Monthly Newsletter March/April 2021

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Snow
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Wise Investor – March/April 2021

Executive Summary

- I remain constructive on stocks over the coming years for the following reasons:
    1. Accommodative policy/low interest rates
    2. Excess savings ($1.6 trillion since 2019)
    3. Recovering jobs market
    4. Corporate earnings acceleration
    5. Vaccine rollouts
- Long-term interest rates should continue to slowly increase
- Stock market volatility will remain elevated and tied to virus/vaccine news
- Positive stock market performance will be determined by how governments & central banks withdrawal stimulus from the economy
- Strategic investment opportunities remain but risk and reward has deteriorated in some sectors
- Alternative assets could be a great diversifier for portfolio going forward

March 23rd marked the bottom of what turned out to be the end of the shortest bear market on record. With great suffering typically comes great opportunity and if we look back a year, you could have pretty much bought anything, and you would have had good returns. Hindsight is always 2020. Fortunately, our strategies did exactly what they were designed to do and protected a fair bit of the downside while participating in a large part of the upside on the rally back.

With most asset class prices up significantly, some breaking new record high's weekly, I believe a prudent investment strategy is more important than ever. In this month's publication I will dissect the current environment in a little more detail and point out where I am seeing risks and rewards.

What's Happened Lately

In the first year of a recovery following any financial calamity, you typically get very strong returns, and it would appear 2020 was no different. After a government induced coma essentially shut down all business this time last year, the economy has since made significant progress in recovering. Interest rates have dropped to historic lows essentially forcing more investors into stocks as safer investments like bonds and GICs pay very little these days. With the world on lockdown, there has been excess savings with investors socking away more than $1.6 trillion since 2019 alone. I expect unemployment to continue to decline but it will take some time to recover fully as a lot of individuals have left the workforce altogether and are not accounted for in the statistics. Stock prices are largely driven by the underlying company's ability to grow their earnings and it shouldn’t take much for most companies to produce better earnings than a year ago. With the recession being caused by a global health pandemic, its's no surprise that as vaccines continue to roll out, the environment continues to improve. Barring any unforeseen setbacks, the next 12 months could take us through a full recovery and back into expansion, all boding well for investments.

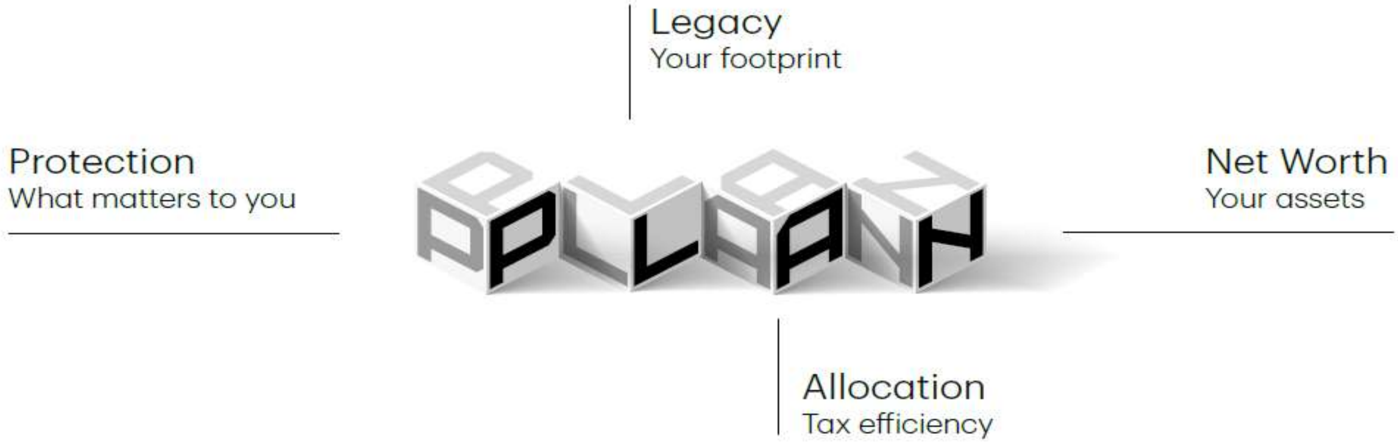
Why Should We Care

With the first 12 months of recovery behind us, I also believe the largest gains are behind us. I attribute the speed of the bounce back to government intervention with their accommodative policy and low interest rates. I also fear that with the withdrawal of the stimulus and a rapid rise in interest rates will end this bull market. As you read on, you'll see why I still see opportunity but let me first point out one of my fears, inflation. I fear inflation because the way government combat it is with higher interest rates and with the massive amount of debt in the system, higher rates will likely become a problem. I use employment numbers to help gauge where inflation might go. When unemployment gets back to normal it starts to push wages higher as employers are forced to pay more to each new incremental employee. This is then typically passed down to the end product or service causing prices to rise across the board, inflation.

Why Should We Care – *con't*

As noted, when inflation runs high, the governments will raise interest rates. Not only do higher rates increase debt payments but they also eventually become bad for stocks as higher bond rates will attract more investors that would have otherwise invested in stocks. I remain positive looking out over the next few years as central banks have stated that they are not even thinking about, "thinking about" raising rates. Also, inflation usually takes several quarters to show up then we expect that it will be allowed to run high for a while therefore it's not a major concern yet.

With most sectors on full lockdown a year ago, we can expect a large percentage will have outperformed when they report year-over-year results in the coming 12 months which should be good for stock prices. Also, as more and more people are gainfully employed, there is more income to be spent on goods and services all benefiting corporate profits. We also have a near record amount of cash in savings on the sidelines. The opportunity and/or inflation cost of earning nothing on your cash savings while all other asset classes are growing should eventually force more and more of those savings into investments or spent on goods and services. As vaccines continue to roll out, more and more people will be rushing out to spend money and the statistics would suggest there is a lot of pent-up demand. All of this provides a positive backdrop for the stock market. There will come a time when a large degree of savings will have found a home, we will get back to full employment and wages will increase causing inflation. As a result, governments will have to increase interest rates making bonds more attractive than stocks to some investors and borrowing becomes too expensive. I expect that when that time comes, markets will be significantly higher than they are today, and it will be a time to think about defensiveness with investments. When investors become euphoric, and your Uber driver is giving you stock tips as you get picked up from your all-inclusive vacation, it's time to be cautious. Until then, have a prudent investment strategy, take advantage of any corrections by adding to stocks, and make hay while the sun shines.



What Should We Do – Investment Strategy, *have a Plan*

Everything my team and I do for clients typically stems from having a **Wealth Plan** for the future so we know what our investment strategy should look like today. It can be as simple as knowing how much you need to never outlive your money or as complex as a real estate downsize or business succession plan. We do this to eliminate those things that we cannot control, like market volatility and interest rates, and focus on those that we can, like retirement income needs, tax planning and looking after our families. If we build an all-weather investment strategy that focusses on one's long-term goals, the shorter-term noise and volatility won't matter as much.

For instance, over the last 6 months we have witnessed a lot of volatility in underlying stocks but on the surface, portfolio's have continued to provide positive returns. You may have been hearing, and will likely continue to hear, about ***sector rotation***. This is when we see the leadership change in what is driving stock market performance. 2020 was largely about big technology companies and rightfully so as we all learned to be more plugged in as we worked, shopped and socialized from home. If you look at the acclaimed FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) over the last 6 months, we haven't really had much growth after a record setting year for most of them. This can be partially attributed to the increase in long-term bond yields. Without getting into the complicated financial jargon of the calculation used to predict current stock prices, when long-term interest rates increase, the current value of high growth stocks decreases. Also, if you think about the work-from-home environment, the biggest spend on technology and therefore corporate profits for big tech is probably behind us. With that said, I do not believe the new habits of consumers will change as the world re-opens and portfolios should have some to technology. It’s the future after all, whether you like it or not!

If we look at what's been leading the market in 2021, it's the reflation or cyclical or re-opening trade. That means you want to have some ownership of the companies that produce the products and services that benefit from consumers getting out of their house. Think about how many more planes will fly or cars will drive or restaurants/and theme parks will be visited a year from now. Now think about all the inputs that go into all these goods and services whether it be fuel or parts to shoes and outfits. A lot of these sectors, and the stocks within them, remain significantly lower than they were in 2019 and this is where I see the coming opportunity. With that said, one can be fairly certain that a correction will come this year and a truly diversified portfolio needs some downside protection to help weather the storm. With interest rates at rock bottom, bonds no longer fill that position and over the past few years we have integrated ***alternative assets*** into portfolios. Alternatives provide a different stream of return and make any volatility less pronounced. Corrections are not to be confused with a bear market nor feared and should be viewed as a healthy buying/rebalancing opportunity. ***As always, please reach out to me directly for more specific information and/or investment ideas.***

Personal Note:

I for one cannot wait for the warm summer days. For most of us, travelling too far from home is still probably not a reality this summer. The habits my family learned last year will be repeated this summer as we frantically call campsites 2 months in advance to make reservations and try to plan our AIRBnBs long enough in advance to find a vacation property that allows a dog. Last year we took a weeklong RV trip up the sunshine coast and through the Gulf Islands. This year we hope to repeat the adventure up the west coast of Vancouver Island to Ucuelet. With our son now up and running, he'll be a world of entertainment on the 2021 adventure. We also learned last year that if you plan it right, the Okanagan wine country can *almost* rival the countryside of France or Italy minus the culture and amazing food of course. I know my family can't wait to get back on a plane and overseas but until then, we're extremely thankful we have BC for a backyard. As the winter gear gets put away and the shorts and golf clubs come out of storage, I recommend book your accommodations, t-times and campsites well in advance. Get out there and enjoy what we have!

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P.S. Although we strive to keep our client base small so we have time to keep our relationships large, we're always happy to have a conversation with friends and family members that might want to kick the tires of another approach. If you come across anyone that you think might benefit from a chat with me, please let me know as I'd love to get in touch. We treat all introductions as a huge responsibility and one that we never take lightly, especially if we can help and of course with no obligations.

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

Benjamin Franklin

We will take as much time as needed to get to know what matters most to you while establishing a strong working and personal relationship. We have every confidence that this relationship will benefit you greatly. We have proven our value time and time again; by helping a select group of successful professionals and families realize their lifelong goals.

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