January 2021 Commentary

Well…that was interesting! The annus horribilus that was 2020 is, mercifully, in the books. With all that has gone on, bizarrely it turned out to be a vintage year for our portfolios – the second best since we started on this road in 2013. December tacked on 6.07%, bringing our year end tally to 22.93% and logging another record monthly closing value.

We also racked up more first quartile rankings. We manage three broad mandates - balanced, growth and maximum growth. Each of them is first quartile amongst National Bank Financial Advisors coast to coast for compound growth rate over 1 year, 2 years, 3 years, 4 years and since-inception February 2016.

Our performance would have been a little better if we weren't still sitting on the cash we raised prior to the U.S. presidential election. We did no trading in December, nothing in fact since mid-November. This is typical of our approach. When our holdings are working well, they remain high up in the rankings and there is no need to change them.

What's more, December concludes a two-year run where our model exploded by over 47%! Translated, that means our average client returned between 28% and 44% net of fees over 2019/20, depending upon their asset mix. As a result, our financial projections are generally way ahead of schedule and that is where the rubber hits the road. Our mission is to substantially change our clients lives for the better by meaningfully growing their assets. It is our raison d'etre.

One last point about our recent performance. It was almost predictable. We make the point yet again that good years and bad years are linked. One begets the other in an endless series of cycles. We're thinking in particular back to October 2018, our worst month on record. That compression set up the ensuing 26 months that we've just enjoyed.

Here's what we wrote in our 2018 year-end letter (at that time we were still publishing quarterly):

> "Although it's been a tough quarter, the silver lining is that it sets the stage for the next big advance in the market…So far our analysis sees nothing that has derailed the ongoing decade-plus bull market. Our thesis remains that much higher prices are in store for the U.S. stocks before the next big bear market. This correction is extremely important before we can take that next step."

We implored anyone sitting on cash, or was considering transferring accounts from other institutions or thinking of referring friends or family to us, to do so as quickly as possible. Many of you did and we thank you. Congratulations.

So, while we can and should celebrate another great result in our remarkable history, don't get too attached to the total on your statement. It might be useful to think of it as being 10-15% smaller than it is. At some point we are in for some pain. I wish we could predict it but we can't so we do what we always do; keep our foot on the pedal during the good times, build as much and as fast as we can until the next breather. There is always a next breather.

While on the topic of results, we wanted to revisit the model updates we introduced in late 2019. Recall that for many months prior, we promised a substantial update to the algorithms we use in our models. It took a long time to bring to fruition, much longer than we'd hoped. Unfortunately, it didn't come before the last quarter of 2018. However, since we got the updates up and running in fall of '19, they have worked spectacularly. In particular, the pool we developed in conjunction with our partners at SIA in Calgary has hit the ground running hard. It's too short a history to judge but it has behaved as we hoped it would and in line with our back-tested results. It is a great start to build on.

We are now turning our attention to testing more ideas for the future. We already know the direction we want to investigate. Though we don't know yet if it will be fruitful, if it does work out as expected, it will be a huge advance. Cross your fingers.

Market Update

We're not going to comment too much on the election down south. As we write, things are getting testy. We'll only say that we think events will unfold in a way that very few can see coming. We'll comment more once the dust settles.

Instead of politics, we wanted to briefly revisit the coming end game for this debt super-cycle. If you study the history of debt cycles, you'll see a broad pattern that repeats. As credit conditions loosen and interest rates are lowered, debt builds as it is used for consumption and investment. The leverage leads to an expansion phase where much of the extra credit is used to invest in assets. As those assets rise in value, they are able to support more debt; more debt is taken on and used to invest and so on, in an upward spiral.

Generally, the more leveraged the asset class, the more it will benefit from this expansion. We're thinking now of the real estate market in particular, which is built on mortgage debt. Compare investing in stocks with real estate. If you have $200,000, you can bring it to us and we'll put it to work. If you opt instead for a house, you'll be able to put up to $1 million to work. That is a lot of leverage and it is totally normal in society today. No one bats an eye at it.

At some point, this process comes to an end and the reverse unfolds. As with every aspect of life, it is cyclical and there are small, medium and large cycles. What we are wrestling with here is the debt super-cycle, something that has been in play for decades. We struggle to analyze real estate, a ubiquitous asset class that so many are deeply involved in through their principal residence. Why? There are two contradictory effects at play.

On the one hand, there is the effect of money leaving the public sphere for the private sphere as confidence in governments declines. Same thing we write about almost every month. Sell government assets, specifically bonds, and buy private assets. Most real estate falls squarely in the private realm. It is a tangible asset that is easy to value and has utility and thus it will always survive financial chaos in some form. For this reason, some types of real estate should benefit from this shift that we see coming. We've written about it extensively in these pages as the main driver behind why we think stocks are going so much higher over the next decade.

On the other hand, real estate is heavily leveraged. There are many people today that own two or three times the house they should based upon their income. They are able to do so because of the incredibly cheap financing. The problem we see coming is an extreme version of what we have seen in the past. As this debt super-cycle reaches it's peak, we would not be surprised to see massive sovereign debt defaults and bank insolvencies.

There are two elements to de-leveraging. Firstly, as debt is unwound, real estate prices should decline. It's normal for obvious reasons. Secondly, if banks find themselves under duress, they are going to become unwilling or unable to lend. The casual ease with which we take on debt today – through mortgages, lines of credit, etc. – will evaporate as banks will become unable or unwilling to lend.

What you will end up with is a situation like we saw in the Great Depression where assets are available for cents on the dollar, where you will want to be able to buy but you won't be able to get a mortgage to do so, regardless of your credit worthiness. Unless you have cash, you will not be able to take advantage of the sale. That will be a time when the wealthy, liquid few who have kept their powder dry will be able to go on a shopping spree while the rest watch from the sidelines.

So – what to do about real estate? Short answer is we don't know. It will depend upon which of the two forces is greater – the move to private assets reflecting the enduring, tangible value of real estate, or the forces of credit contraction. We suspect at some point in the next few years, there will be a window where we will find ourselves with a buying opportunity that beggars belief but will only be available if you can pay cash.

Team News

In our November letter we introduced Ashim Khanna as our temporary replacement for Marcia Roberts, our long time financial planner who many of you had the pleasure to work with. Our original idea was to keep the ball rolling with Ashim while we looked for a replacement for Marcia. However, now that we have seen the outstanding quality of Ashim's work, we're going to continue with him. Because Ashim is not exclusive to our team and because the plans he produces require so much work, we need a little longer lead time than what we enjoyed with Marcia. In exchange for this extra bit of planning, we are getting a true pro. We are extremely lucky to have found him.

Ashim has extensive knowledge of financial and wealth planning. He has worked in the financial services industry for over 10 years providing affluent clients with comprehensive wealth planning solutions. He's a Certified Financial Planner (CFP©), Chartered Financial Analyst Level II Candidate, and a member of FP Canada & the CFA Institute. He also holds a Bachelor of Commerce and an MBA.

Over the next year or so, you'll get to experience the quality of his work. We're very excited to have him on board.

January 2021 Portfolio Review

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

Diversified Global Equity Portfolio	36.60%
Specialty Retail	12.80%
Cash	10.75%
Electronics & Semi-Conductors	10.32%
Diversified Canadian Equity Portfolio	9.93%
Leisure	5.31%
Automotive	5.18%
Manufacturing	4.56%
Internet	4.55%

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Hypothetical Model Growth Portfolio Holdings at the end of December 2020:

% Held	Security	Symbol	Sector	Price	Yield
10.75%	Cash				
5.18%	APTIV PLC	APTV	Automotive	$ 165.89	0.13%
5.72%	ASML Holding NV	ASML	Electronics & Semi-Conductors	$ 620.97	0.47%
9.93%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 35.18	1.66%
4.56%	Deere & Co	DE	Manufacturing	$ 342.55	0.89%
4.55%	Expedia Group Inc	EXPE	Internet	$ 168.57	0.20%
5.30%	Five Below Inc	FIVE	Specialty Retail	$ 222.78	0.00%
7.50%	Pinduoduo Inc	PDD	Specialty Retail	$ 226.21	0.00%
4.60%	Qualcomm Inc	QCOM	Electronics & Semi-Conductors	$ 193.96	1.33%
5.31%	Sea Limited	SE	Leisure	$ 253.43	0.00%
36.60%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 25.79	6.11%

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	Monthly Returns												Yearly Returns	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2020	4.33%	-3.90%	-8.54%	-0.42%	9.70%	2.13%	5.75%	4.27%	-2.33%	-1.79%	7.32%	6.07%	**22.93%**	**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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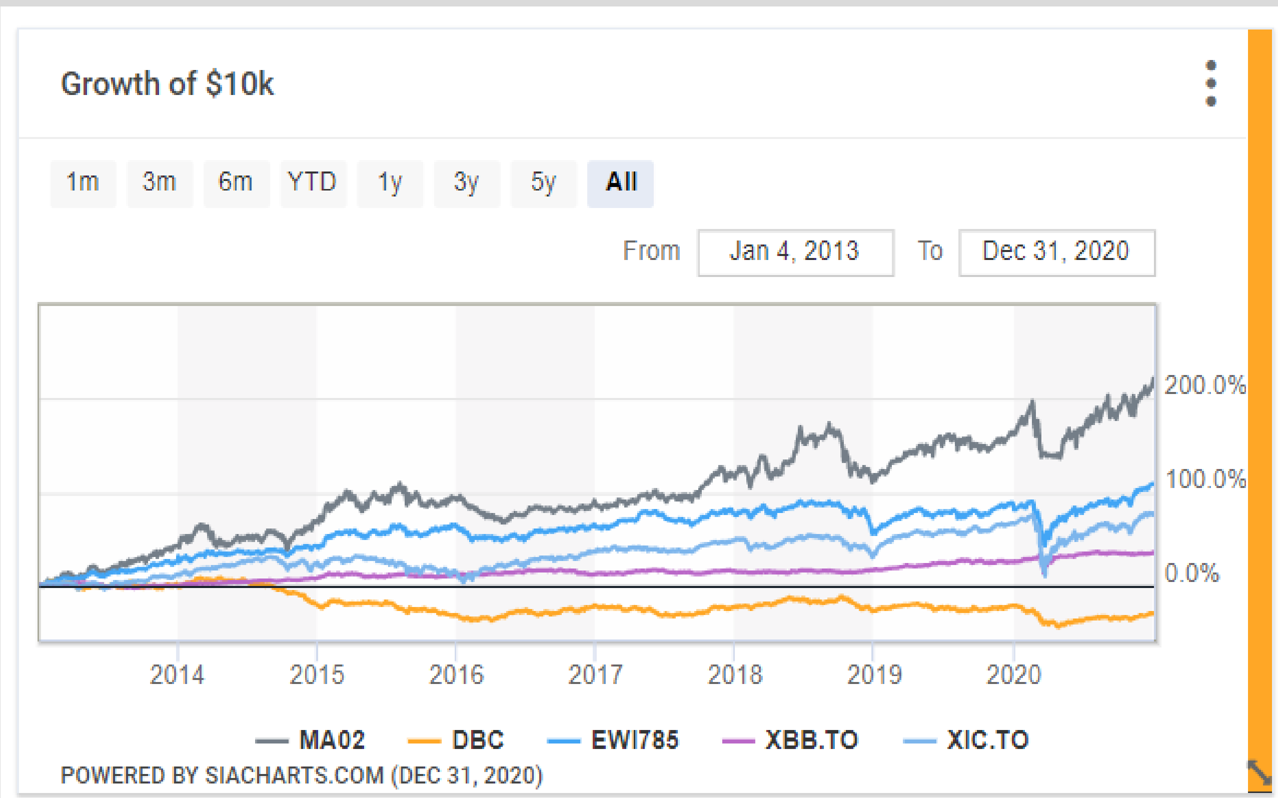

Growth of $10,000 Jan. 04, 2013 - Dec. 31, 2020	
Mott Liokossis Model (MA02)	$32,176
World Stock Equal Weight Index (EWI785)	$20,784
Canadian Stocks (XIC.TO)	$17,521
Canadian Bonds (XBB.TO)	$13,531
Commodities (DBC)	$6,997

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