Manulife Securities

ROYDS REPORT

March 2021

Topics in this Newsletter

- What's Up with the Markets?
- The New Online Viewing System and Where to Get Duplicate Tax Receipts
- Tax Free Savings Account
- E-Signatures
- Conference Calls and Zoom Meetings

What's Up With the Markets?

Markets were pretty strong this year, right up till the last week and half of Feb. As soon as the market turned down a bit (not enough to wipe out the gains of Feb), people started to worry. So, we thought we better give you an update on our view of the market.

Some of the reasons we expect growth in the economy are:

- Inventories are at low levels not seen since 2009 and when production can ramp up, supplies will have to be rebuilt
- Canadians (mostly better off Canadians) are sitting on $100 Billion more cash than pre-Covid and there is a lot of pent up demand to eat out, to go to entertainment venues, to shop, to travel etc., not just in Canada, but around the world
- Governments have committed to spending about $50 Trillion US over the next 40 yrs on reducing their countries' carbon footprints (China alone has committed $18-20 Trillion between now and 2050), so there will be lots of spending in some of the newer sectors of the economy, like blue hydrogen fusion (separating hydrogen from natural gas for fuel and capturing the carbon dioxide waste) and green hydrogen fusion (separating water from hydrogen with oxygen as a byproduct), solar panels, wind turbines, water purification, sustainable agriculture, electronic vehicles etc.
- There is demand for higher speed, more democratized internet like 5G and satellite internet.
- There is demand for personal medicine where a person's personal DNA is used to predict which medicines will work for them and where medicines are customized for people.
- Better solutions for marketing, for medicines etc are needed and data analytics and Artificial Intelligence are providing solutions, so those are growth industries
- Travel will resume
- The interest in home improvements are expected to continue since lack of supplies and labour have prevented homeowners from getting everything done during COVID
- The demand for Electric Vehicles is fuelling demand for lighter materials, the new glue that fastens some parts together and the semi-conductor chips that are needed in them are growth industries

- There are new innovations, like continuous glucose monitors, advanced eye surgeries that negate the need for reading glasses for people over 50 etc that will attract new customers

The media can't stop talking about the S&P 500 being overpriced, and especially the largest stocks in the index. Indeed those companies have grown tremendously and have led the market to all time highs. In November, CI Global Asset Management pointed out that Apple, Amazon, Facebook, Netflix, Google and Microsoft were up 40%, and without them the other 494 companies in the S&P 500 index would still be down year to date. Market growth was extremely concentrated in only those 6 companies (Tesla wasn't in the index at that time). Even if those companies are expensive, that does not mean we need to liquidate our funds, out of fear that the market is overpriced and due to fall hard. First off, most of our funds have very little exposure to the top 6 stocks of the S&P 500, or if they do, they also have protective options to prevent significant losses from any great price drop. Secondly, the valuations of some of the top 6 companies may not be so wild. Some have tremendous growth opportunities and compared to the cost of getting income from bonds and given the scarcity of growing companies (growth seems to be concentrated in relatively few, huge companies), the prices may not actually be too inflated. And thirdly, the companies our fund managers do invest in, using the Growth At a Reasonable Price (GARP) strategy, are often undiscovered or behind the scenes companies whose likely future profits are worth more than their current stock prices and should be held onto till their worth is realized. Lastly, timing investment in the market is usually a folly. When there is rumoured trouble in the markets, the markets can still continue up for years. And if one succeeds in missing some bad down days, it's likely that you would also miss the very significant up days as well, that usually follow within 10 days the downturns. The most successful strategy has historically been and will probably always be to stay invested, as long as you are invested in quality companies with growth prospects, that you or your funds have managed to buy into at prices below what they should be worth.

Below are the messages from some of the many managers whose webinars we attended just last week. There was one common theme. All the managers, the ones from Australia, China, the U.S, the U.K.. and Canada all agree that 2021 should be a good year for the economy and for profits in many, many companies who will benefit from the growth themes of the new economy and from the pent-up demand and re-stocking of inventories as we come out of Covid. Of course, the market isn't going up smoothly. It never does. There will be pullbacks along the way. Some companies' stock prices will get ahead of their profit growth and need to take pauses or pull back until profits catch up.

<u>China</u> – China used to be strong into manufacturing, even if it wasn't at a profit. That way it built trade relationships and provided lots of employment, and it worked on learning the processes and technology of their clients. Now China is intent on supplying its huge domestic demand and it is into high tech to rival that of the U.S. It is involved in sophisticated drug manufacturing, builds and sells more Electric Vehicles than the rest of the world put together. Its economy jumped from ½ a trillion US dollars to $10 Trillion in just 20 yrs. And then Donald Trump spurs them on with is trade restrictions and tariffs. When Trump restricted the export of US technology, Chinese nationalism increased and people and companies decided to support Chinese technology more. They used to feel they needed to use Google and Microsoft operating systems in order to communicate with the world. Now they're looking to get replace U.S. technology with Chinese technology, which will impact U.S. tech company profits and perhaps threaten their dominant position in the world over the long term. (Source: Ben Zhan of Dynamic Mutual Funds)

One Opinion of 2021 Onward – Covid Vaccines and more drug discoveries, more telemedicine and remote patient monitoring, increased renewable energy and electric vehicles, more innovation outside the U.S., companies becoming more tech enabled, more streaming media and gaming (perhaps more people watching e-gaming competitions than sports), pent up demand for travel and entertainment, better performance of emerging market stocks, perhaps fewer live entertainment events because on-line entertainment is more affordable, more scarcity of growth companies or continued high stock premiums for growth compared to older economy stocks, potentially bitcoin replacing gold as the safe haven people seek when markets are scary, less global confidence in the u.s. dollar (as evidenced by the 20 yr low in foreign holdings of US treasury bills, because smart money has gone elsewhere). (Source: Rich Wolf of Capital Group Webinar)

Another View of the World Post Covid – more data centres and cloud processing as people continue to work from home at least part-time long-term, more cybersecurity issues, more internet equality in the world and 5G for higher processing capacity, more e-commerce and logistics leading to more online retail plus continued food delivery and electronic payments, more entertainment streaming, more online video gaming and esports, more on-line exercise, telemedicine, more interest in home improvements, stores will never recover the foot traffic they used to have, marketing budgets will shift from tv, newspapers and radio to digital marketing, iphone graphics will surpass Xbox graphics, egaming will surpass esports, music subscription will continue to increase and the ones to prosper will be the content owners rather than the distributors, inventory is lower than anytime since 2009 so manufacturing is going to have to catch up, electric vehicles will continue to increase the demand for semi-conductor chips, mechanics may disappear since electric vehicles will have lifetime guarantee and 20 part motors that will be replaced by robots as a car passes through something like a car wash, u.s. companies can't continue to increase profits through cost cutting so profit growth will be limited to companies capitalizing on trends like digitization, true growth will be so scarce that people will have to Pay Up for, 25% of Americans currently can't afford rent, 25% of personal income in the U.S. comes from government transfers, consumers are demanding more transparency about country of origin of products and the social practices so companies must be more socially responsible and environmentally friendly which means higher cost of production and higher sale prices, companies usually die in a recession but all the government support kept poor companies afloat so company failures are just deferred, stock markets used to allocate society's capital in the most efficient manner (for the last 300 yrs) but recently central banks have assumed that roll and poor companies are surviving, value investing used to be looking for misplaced pessimism (buying companies that were selling too cheaply) but now its looking for misplaced optimism (looking for companies where growth is underappreciated and the price doesn't reflect the true potential for profits! (Source: Rob Almeida of Sun Life MFS)

Another Kind of View – Solar, wind, biofuels and renewable utilities will replace most oil and gas for energy productions, sustainable agriculture will be the way of the future, power transmission and energy storage will be growth industries, efficient transportation is a strong trend, efficient buildings and industrial efficiency will increase, water purification and desalination will gain importance, there will be a more circular economy with more materials being reused, autonomous vehicles are here (so much so that fund manager in San Francisco said he couldn't be on the street for 20 minutes without seeing multiple vehicles, companies with controlled distribution (like lululemon) will excel, personalized medicine is on the rise, e-commerce and e-payments will continue their place of importance, pet medicine is on the upswing. (Source: John Cook of Mackenzie Financial)

Some Promising Growing Companies Our Managers are Finding that aren't The Potentially Over-Priced Media and Market Darlings– a technology company which moves solar panels throughout the day to catch the most sun, a company promoting more online concerts, a company which manipulates 1000 molecules for medicine production, a leading company in supplies like artificial hips and endoscopy equipment needed for elective surgery, one of two companies which make the composite from which wind turbine blades are manufactured, a pet medicine specialty company, the company that makes the vision systems for self -driving vehicles and robots, the 2 companies which are needed for the testing of all pharmaceuticals, a company that makes on-line document signing easy, a hardware supplier to Home Depot for home renos, electric battery vehicle suppliers, gaming software, next generation vision correction technology, data analytics companies, international competitors to amazon one of whom does 6 hour delivery day or night, a continuous glucose monitoring technology/medical company, an Asian competitor to E-Bay etc.

The New Online Viewing System and Where to Get Duplicate Tax Receipts

If you have signed up for electronic statements, your contribution receipts and tax slips for the 2020 tax year will be available online this year with Manulife online access. Tax slips from fund companies, especially if you have a Client Name Account beginning with B, will still come in the mail.

With Manulife online access, you can:

- Access your current account information on your mobile device, tablet, or desktop computer.
- View your individual and joint accounts, plus corporate, estate, and trust accounts.
- Easily access and manage how you get your statements, trade confirmations, and now, tax slips.

To register for the new online viewing, if you haven't already, click below

Begin now **:**

If you have any problems, or ever need a password re-set, just call the help centre from 8 a.m. – 6 p.m. Monday to Friday at 1-833-363-0699.

Tax Free Savings Account

Have you topped up your TFSA for the $6,000 new contribution room that you got in 2021? If you have unregistered investments, you can transfer some of them in kind, or of course you can simply contribute new cash. You can verify your total TFSA contribution available as of 2021 by logging into your My Account on CRA's website.

E-Signatures

Manulife now has systems in place to do electronic account updates and investment changes on client name accounts via email with e-signatures. It saves a lot of mailing time. So don't be surprised if we ask you to write down an access code authorize your electronic signature.

Conference Calls and Zoom Meetings

We are available for conference calls and Zoom meetings or just regular phone and email consultations. So don't hesitate to call for an appointment. Just remember that if you need something done, like investing a new deposit, liquidating some investment or withdrawing money, you can certainly give us advance notice by email. That would allow us to study how we might carry out what you want done.

However, we need to talk to you over the phone in order to execute any transactions. So please either call us, or expect a call from us, and do not expect that any changes will occur in your account based solely on emailed instructions.

Elaine

Jordan

L. Elaine Royds, MBA, CFP®

Senior Financial Advisor, Manulife Securities Incorporated
Financial Planner, Manulife Securities Insurance Inc.

Jordan Royds

Financial Advisor, Manulife Securities Incorporated
Life Insurance Agent, Manulife Securities Insurance Inc.

Suite 303 - 1685 Main St W, Hamilton, ON L8S 1G5
Office 905-393-0787 Toll Free 1-855-640-1857 Fax 905-393-0788
Website www.roydsfinancial.com
Assistant Investment Representative: Sarah Breimer sarah.breimer@manulifesecurities.ca
Adminitrative Assistant: Trevor Philippe trevorphilippe@manulifesecurities.ca