

Portfolio Management Commentary

Quarter Ending June 30, 2020



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*Markets can remain
irrational longer than you
can remain solvent.*

–John Maynard Keynes

Confounding, outrageous, unprecedented—take your pick of words to describe the last three months of market action. It seems like yesterday I was penning the words: “the S&P 500 logged its worst quarter in 30 years”. And then, by the end of June, the markets recovered a substantial portion of the previous quarter’s losses in another epic move, but this time to the upside. What gives? In a nutshell, the markets are being moved by sentiment and that sentiment is being stoked by government spending. In the short-run, prices move in sympathy to the prevailing “emotion” or sentiment of the crowd. Clearly, the widely-held belief amongst market participants is that the near-term future is improving. On a relative basis, this is accurate. See below for the evidence. The month-over-month changes in the US economy are posting positive numbers after a substantial contraction. Perhaps this will be the mildest recession in history?

Market Indicators							
Name	As of	Last Quarter	1 Month Ago	1 Mo. % Change	1 Year Ago	1 Year % Change	Freq.
Key Interest Rates							
1 Month Treasury	6-30-20	0.13%	0.13%	▲ 0.0%	2.18%	▼ -94.0%	Daily
2 Year Treasury	6-30-20	0.16%	0.16%	▲ 0.0%	1.75%	▼ -90.9%	Daily
10 Year Treasury	6-30-20	0.66%	0.65%	▲ 1.5%	2.00%	▼ -67.0%	Daily
30 Year Mortgage	6-25-20	3.13%	3.24%	▼ -3.4%	3.84%	▼ -18.5%	Weekly
US Corporate AAA	6-30-20	1.63%	1.69%	▼ -3.6%	2.75%	▼ -40.7%	Daily
US Corporate BBB	6-30-20	2.68%	3.02%	▼ -11.3%	3.56%	▼ -24.7%	Daily
US Corporate CCC	6-30-20	14.46%	16.74%	▼ -13.6%	11.78%	▲ 22.8%	Daily
Effective Federal Funds	6-30-20	0.08%	0.05%	▲ 60.0%	2.40%	▼ -96.7%	Daily
U.S. Economy							
Consumer Sentiment	6-30-20	78.10	71.80	▲ 8.8%	98.20	▼ -20.5%	Monthly
Unemployment Rate	6-30-20	11.10%	14.70%	▼ -24.5%	3.70%	▲ 200.0%	Monthly
Inflation Rate	6-30-20	0.65%	0.33%	▲ 96.2%	1.65%	▼ -60.8%	Monthly
Manufacturing PMI	6-30-20	52.60	41.50	▲ 26.7%	51.70	▲ 1.7%	Monthly
Non Manufacturing PMI	6-30-20	57.10	41.80	▲ 36.6%	55.10	▲ 3.6%	Monthly
Retail Sales	6-30-20	476,881	382,734	▲ 24.6%	454,256	▲ 5.0%	Monthly
Building Permits	5-31-20	1,220	1,066	▲ 14.4%	1,338	▼ -8.8%	Monthly

Source: YCharts

The lingering question on everyone’s minds: Is the reopening of the economy real or will it be shuddered again if the spread of COVID-19 continues? The most recent data in the US has many doubting the return to normalcy as cases, hospitalizations, and deaths are on the rise¹. On an upbeat front, the news on vaccine testing has been generally positive. This seems to suppress the negative sentiment enough to allow for a neutral basis in the capital markets. Clearly, an abundance of information one way could easily shift the balance between the bulls and bears.

¹<https://www.worldometers.info/coronavirus/country/us/>

Your Portfolio

We made some transactions in the past quarter to increase the quality and diversity of the portfolio holdings. In some cases, we trimmed up-and-down individual positions, which were above or below our target weights. This was done at the account level, to reflect the individual gains and losses of the investor. The Enhanced Income portfolio had a complete overhaul to adjust to a more global investment mandate. See below for the details. Furthermore, we more closely aligned the US Core Growth portfolio with the Raymond James US model by selling positions, which did not conform. Please see below for the details.

Portfolio	Sells	Buys
Balanced Income and Growth	<ul style="list-style-type: none"> Sold out of Horizons Active Preferred Share ETF (HPR) of 5%. Sold out of Horizons Seasonal Rotation ETF (HAC) of 5%. 	<ul style="list-style-type: none"> Bought PIMCO Monthly Income Fund (PMO205) with a 10% weighting. Bought Open Text Corp (OTEX) with a 2% weight.
Enhanced Income	<ul style="list-style-type: none"> Major model change occurred. Sold all individual stocks and removed high-yielding fixed income ETFs (ZEF, HPR). 	<ul style="list-style-type: none"> Added Canadian, US and international equity ETFs with a quality and dividend growth mandate (DXC, ZUQ, VGG). Added US and International fixed income ETFs (VBU, VBG).
Disciplined Growth	<ul style="list-style-type: none"> Sold out of Horizons Seasonal Rotation ETF (HAC) of 5%. Sold Superior Plus Corporation (SPB) of 3% 	<ul style="list-style-type: none"> Bought Algonquin Power (AQN) with a 3% weighting. Bought Alimentation Couch-Tard (ATD.B) with a 3% weighting. Bought a 5% position in iShares Gold Bullion ETF (CGL).
Canadian Focused Equity	<ul style="list-style-type: none"> Sold out of Canadian Apartment REIT (CAR.UN) of 5%. Sold out of Bank of Nova Scotia (BNS) of 5%. 	<ul style="list-style-type: none"> Bought Royal Bank of Canada (RY) with an initial 3% weighting. Bought Granite REIT (GRT.UN) with a 5% weighting.
Raymond James US Core Growth	<ul style="list-style-type: none"> Sold entire positions in MOAT, IVV, RJF, AAPL, BKNG, and IR. 	<ul style="list-style-type: none"> Bought 4% weighting in the following: V, MSFT, EL, JPM, IQV, TJX.

Trade Rationale

Due to the amount of trades in the past quarter, the summary below will be truncated for sake of brevity.

- The sale of Horizons Preferred Shares ETF (HPR) and Horizons Seasonal Rotational ETF (HAC) was completed to reallocate the capital to PIMCO Monthly Income Fund (PMO205). PIMCO is the largest active bond manager in the world with unique expertise in the US market. We made the switch to add US fixed income exposure and to increase the quality of the portfolio.
- Open Text (OTEX) was added to increase our exposure to technology with one of the few Canadian names.
- Superior Plus (SPB) was switched with Algonquin Power (AQN) to gain access to an outstanding “renewable” energy company.
- Alimentation Couche-Tard (ATD.B) was acquired to add exposure to a growth candidate in the consumer defensive sector. You know this company under the Circle K banner of convenience stores.

- Bank of Nova Scotia (BNS) was sold and Royal Bank (RY) was purchased to upgrade the quality of the banking position in the Canadian Focused Equity portfolio. BNS has more exposure to Central and South America and it seemed prudent to reduce risk in this geographic location due to the uncontrolled spread of COVID-19 in these regions.
- Canadian Apartment REIT (CAR.UN) was replaced by Granite REIT (GRT.UN) to reduce exposure to a potential disruption in rental income, to increase yield, and to increase credit quality.
- As previously mentioned, we added positions to round out a global mandate in the Enhanced Income model. Why? Canada represents about 2.8%² of the global economy, so why not expand your horizons and reduce your country-specific risk. This is precisely what we did.
- In general, the changes made to the US Core Growth portfolio brought us inline with our cousins to the south. ETF positions were removed to capitalize on some individual S&P 500 names with great growth profiles and at reasonable valuations.

Market Movers

Leaders	Laggards
West Fraser Timber (WFT) +77.79%	Nutrien Ltd. (NTR) -8.80%
TFI International (TFII) +56.07%	Berkshire Hathaway (BRK.B) -2.36%
Parkland (PKI) +37.15%	Toronto-Dominion Bank (TD) +2.60%

**total return in local currency to June 30, 2020.*

Final Thoughts

The back-and-forth movements of the market can test anyone's resolve over the short-term. It can cause people to become "irrational", just as our knowledgeable friend Mr. Keynes noted. The operative words here are—short-term. It was hope in a better future that propelled the markets out of the hole dug in the first quarter. Now we must see if this future unfolds fast enough for the impatient and "insolvent". In our opinion, the market has recovered a little too fast for our liking, and we suspect a period of consolidation will occur in order to digest the next stages of the global economic recovery. It should be mentioned that capital markets tend to be a leading indicator of the strength of the economy. For now, we look to put a little extra cash to work in the upcoming quarter.

Regards,

Patrick

²Based on the revenue exposure breakdown at the country level for the iShares MSCI all world Index (ACWI). Source is FactSet GeoRev.

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