Manulife Securities

ROYDS REPORT

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Announcement

We are so pleased to announce that Sarah Breimer has moved from being an Assistant Investment Representative to being an Associate Advisor. Now there are so many more things she can help you with. Many of you have already been dealing with Trevor for things like duplicate tax receipts, questions about how to read statements, setting appointments, the status of transfers and paperwork you are expecting or have sent in, etc. He is increasingly assuming Sarah's former roles. Our staff will be increasing again very shortly to make sure that we can keep responding to you in a timely fashion.

More on Markets

Since August 2020, the yield on 10 yr US government bonds rose by 47%, and most of that happened in Feb and Mar 2021. (Source: BNN Bloomberg Mar 5 2021) Now that may sound wonderful for bondholders, but the opposite is true for existing bondholders. Yield goes up when the market value of the bond drops. Bonds yields may have gone up because of expected inflation, because of expectations that the US Federal Reserve may increase interest rates sooner than expected (but still not in 2021) and because of expectations of the economy recovering faster than expected. Usually the expectation of a stronger economy also causes stocks to rise, or at least the expectations of higher company profits is usually enough to keep stock prices stable, despite the bond substitution effect. You see, when bonds are making 1%, many people are very keen to buy stocks and pay high prices for them, if the stocks are making 10%/yr. However, if bonds are making 7%/yr, many fewer people would risk buying stocks that are only making 10%, and they wouldn't pay a huge price to get that extra 3% yield over bonds. The lower the bond yield, the more desirable stocks are and the more people have to pay up to buy stocks. That's why decades ago, when interest rates were higher, you might only have had to pay 12 times earnings for a stock. Now, you have to pay around 20 times earnings, because more people want stocks, while bonds are making ever so little.

Bond yields are expected to climb much more, although not nearly as quickly as in the last 8 months. People with mortgages and other debt may not think rising interest rates are great (and homeowners who may see the real estate market correct if rates rise too much may not think rising rates are good), but rising rates are a sign of confidence in the economy and can give central banks back a tool to help the economy the next times there is a recession. Those are good things. AND, rising rates are usually accompanied by strong stock markets. That isn't what you've been hearing in the media, but let's look

at history as researched by BMO Capital Markets. There have been 7 periods of rising interest rates since 1993, with rates rising an average of 1.6% in each run. The average annualized US stock market (S&P 500) rise in those periods was 15.1%. The stock market was positive in each of the 7 periods and in 5 of those periods the average annual rise was greater than 20% after the interest rates rose. Another piece of analysis from BMO Capital Markets showed that the greatest rises in the stock market, after an interest market change, happened when interest rates were low to begin with and then rose. That's the situation we are moving into. Rates are low and interest rates are set to rise over the next few years. One other super important insight from BMO's research is that the sectors which don't fare well as interest rates rise are utilities, real estate, materials (like zinc, lumber etc) and consumer goods. Those are not sectors we are typically invested in.

The impact on stocks over the last month as bond yields rose was atypical. Maybe that was because stock prices for the high tech heavyweights of the S&P 500 (which lead world markets) had gone up a little too fast in 2020. Prices needed to retreat a bit, regardless of what happened in the bond market. The pullback in the market was not an indication of widespread concern about economic recovery. So nothing should change in our long-term investment plan.

The stock market rotated away from high tech in fourth quarter 2020. In the first 9 months of 2020, the big winners in the stock market were technology and consumer discretionary stocks, up 27% and 28% respectively. In the fourth quarter of 2020, the leaders on the stock market were in energy, financials, consumer discretionary, materials, communications and industrials sectors. Technology was only the 7th largest price gainer. Another way to look at it is that in the first 9 months of 2020, the 5 largest companies in the MSCI (world) index took the index up 5.38%, while the other 1,743 stocks in the MSCI index lowered the index by 1.36%. In 4th quarter 2020, those same largest 5 companies lowered the market by 3.26%, while the other 1,743 stocks boosted the index by 12.71%. What a difference a quarter made. So, if your portfolio had much tech exposure, you had a really good Jan – Sept 2020 return and then slowed down at the end of the year. Those with little tech exposure had to wait until the end of the year for their portfolios to make a big move up. (Source: Sun Life Global Investments)

Lots of Envelopes to Open

In January every fund company, whose funds you hold, sends you their statement. The same thing happens in July. And at least once a year, you also get an envelope or postcard telling you how to order a full annual report for each fund company. Every time we move into or out of a fund, you also get a confirmation slip from Manulife. If you didn't opt for on-line statements from Manulife Head Office, you also get an envelope from Head Office every quarter, or more often if you have activity in an account in another month. Of course we send out quarterly Portfolio Reviews with out comments on. And in Feb and March, if you have any accounts that end in the letters A or B (unregistered accounts), there are a ton of envelopes with tax slips, T3s, T5s, and T5008s, some from Manulife and some from the fund companies. These show the taxable distributions from the fund companies and any capital gains or losses from selling funds or stocks.

People often ask why they get capital gains distributions from fund companies, sometimes quite large, when they didn't sell the fund. And sometimes these large capital gains are received in a year when the fund didn't even have a gain by the end of the year. What happens is that a fund sells one or more stock holdings and makes a lot of capital gains on it. The fund doesn't have enough expenses or other losses to write off against the gains. So the fund has a choice paying the tax on their gains themselves or of distributing the gains out to unitholders for them to pay tax. If the fund company pays out the

distribution, those who hold the fund in a registered account like an RRSP, RESP or a TFSA won't have to pay any tax. Only those who hold the fund in an unregistered account will have to pay tax. So, the fund distributes out the taxable capital gains so tax is not paid on any gains related to registered accounts.

What sometimes happens is that markets are hot in the spring and funds trigger capital gains by selling fully priced stocks to buy other bargain stocks. Then markets fall and the fund ends the year down. That doesn't negate the capital gains the fund triggered by selling something earlier in the year. The good news is that when the unitholder eventually sells their fund, whatever tax they've already paid on capital gains will reduce the final capital gain tax payable.

Miscellaneous Things of Interest to Us

Visual Capitalist.com has some of the most interesting charts. They don't often say the source of their data however. One of their new charts is on the Global Risks Outlook for 2021. The top 3 risks they cite are infectious diseases, climate action failure, and weapons of mass destruction, followed by biodiversity loss and human environmental damage. The likelihood of the weapons of mass destruction risk was very low, whereas the risk of the other 4 huge-impact risks was very great. Hopefully people who are not trying to live their lives in an increasingly environmentally friendly way will wake up to these risks soon. In the meantime, as investors we can be aware of where government spending will have to be focused and how we can both support it iand benefit monetarily from it.

The website awealthofcommonsense.com had an interesting article by Ben Carlson comparing and contrasting the stock market to gambling. We're just going to quote some parts of it. They're self-explanatory and eloquent. "The stock market … is a bet on the future being better than today. Stocks can be thought of as a way to ride the coattails of intelligent people and businesses as they continue to innovate and grow. … The stock market is one of the few places on earth where you can earn passive income without having to do any work whatsoever. …Many people compare the stock market to a casino but **in a casino the odds are stacked against you. The longer you play in a casino, the greater the odds you'll walk away a loser because the house wins based on pure probability**. It's just the opposite in the stock market. The longer your time horizon, historically, the better your odds are at seeing positive outcomes. …

S&P 500: 1926-2020		
Time Frame	Positive	Negative
Daily	56%	44%
1 Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%
Source: Dimensional Fund Advisors		

The worst 30 year return for the S&P 500 gave you more than 8x your initial investment [including through the decade-long Great Depression, or the Tech Wreck of 2001 and the Great Recession of 2007-2009. Those were the only two timeframes where investing in the US market could have left you with negative returns after 10 years]. $10,000 dollars invested in the S&P 500 in the year:

- 2010 would be worth $37,600 by Sept 2020
- 2000 would be worth $34,200 by Sept 2020
- 1990 would be worth $182,300 by Sept 2020
- 1980 would be worth$ 918,500 by Sept 2020
- 1970 would be worth $1,623,500 by Sept 2020
- 1960 would be worth $3,445,000 by Sept 2020

I'm ignoring the effects of fees, taxes, trading costs, etc. here but the point remains over the long haul, the stock market is unrivaled when it comes to growing money. And the longer you're in it the better your chances of compounding."

Just for comparison, let's look at the average cost of a house in 1960. According to the United States Census Bureau, it was $11,900 in 1960 US dollars. (Source: www.reference.com/business-finance/how-much-did-house-cost) In 2020, according to the National Association of Realtors®, the average US house sold for $284,600. Compare that to $10,000 invested in the U.S. market in 1960 which would have growth to almost $3.5 Million by 2020. (Source: www.fool.com/the-ascent/research/average-house-price-state) It's not as easy to get Canadian equivalent numbers. The average cost of Canadian houses in 2020 is possibly 3 times larger than the average US house cost. But $11,900 for an average 1960 house cost sounds reasonable for Canada too though, since we know of so many homes in Hamilton and Toronto that sold for only $5,000, when new in the 1950s. So even with Canada's huge real estate price increases in recent years, the appreciation in real estate can't compare to the growth in value of an investment in the US Stock market.

We hope you are all staying safe and are optimistic about the impact the 4 approved vaccines will have on opening our economy and personal interaction opening back up.

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