

ROYDS REPORT

December 2020

Economy Picking Up

J.P. Morgan published a chart in November on the change in some of the frequent activities which help the economy that shows how much these activities had dropped at the worst point, the end of March, and how much the activities are still down – or are up!

	<u>Drop in Activity</u>	<u>Current Activity</u>
Mortgage Applications	-35%	24%
Consumer Credit/Debit Transactions	-36%	-3%
Hotel Occupancy	-69%	-32%
Travel and Navigation App Usage	-82%	-38%
U.S. Seated Diners	-100%	-54%
TSA Traveller Traffic	-96%	-68%

Real Estate has been booming recently. But there has been a huge increase in inventory of Toronto condos for sale and the rents for condos really dropped – not good news for Toronto condo owners. Perhaps this situation will reverse when immigration (which is down 92% this quarter compared to last year) returns to normal. Then, rental demand could increase. Nov 27/20 BNN Bloomberg TV News

Is the Long-Awaited Market Rotation Happening Now?

The fact that the market was pretty good in Sept, dropped back in October and then was really strong in November doesn't matter one bit for long-term returns. It's hard not to be happy to see our portfolios go up in November anyway. It's interesting that the market may be switching from being in love with the big high tech companies like Facebook, Amazon, Apple, Netflix, Google, Tesla and Microsoft (FAANG+TM or A FAT MAN) to being more interested in the older economy stocks that will benefit by a vaccine and the return of the economy to a more normal state, but it may not be that important for long-term returns. Generally, those stocks that have been coming back into favour (Real Estate Investment Trusts, banks, resource companies, manufacturing etc) in the last 4 weeks are considered value stocks at the moment. Value stocks have been ignored and many have underperformed for years. In fact, growth stocks have just had the longest period of outperforming value stocks in history. So, a rotation from growth stocks to value stocks has been anticipated for years now. Analysts think this rotation has started, but it will be a while longer until we will know for sure.

If the market is actually rotating to favour value stocks over growth stocks, our Growth At a Reasonable Price stocks/funds should still do just fine. After all, they have characteristics of both growth and value stocks. What we have been seeing, and should continue to see, is that different funds have been moving strongly ahead

than were leading the market from late March to October. This kind of rotation is normal and not of concern. Even the strongest of funds go through both great periods and slow ones. It also seems that in November, mid-cap funds (those specializing in medium size companies) have been outperforming most large cap funds, which has not been the case since before Covid.

In 18 of the last 36 years, gold has had negative returns, which of course that means that in 18 years gold has had positive returns. Not a very good track record! Source: VisualCapitalist.com

Most Valuable S7P 500 Stocks by Decade 1980-2020

1980	IBM	AT&T	Exxon	Standard Oil	Schlumberger
1990	IBM	Exxon	General Electric	Philip Morris	Royal Dutch Petrol
2000	General Electric	Exxon Mobil	Pfizer	Citigroup	Cisco
2010	Exxon Mobil	Apple	Microsoft	Berkshire Hathaway	General Electric
2020	Apple	Microsoft	Amazon	Alphabet (Google)	Facebook

Source: S&P Global via A Wealth of Common Sense 2017, Slickcharts 2020

Exxon was one of the largest companies in the US and the world from 1980-2010, but now there’s even talk about Exxon becoming as inconsequential as Kodak. Kodak was a huge stock when digital cameras made their debut. Even when it became apparent that digital photography was going to make film almost obsolete, Kodak didn’t try to participate in this growth area. Apparently, Exxon, Shell and BP have less than 1% of their assets in renewable energy, even though the decline of fossil fuels is clearly in the cards. It’s like the oil companies can see the iceberg ahead, but they just can’t turn the ship around in time. Source: VisualCapitalist.com

Next Newsletter

Elaine is on a staycation for much of December, all the better to self isolate before a tiny family Christmas dinner. Jordan is still in the office. So, there won’t be another newsletter till the normal quarterly one in mid-Jan. After that, there may not be so much news and turbulence to write about more frequently than once a quarter, but you never know.

We wish everyone a wonderful holiday season, and most of all that you and your families all stay safe.

Elaine

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