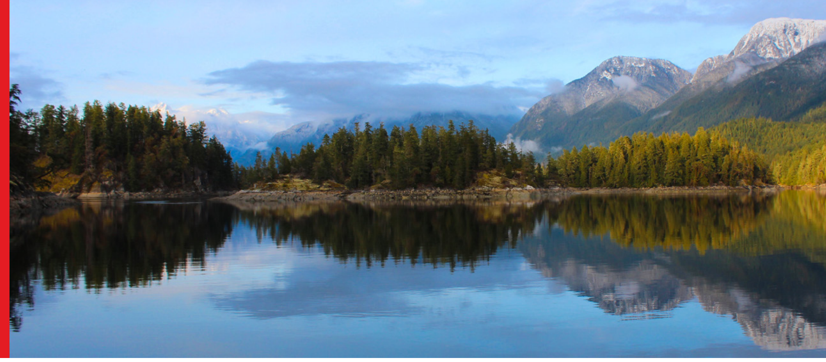
SEPTEMBER 8, 2020

The Market Letter



Market Commentary

The last 6 months has been the most challenging period in my career since the 2008 financial crisis. As the global pandemic picked up steam in February, the TSX dropped over 37% from the high on February 20th to the closing low on March 23rd. In the U.S., the S&P500 dropped 34% from the February peak to the March low. Since then, an unprecedented level of Government intervention across the globe has kept economies on life support and has allowed markets to stage a dramatic recovery. This has been a combination of monetary and fiscal policy in the form of record low interest rates and substantial government handouts. As I write this letter, the TSX is now only down -10% from the February peak and the S&P500 is slightly positive.

Where do we go from here? With a US election on the horizon and the pandemic seemingly far from over, volatility is likely to remain high for some time. That being said, I believe the market will continue to climb a wall of worry with setbacks along the way. The most common question I get from clients these days, is how can the stock market being doing so well? Interest rates play a huge role. Loose monetary policy is here to stay, and the U.S. Federal Reserve has committed to keeping interest rates below the level of inflation. As with real estate, the ultra-low cost of borrowing helps to buy stocks. Traditional safe-haven investments such as government bonds are also very unattractive when rates are low, helping to justify higher valuations in the stock market. Why would I buy a government bond paying less than 1% when a utility stock with stable cash flows pays a dividend of over 4%?

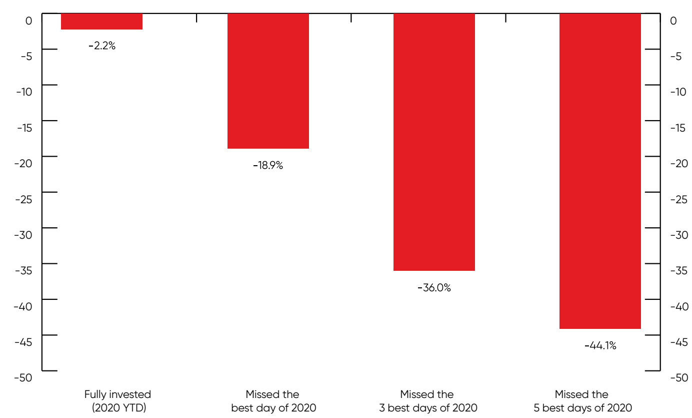
The stock market also does an incredible job at discounting the present situation if a more favourable one is around the corner. Few times in history has so much brain power and resources been devoted to finding a solution to a problem that affects us all. Progress on a vaccine is promising and the market is optimistic we will continue to return to more normalcy over the coming year. In the meantime, government programs will help to keep the economy afloat as progress on a vaccine continues.

As for the U.S. election, all we can count on is uncertainty. A Biden win would likely mean higher corporate tax rates but could also benefit some sectors of the market such as renewable energy and green technologies.

Regardless of the outcome, the stock market tends to outperform in the months following a U.S. election.

With market volatility being so high, I think it's important to reiterate my mantra of staying invested and avoiding the temptation to time the market. 2020 is a good example of how jumping in and out of the market is a great way to destroy long term returns. As the chart on the following page shows, going to cash and missing just one of the best days of 2020 would have been catastrophic for your returns. No one knows what the stock market will do over the coming months. Stick with your asset allocation strategy and make adjustments to fit your level of comfort and tolerance for risk. Making minor tactical adjustments can add value but major turnover in your portfolio and excessive trading should be avoided. Stick with your core positions and make minor adjustments around the periphery if required. I'm very proud of my clients as they have by-in-large done a wonderful job at sticking with their portfolios and maintaining a long-term view.

S&P Composite Total Return (YTD as of August 5, 2020



CIO Office (data via Refinitiv).

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Core Holdings Update

For Canadian exposure, our ***Growth & Income Private Portfolio (Basket)*** consists of 16 high-quality Canadian companies. We focus on companies that have the ability to sustain and grow their dividends over time. ***Our 1-year return to August 31st was +3% vs +.4% for the TSX and our return since inception has been 7.3% per year.*** Portfolio turnover is low and in the past 6 months we have maintained our core positions and only made minor adjustments. We exited our position in Whitecap Resources (WCP) in order to reduce our exposure to the volatile energy sector. The energy producers have become too volatile for most clients and the price of crude is regularly manipulated by forces beyond our control (OPEC, Russia). We swapped Whitecap for Brookfield Asset Management (BAM.A), which owns real estate, infrastructure, renewable energy, and financial assets all over the globe. The stock is trading at a reasonable valuation and offers great long-term growth potential, especially as we recover from the pandemic.

Most recently, we modestly trimmed our exposure to the banks. On a seasonal basis, financial stocks have historically underperformed in September. Following a great run in August, it seemed prudent to take some profits. Our intention is to add back to our bank positions in the coming weeks as the market begins it's 6 month period of seasonal strength in October. ***For investors looking for active management at a reasonable cost, or who are looking to shed their high fee Canadian mutual funds, I highly recommend our Basket.***

For exposure outside of Canada, we continue to recommend the ***Canoe Global Defensive Equity Fund.*** Canoe uses an active hedging program that helps dampen price movements when market volatility increases to the downside. This helps preserve capital in periods when markets are challenging and allows for outsized returns over the long term. ***The maximum drawdown from peak to trough in the past 6 months was only -16.9% vs -34% for the S&P500 and the 1-year return to August 31st was +11.7%.***

Fixed Income Rates

Daily Money	
NBI Cash Performer (CAD)	0.50%
NBI Cash Performer (USD)	0.50%

GICs	
1-Year	0.80%
2-Year	1.15%
3-Year	1.25%
4-Year	1.30%
5-Year	1.65%

Rates are as of September 9, 2020 and are subject to change at any time.

Mortgage Rates	
1-Year fixed	2.34%
2-Year fixed	1.99%
3-Year fixed	1.74%
4-Year fixed	1.89%
5-Year fixed	1.79%
Variable rate	Prime – 0.70% = 1.75%

Rates are as of September 9, 2020 and are subject to change at any time.

Client Survey

Thank you to our clients who completed the recent email survey. This will help us to identify any weak points and ensure we are offering the highest level of service possible. For clients that still wish to participate, the deadline has been extended to September 18th. If you did not receive the survey, please let us know.

Referrals

My clients often ask me if it's okay to refer family and friends. I want to emphasize that this is highly encouraged! My business is built on word of mouth and I am always happy to sit down with a prospective client to discuss my process. If you feel it is appropriate, please feel free to pass along my contact information.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. ***This commentary reflects my opinions alone and may not reflect the views of National Bank Financial Group.*** In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors.

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IIROC Investment Industry Regulatory Organization of Canada

CIPF Canadian Investor Protection Fund MEMBER

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