March 2021 Commentary

In February we gained 5.68% in our hypothetical model portfolio and with that, recorded our fourth record monthly close. If you review the table of monthly returns at the bottom of this letter, you'll notice that we rarely have more than 4-5 positive months in a row. Thus, as far as short term cycles go, this one is getting long in the tooth. Similar to the pattern for the last three months, we peaked mid-month and then closed well off the high despite the positive number at the end. Does this trend down continue into March?

We finally did our first trade since mid-November, replacing Qualcomm with Dick's Sporting Goods. We also continued to whittle down cash. Should the decline over the last part of the month develop further into a more substantial move, we would expect to see our trading pick up as we begin to cast off our losers and rotate into the next group of winners.

Market Update

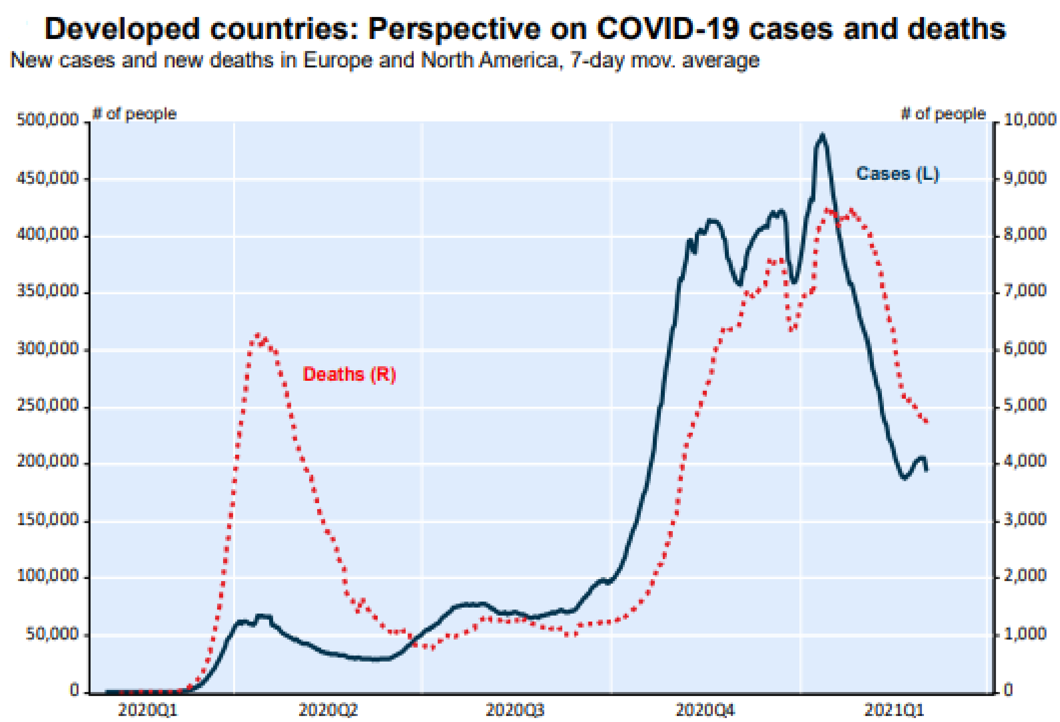
In this month's letter we're going to highlight two key themes covered in a webinar we held on March 2nd. Although attendance was surprisingly robust, many of our readers were not able to make the event. Our featured speaker was Jeremy Fehr, founder and CEO of both SIA Charts Inc. and SIA Wealth Management of Calgary. For newer clients or those not familiar with SIA, they are our analytical partners with whom we work very closely in developing and maintaining the model we reference in these pages. It is the engine and basis for all our portfolios. For our clients who have held our full equity model since the beginning in January 2013, every $100,000 invested then would be worth roughly $300,000 at February's close. That's a triple in just over 8 years, an astonishing result that simply would not have been possible without our close collaboration with Jeremy and SIA.

Bona fides established, we'll be sending you a link to a replay of the presentation for those inclined to watch. It's about an hour. While we wait for the video to be completed and approved, below we have summarized two major takeaways from Jeremy's presentation.

Takeaway 1 - The Inevitable Next Market Decline

We've been blathering on about it for several months even as our portfolios reach new records. We know at some point, we'll get one. What might it look like? In investing, there is an adage that says *Buy the Rumour, Sell the News*. Jeremy offered the Calgary variant *Buy the Mystery, Sell the History*. In other words, markets look as far ahead as they can and price in whatever they can see. Once that thing comes to pass, we get the reaction, which is opposite of the news.

Right now we are heading into spring when winter viruses die. Covid-19 cases and deaths have been plummeting[1] on schedule. Ontario is slowly opening up. As we write, 16 states in the U.S. have lifted mask mandates with some – like Texas and Mississippi - opening fully for business with no restrictions.



[1] NBF Economics and Strategy (data via Johns Hopkins, published March 4th , 2021)

Perhaps the market has been looking forward to this and pricing it in. Thus, it might make sense that once we achieve a full or substantially full re-opening and with it some degree of operating equilibrium and normalcy, that might be the excuse for a correction. Most institutional investors think the market is under-estimating the long -term impact of Covid-19 on the economy [2]. Traders may take profits and start looking around for the next catalyst to price in. It's only a guess but probably the best one we have right now.

Takeaway 2 - The Rise of Commodities

We've written about this in recent letters and it seems to be continuing. Commodities are moving, to the point that they've now reached the #1 position in our Relative Strength Ranking of the seven major asset classes we analyze – Canadian stocks, U.S. stocks, International Stocks, Commodities, Currencies, Cash and Fixed Income (Bonds).

Historically, commodities will have a run that lasts 10-15 years followed by a bear market of similar length. During these times, they are inversely correlated to the general stock market in terms of performance. From our perspective in Canada, the performance of Canadian stocks and the Canadian dollar is strongly correlated to these cycles in commodities, especially oil. Ours is a Petro-dollar.

[2] Source: Natixis Investment Managers *"2021 Institutional Outlook – Into the Great Wide Open"*

In past monthly letters, we've laid out our 60,000 foot view for markets going forward that suggested the possibility that this inverse relationship might change, that we may see a synchronization of stocks and commodities as they rise together into the rest of the decade. Looking at the chart above, we can see a clear bear market from late 2011 to early 2020. We seem to have broken out of that bear market at the same time that stocks, and in particular new economy stocks, have rallied. Taken in conjunction with the fact that bonds – our most reviled asset class - are buried at the bottom of our Relative Strength asset class rankings, our general thesis seems to be playing out perfectly so far. Let's see if the move in commodities continues to develop into another decade-long cycle. The timing is certainly right.

March 2021 Portfolio Review

Mott Liokossis Hypothetical Model sector breakdown at the end of February 2021:

Cash	3.98%
Diversified Global Equity Portfolio	38.96%
Specialty Retail	17.29%
Diversified Canadian Equity Portfolio	11.53%
Electronics & Semi-Conductors	6.19%
Leisure	5.85%
Automotive	5.55%
Manufacturing	5.51%
Internet	5.15%

SIACharts.com

Hypothetical Model Growth Portfolio Holdings at the end of February 2021:

% Held	Security	Symbol	Sector	Price	Yield
3.98%	Cash				
5.55%	APTIV PLC	APTV	Automotive	$ 190.85	0.00%
6.19%	ASML Holding NV	ASML	Electronics & Semi-Conductors	$ 722.30	0.40%
11.53%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 38.46	1.65%
5.51%	Deere & Co	DE	Manufacturing	$ 444.67	0.68%
5.30%	Dicks Sporting Goods	DKS	Specialty Retail	$ 90.90	1.38%
5.15%	Expedia Group Inc	EXPE	Internet	$ 205.07	0.17%
5.25%	Five Below Inc	FIVE	Specialty Retail	$ 237.06	0.00%
6.73%	Pinduoduo Inc	PDD	Specialty Retail	$ 218.01	0.00%
5.85%	Sea Limited	SE	Leisure	$ 300.20	0.00%
38.96%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 27.21	5.79%

SIACharts.com

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	
2021	1.62%	5.68%											**7.39%**	**YTD**
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%**	
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 Returns

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.

SIACharts.com

Growth of $10,000	Jan. 04, 2013 - Feb. 26, 2021
Mott Liokossis Model (MA02)	$34,523
World Stock Equal Weight Index (EWI785)	$21,004
Canadian Stocks (XIC.TO)	$18,211
Canadian Bonds (XBB.TO)	$12,990
Commodities (DBC)	$7,967

SIACharts.com

Click here to access your online account and tax statements.

Click here to learn more about the team.

Click here to contact us.

Blair Mott, FCSI, CIM, FMA
Vice President & Portfolio Manager, Investment Advisor
519-646-2146
blair.mott@nbc.ca

Tony Liokossis, B.A., FCSI, CIM
Vice President & Portfolio Manager, Investment Advisor
519-646-5728
tony.liokossis@nbc.ca

Stephanie Lindsay, HBA
Investment Associate
519-646-2149
stephanie.lindsay@nbc.ca

Juliana Weese
Associate
519-646-2152
juliana.weese@nbc.ca

The information contained herein was obtained from sources we believe to be reliable, but is not guaranteed by us and may be incomplete. The opinions expressed are based on our analysis and interpretation of this information and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The opinions expressed herein are those of the author and do not necessarily reflect those of National Bank Financial.

The securities or investment sectors mentioned herein are not suitable for all types of investors. Please consult your investment advisor to verify whether the securities or sectors suit your investor's profile as well as to obtain complete information, including the main risk factors, regarding those securities or sectors. This document is not a research analysis produced by the Research Department of National Bank Financial.

National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA)