, more in line with other Canadian utility and dividend stocks. For this reason we feel that the risk/reward is now more reasonable.

Brookfield Renewable Partners LP 2021 (1 Year)



Source: FactSet

The moral of the story is to be careful chasing stocks in parabolic uptrends, and if you are promised life changing returns from an unknown person on the internet, it may not end well.

OUR TOP 30 EQUITY POSITIONS AS OF DEC 31, 2021

Position	Investment	Dec 31 2020 Close	Dec 31 2021 Close	Annual Income (2021)	Performance
15	Alphabet Inc. (Google)**	\$ 2,231.46	\$ 3,663.02	\$0.00	64%
9	*Raymond James Financial Inc. **	\$ 81.21	\$ 126.95	\$1.43	58%
1	WSP Global Inc.	\$ 120.59	\$ 183.63	\$1.50	54%
29	Suncor Energy Inc	\$ 21.35	\$ 31.65	\$1.05	53%
17	Microsoft Corp.**	\$ 283.19	\$ 425.24	\$2.93	51%
23	Costco Wholesale Corp**	\$ 479.71	\$ 717.80	\$3.91	50%
21	Bank of America Corp**	\$ 38.60	\$ 56.25	\$0.99	48%
4	Brookfield Asset Management Inc.	\$ 52.62	\$ 76.39	\$1.12	47%
20	Bank of Montreal	\$ 96.78	\$ 136.19	\$4.24	45%
3	Toronto Dominion Bank	\$ 71.92	\$ 96.98	\$3.16	39%
11	Bank of Nova Scotia	\$ 68.80	\$ 89.55	\$3.70	36%
30	Apple**	\$ 168.94	\$ 224.52	\$1.11	34%
2	Royal Bank of Canada	\$ 104.59	\$ 134.25	\$4.32	32%
24	SPDR S&P 500 Trust ETF**	\$ 476.02	\$ 600.54	\$7.28	28%
16	H&R REIT	\$ 13.29	\$ 16.26	\$0.69	28%
10	JP Morgan Chase & Co**	\$ 161.79	\$ 200.22	\$4.71	27%
27	Vanguard S&P 500 Index ETF	\$ 84.77	\$ 106.84	\$1.13	27%
25	BCE Inc. (Bell Media)	\$ 54.43	\$ 65.81	\$3.50	27%
18	Brookfield Infrastructure Partners LP	\$ 62.98	\$ 76.99	\$2.55	26%
8	Telus Corporation	\$ 25.21	\$ 29.79	\$1.27	23%
6	Fortis Inc.	\$ 52.00	\$ 61.03	\$2.05	21%
19	Vanguard Health Care ETF**	\$ 284.85	\$ 336.86	\$3.88	20%
14	TC Energy Corp	\$ 51.75	\$ 58.83	\$3.48	20%
5	Canadian National Railway Co.	\$ 139.94	\$ 155.38	\$2.46	13%
7	Johnson & Johnson**	\$ 200.38	\$ 216.30	\$5.33	11%
13	Manulife Financial Corporation	\$ 22.65	\$ 24.11	\$1.12	11%
28	Amazon**	\$ 4,146.72	\$ 4,215.94	\$0.00	2%
26	Algonquin Power & Utilities	\$ 20.95	\$ 18.27	\$0.84	-9%
12	Brookfield Renewable Partners LP	\$ 54.95	\$ 45.31	\$1.52	-15%
22	Brookfield Renewable Corp.	\$ 74.26	\$ 46.55	\$1.22	-36%
US/CAD exchange rate Dec 31, 2021 \$1.2644					
US/CAD exchange rate Dec 31, 2020 \$1.2732					
*Includes Raymond James 3/2 stock split					
**Canadian Dollar Equivalent Conversion					

Source: Factset

PORTFOLIO MANAGEMENT

2021 was a stable year for our top 30 positions, as portfolio performance was very good and we didn't want to spoil a good thing. Only one position was eliminated, Brookfield preferred share M, which was called by the company at 100 cents on the dollar. The position that moved into the top 30 is Apple, moving from #38 last year to #30 this year. Royal Bank had a very good 2021, but was bumped out of the top spot by WSP Global, mostly thanks to its 54% return.

During the year market leadership shifted from the large US growth stocks such as Apple, Microsoft and Alphabet (Google) to the economy oriented stocks such as banks and oil and gas companies.

While old economy stocks are currently outperforming, we are comfortable with clients owning a combination of the traditional Canadian dividend companies and the large US growth companies.

During the year we received long awaited and much appreciated dividend increases from the Canadian banks and insurance companies, as well as many of our other positions.

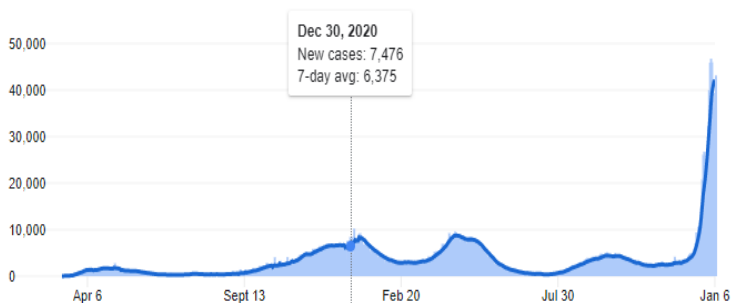
Our aversion to owning bonds at such paltry yields paid off this year. While our guaranteed daily interest accounts paid very low returns, bonds lost money. The traditional textbook portfolio of 60% stocks and 40% bonds would have been hindered by the - 4% loss experienced from the bond component.¹

OUTLOOK FOR 2022

Positive:

- 1) Data from South Africa indicates that while the Omicron variant is definitely more contagious than previous Covid variants, it seems to result in fewer hospitalizations. As there is a lag time between infections and potential hospitalizations or deaths, we have to wait a few weeks to see Canadian and US data. Recently "return to normal" stocks such as financials and oil and gas companies have been outperforming "stay at home" stocks such as technology companies. As markets discount future expectations this is a sign that our lives may start to become more normalized over the next six months. This will be a relief for all of us and should be positive for the economy sensitive companies.

New Cases of Covid-19 Virus (Canada)



New Deaths of Covid-19 Virus (Canada)



¹ FactSet, Vanguard Total Bond Index

Negative:

- 1) Interest rates have been held at artificially low levels by central banks buying bonds with printed money. If central banks remove monetary stimulus too slowly rising inflation will likely become a problem. This creates the risk of investors panic-selling bonds, which leads to uncontrolled interest rate increases. If central banks get too cautious too quickly the rising rates can limit economic growth and stifle the economy. We hope that the unwinding of quantitative easing can be managed in a controlled manner, but we expect that rising interest rates will be a headwind for markets.
- 2) As of December 31, 2021, we have seen an 89.0% increase from the March 23, 2020 low of the TSX, and a 113.0% increase from the S&P 500 low. While we see some reasonable share prices, there are few “table pounding buys” that we can identify.
- 3) While many high-flying stocks have corrected sharply, there is still a strong investor appetite for speculative investments. The best buying opportunities happen when the market participants are more fearful than now.
- 4) There is always the chance of a new coronavirus variant that is both easily transmittable and more dangerous than previous variants. This is not our base case but it is always a possibility.

THE WEALTHY LIFE

Meaghan and Mark have been interviewed on *The Wealthy Life* financial advice program. This segment will run on January 29, 6:00 p.m. PST, and can be accessed on:

- CHEK News via TV, YouTube or Facebook
- The CHEK+ App using Apple TV, IOS, ROKU, Android TV or Amazon Fire TV.

SUMMARY AND STRATEGY FOR 2022

We should all be thankful that, while 2021 was a tough year in many ways, it was a great year for most asset classes, including real estate and the stock market. Due to the great returns that are behind us, and the relatively high levels of enthusiasm in the markets, we are more cautious than usual.

We expect a mildly positive year in 2022, but feel that the best opportunities will be available in the event of a market correction. While some investors may choose to lighten their equity positions for risk tolerance or liquidity reasons, we plan to mostly stay the course at this point.

Meaghan and Mark will be contacting you regarding TFSA contributions early in 2022 and that will be a good time for everyone to update us on your financial goals and needs.

We would like to thank you all for your good spirits and kind words in 2021, and wish you the best for a great 2022!

NEW YEARS WISHES

If you live on Vancouver Island, you probably have two wishes for 2022: Less time shoveling snow, and more time socializing with friends and family! We hope that these wishes come true for everyone.



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If you have friends or family 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!

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