December 2020 Commentary

Our hypothetical equity model gained +7.32% in November. This was another record monthly close and by some margin. Depending upon their asset mix, our clients' portfolios were generally up between 4.2% and 7.2% net of fees for the month. It was enough to land November in the top 10% of our best months since 2013 when we started with this approach to portfolio management.

Interestingly, early in the month we endured the second worst, single-day performance in our history, with our model down almost 5.7%. This occurred just a few days after our last letter, which we sent out after the U.S. Presidential election. Two Covid vaccines were announced and the market instantaneously repriced. Anything that was doing well during the lockdowns – things such as indoor connected cycling manufacturer Peloton – got smashed. We had several stocks that were down 15-20%+ in one day. That money rotated quickly into more traditional industries. We ended up selling three quarters of our stocks and replacing them in the space of a few days.

While we still own a lot of tech companies, we ended up investing more heavily in manufacturing, automotive and specialty retail stocks than we have in years. These are all things that benefit from a return to more normal functioning in the economy.

The speed of program trading and the brutality of execution these days is breathtaking. Losing 3% in one day used to be a big deal. Now it is totally normal. We've had fifteen individual days that were down 3% or more in just the last two and a half years. Market adjustments that used to take a few weeks now happen in two or three days. We do not have a solution to this. The only way to avoid it is to not own the winning stocks that deliver all our performance. That is not an option so we'll just put up with it because it isn't going away any time soon. On a larger time scale of weeks, months and years, volatility is more or less the same as always. It's just the very short term that has become more acute.

We continue to hold the excess cash we generated last month. The end result is that we are now at +15.90% for 2020 year-to-date, slightly above our running eight year average.

Market Update

Recently a few clients have asked us about something called *The Great Reset* and whether it is real. It is. You can search for it online or go directly to the website of the World Economic Forum (WEF) that takes place each year in Davos, Switzerland, which is where the idea was born. You can read all about it there.

Briefly, our interpretation of *The Great Reset* is that it is a manifesto, a plan, to re-order the world's economies, its political structure and with those, our way of life. The aim is to centralize power, seat it in the United Nations, neuter the global influence of the U.S. and use that authority to re-organize our current economic systems and capital markets. The leaders of this charge are not elected but they are very clever planners with very deep pockets. The end goals are an amalgam of fighting climate change, fixing income inequality, stopping the rise of populism and a host of other bits of social engineering that the organizers have deemed important. We want to reiterate that none of the foregoing is controversial in the sense that it is not our interpretation. If you read their materials and watch their videos, it is all laid out there.

We're not going to go too deeply into it in this month's letter except to link this campaign with how it might affect your portfolio and what we are doing about it. There is a lot of language around the promotion of this Great Reset that gives us pause. Reading between the lines it seems like they've thought a lot about how the world should work, it's going to require a lot of change and we are past the debate stage, i.e. they don't need our input.

The Great Reset and the Covid Pandemic

One of the elements that bothers us the most is that Klaus Schwab, founder of the World Economic Forum and our own PM Trudeau among other leaders, are on record stating that they view the Corona Virus pandemic and the ensuing economic damage as an 'opportunity' that will allow us to "Build Back Better". That is in quotes because it is their motto. Our worry is that they have adopted a cavalier attitude towards shutting down economies to fight the pandemic because they view the economic damage as temporary and useful. Some of the most adversely affected are small businesses, bricks & mortar enterprises and the travel industry. What those share in common is they use a lot of fossil fuels. Ending fossil fuels is a pillar of this plan. Perversely, we don't think governments that impose draconian shutdowns are as bothered about the collateral damage as they should be. They think they'll be able to support those affected with payouts and then they'll put us on a new, better, greener economic track in a jiffy.

They don't seem too bothered about the debt build up either. PM Trudeau was asked about this recently and, paraphrasing, he said interest rates are low, it's not that big a deal and moved on. We think there is another reason why the debt isn't a priority for him, nor the leaders of Europe's member states.

Here's why, and how we see it affecting our portfolios. The pandemic will impact us two ways. The economic destruction to the tax base has caused federal budgets in Canada, USA, Japan and especially Europe to explode from an already vulnerable position. Our worry is that governments will be backed into corners with their budgets. They will be tempted to use the economic chaos of the pandemic as cover to do something radical to address spiralling debt, which is approaching USD$280 trillion world wide as we reach the end of 2020.

As long time readers of this letter will know, we are not fans of government bonds. We won't rehash that here. Now, however, with the expense of Covid stimulus being added to the already mountainous pile of debt, we worry that something more sudden may come to pass. Given the long global history of defaults on sovereign debt, we wouldn't take that off the table as a possibility.

We can't handicap the odds of that happening but they are not zero. Thus, we have ramped up our research to find viable alternatives to government debt that still provide security and stability for our clients with balanced portfolios. We've already narrowed the field down to a few areas that we are pursuing and we'll keep you posted.

Election Update

Unbelievably – or perhaps, totally believably – the disaster that is the U.S. presidential election has still not been decided as we go to press. The mainstream media has blasted Trump as unwilling to move on, a threat to a peaceful transition of power and to democracy in general. Trump supporters are screaming bloody murder that the election was fraudulent. Most surprising to us was a poll conducted by Rasmussen from November 29th:

> "Almost half (47%) of U.S. likely voters now believe that there was enough fraud to ensure Biden would win in the recent elections, including 75% of Republicans & 30% of Democrats."
>
> – Rasmussen Reports

Was there fraud? We don't know. It doesn't matter. If half the population thinks there was and they believe their side lost the election because of it, it's not a recipe for a return to normalcy. We believe unrest will continue.

Biden has already made public his plan to mandate masks and lockdown the economy for 100 days to kill Covid once and for all. Trump has declared he is against further lockdowns. Our take is that the two camps are split in how they view this Great Reset agenda, with the Democrats in support since so much of the platform lines up with theirs. The outcome of the election might determine if The Great Reset, which is global in its ambitions, hits a major roadblock with Trump or gets a huge acceleration with Biden. The outcome of this election will have a much bigger impact on our daily lives than it normally does.

Conclusion

We don't believe a plan as ambitious as The Great Reset can succeed. There have been more than a few megalomaniacs who have tried to bend the world and it's markets to their vision and their record of futility is perfect. There are too many actors who oppose this vision so there is going to be a fight. Because of this, we're confident that the machinations of global politics are going to intensify over the next couple of years rather than calming down. We have our work cut out for us.

On that happy note, we wish you a wonderful Christmas holiday season. We hope you get to see your family and friends and have a truly fantastic time!

December 2020 Portfolio Review

Mott Liokossis Hypothetical Model sector breakdown at the end of November 2020:

Diversified Global Equity Portfolio	36.79%
Specialty Retail	11.48%
Cash	11.18%
Diversified Canadian Equity Portfolio	10.41%
Electronics & Semi-Conductors	10.38%
Leisure	5.21%
Automotive	5.12%
Manufacturing	4.80%
Internet	4.63%

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Hypothetical Model Growth Portfolio Holdings at the end of November 2020:					
% Held	Security	Symbol	Sector	Price	Yield
11.18%	Cash				
5.12%	APTIV PLC	APTV	Automotive	$ 154.42	0.14%
5.56%	ASML Holding NV	ASML	Electronics & Semi-Conductors	$ 569.44	0.51%
10.41%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 34.75	0.52%
4.80%	Deere & Co	DE	Manufacturing	$ 340.34	0.89%
4.63%	Expedia Group Inc	EXPE	Internet	$ 161.95	0.21%
5.13%	Five Below Inc	FIVE	Specialty Retail	$ 203.46	0.00%
6.35%	Pinduoduo Inc	PDD	Specialty Retail	$ 180.58	0.00%
4.82%	Qualcomm Inc	QCOM	Electronics & Semi-Conductors	$ 191.45	1.33%
5.21%	Sea Limited	SE	Leisure	$ 234.64	0.00%
36.79%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 25.92	0.00%

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Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Yearly Returns**	
2020	4.33%	-3.90%	-8.54%	-0.42%	9.70%	2.13%	5.75%	4.27%	-2.33%	-1.79%	7.32%		**15.90%**	**YTD**
2019	1.36%	5.01%	3.75%	3.46%	-1.58%	2.58%	0.97%	1.13%	-3.33%	-0.78%	3.76%	2.09%	**19.73%**	
2018	2.84%	0.81%	-0.31%	-0.79%	5.53%	8.19%	-0.60%	8.18%	-2.65%	-14.70%	-0.14%	-2.73%	**1.60%**	
2017	-1.26%	3.11%	0.49%	3.26%	1.45%	-3.95%	0.50%	2.31%	3.43%	7.33%	2.38%	-3.57%	**16.08%**	
2016	-3.29%	-2.97%	-3.70%	-3.30%	5.04%	1.01%	3.03%	-0.56%	1.02%	-1.70%	1.56%	0.82%	**-3.36%**	
2015	9.73%	2.78%	3.71%	-8.98%	10.69%	-4.34%	7.93%	-5.39%	-3.05%	0.23%	-0.08%	1.84%	**13.89%**	
2014	6.39%	6.38%	-5.18%	-4.67%	1.52%	1.94%	-1.25%	5.18%	-2.40%	0.44%	5.70%	3.57%	**18.08%**	
2013	6.00%	4.20%	3.95%	-2.83%	9.64%	-3.67%	4.06%	3.65%	3.29%	3.42%	4.68%	2.66%	**45.96%**	

Monthly & Annual Returns for the Mott Liokossis Hypothetical Model Growth Portfolio.
Performance reflects actual trades executed in our maximum growth model and does not include fees or expenses.
We use this hypothetical model as the basis for our clients' portfolios.

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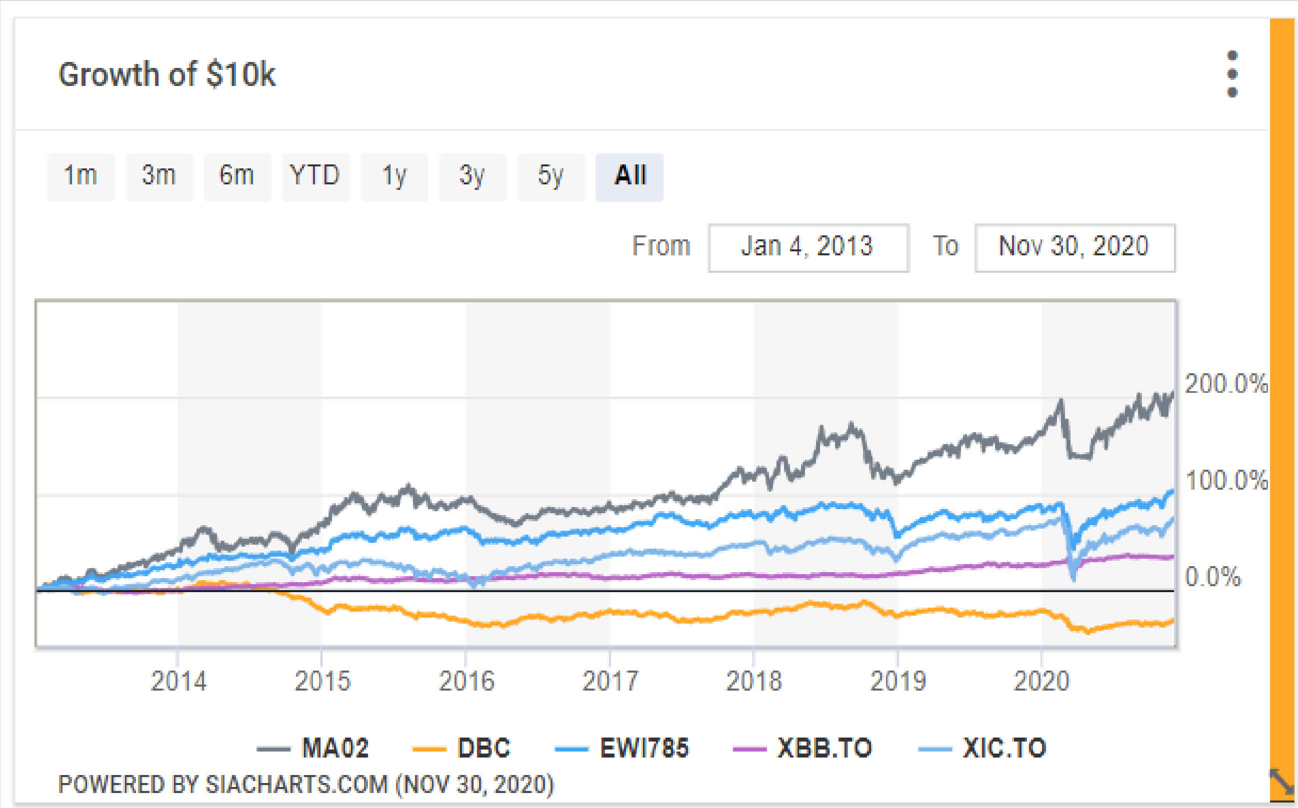

Growth of $10,000	Jan. 04, 2013 - Nov. 30, 2020
Mott Liokossis Model (MA02)	$30,307
World Stock Equal Weight Index (EWI785)	$20,217
Canadian Stocks (XIC.TO)	$17,275
Canadian Bonds (XBB.TO)	$13,495
Commodities (DBC)	$6,770

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