CIBC Wood Gundy | R&R Investment Partners

R&R Report
January 2021

2020 Year-End R&R Report and Strategy Update

Executive Summary

1) **After the market's extreme roller coaster ride in 2020 investors were again reminded that having a plan and sticking to it in times of market stress pays off.**
   - **Pre-planning how you will behave for the next correction really does matter.**
2) **2020 also reminded investors that the best way to free up time in their lives is to stop watching or reading economic forecasts. Printed forecasts are best used as kindling for the fireplace.**
3) **Policy is more powerful than politics. The economy does not care if you like the President, the Prime Minister, or their party. It is policy, not personality, that matters as far as the real economy is concerned.**
4) **Sensible investment and wealth management is much like eating healthy and staying fit. The best programs are simple and not very exciting and they work best because they are adhered to, not because they are the best. Excitement is best found outside of the market.**
5) **It is not more information we need, but more context, wisdom and thoughtfulness. The information age is one of distraction. Everyone wants your "clicks" on the internet and they will do anything to get your attention!**
6) **Wealth management is more about defense and avoiding the "Big Mistake" than hitting the odd home run while predominantly suffering strikeouts.**
7) **The basics never change:**
   - **Economies grow over time no matter who is President or Prime Minister.**
   - **Good companies prosper.**
   - **We should always have an emergency fund.**
   - **We should always spend less than we make.**
   - **We should remember to invest in relationships—they generate a great return.**
   - **Health is an invaluable investment.**
   - **Investing is not a race to beat something or someone, it is about achieving your personal goals.**
   - **Do your best to avoid manias!**
   - **Diversification means you will always have some investment that is not leading the pack.**
8) **In 2020 interest rates continued to hover at historically low levels, REGARDLESS—keep your debts manageable for when rates do rise.**
9) **Debt, like whiskey, is the proverbial double-edged sword. Use it wisely and in moderation; otherwise it can, and will, become an oppressive liability.**
10) **Speaking of debts, governments will use the post World War II playbook to "pay it off": inflate and grow.**
11) **The yield curve is positive, historically this is good for equities.**

Top Five Equity Holdings per Strategy*

Income	Disclaimers
CANADIAN PACIFIC RAILWAY LTD	2a,2c,2e,2g,3a,3c,7,9
FRANCO-NEVADA CORP	2a,2e,2g,7
CANADIAN NATIONAL RAILWAY	2g,7
CANADIAN TIRE (NON VTG A)	13,2g,7
GRANITE REAL ESTATE INVESTMENT TRUST	2a,2c,2e,2g,7
Income & Growth	
ROYAL BANK OF CANADA	2a,2c,2e,2g,3a,3c,7
TORONTO DOMINION BANK	2a,2c,2e,2g,3a,3c,7
CANADIAN PACIFIC RAILWAY LTD	2a,2c,2e,2g,3a,3c,7,9
UNION PACIFIC CORP	---
BANK OF MONTREAL	2a,2c,2e,2g,3a,3c,7
Moderate Growth	
CANADIAN PACIFIC RAILWAY LTD	2a,2c,2e,2g,3a,3c,7,9
CANADIAN TIRE (NON VTG A)	13,2g,7
ROYAL BANK OF CANADA	2a,2c,2e,2g,3a,3c,7
TORONTO DOMINION BANK	2a,2c,2e,2g,3a,3c,7
CANADIAN NATIONAL RAILWAY	2g,7
Dividend Growth	
JPMORGAN CHASE & CO	---
UNION PACIFIC CORP	---
BLACKROCK INC	---
ROYAL BANK OF CANADA	2a,2c,2e,2g,3a,3c,7
TORONTO DOMINION BANK	2a,2c,2e,2g,3a,3c,7
Active Growth	
TFI INTERNATIONAL INC	2g
UNITED PARCEL SERVICE INC	---
AUTOZONE INC (NEV)	---
MASCO CORP	---
HCA HEALTHCARE INC	---
Dynamic Growth	
ROYAL BANK OF CANADA	2a,2c,2e,2g,3a,3c,7
TORONTO DOMINION BANK	2a,2c,2e,2g,3a,3c,7
SHOPIFY INC	12,2g
ENBRIDGE INC	2a,2c,2e,2g,7
CANADIAN PACIFIC RAILWAY LTD	2a,2c,2e,2g,3a,3c,7,9
Canadian Dividend Income	
CANADIAN PACIFIC RAILWAY LTD	2a,2c,2e,2g,3a,3c,7,9
CANADIAN TIRE (NON VTG A)	13,2g,7
ALGONQUIN POWER UTILITIES CORP	2a,2c,2e,2g,7
CANADIAN NATIONAL RAILWAY	2g,7
BANK OF NOVA SCOTIA (THE)	2a,2c,2e,2g,3a,3c,7
U.S. Dividend Income	
KLA Corporation	---
TEXAS INSTRUMENTS INC	---
NOVO NORDISK A S ADS	---
HOME DEPOT INC	---
HP INC	---

*Top five equity holdings per model; in descending order, as a percentage of the portfolio. Individual account holdings may differ. As of December 31, 2020. ***This list is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities listed above.***

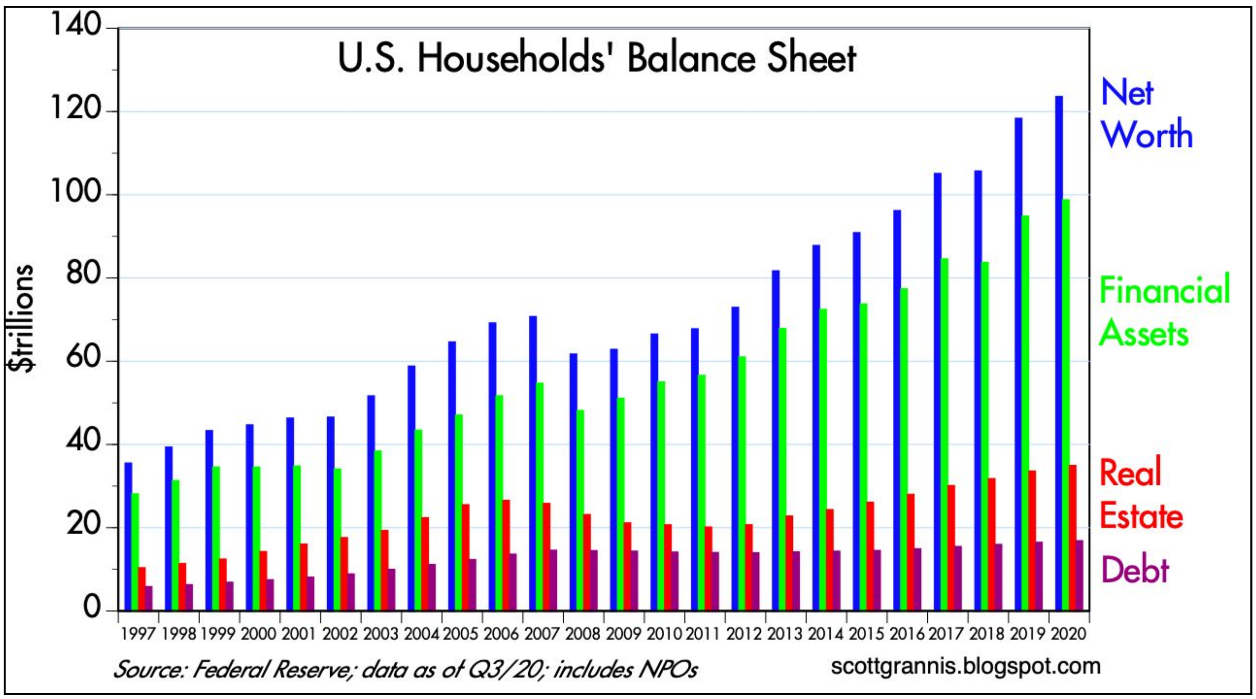
TURNING BLUE

The stock market roller coaster of 2020 has been replaced by political strife and the government down south going Democrat at the Presidential, House and Senate levels. This has a lot of people once again focused on politics instead of the economy, but they should not be. Policy is more important than the political biases that we all have. Fiscal stimulus, low interest rates, and an economic recovery helped by a COVID vaccine is likely to have more of an investment and economic impact than our favourite political party or our perceived political enemy taking power.

Historically, the stock market and the economy have done well or poorly regardless of Republican or Democrats being in power. In addition, the riots south of our border, although disturbing, need to be viewed through an economic lens, not a lens of personal opinion or emotions, which is a whole other matter. Although it was a different time, Vietnam War protestors were also known to riot and the military was called in back then too. The difference being, if you are 71 today you were 17 then without a substantial investment portfolio and you probably had different things on your mind. As we have also written about, the Civil War nearly tore the US apart, but none of us were alive during that time period and that is what makes the difference in how it feels.

We do not mean to minimize the events or pretend they do not exist, only to focus all of us here on economic issues.

The Wealth Effect: Yes, you are wealthier than ever.

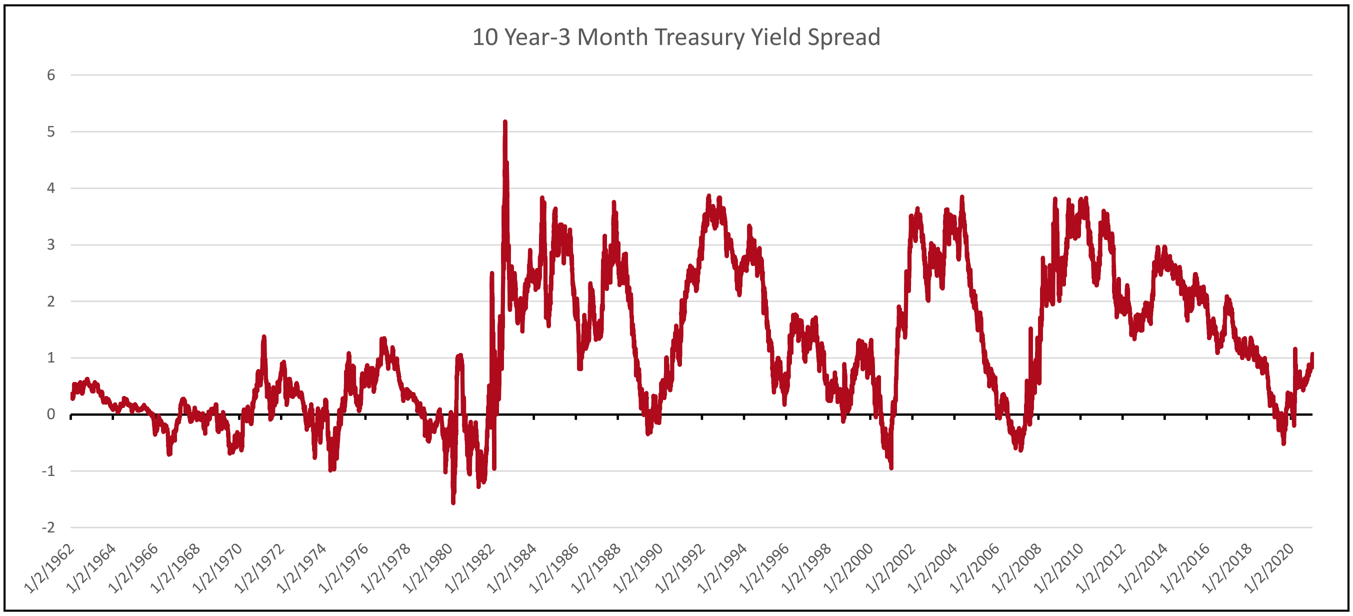


It is said optimism is the only rationalism. *Is* the world perfect? No it is not. Are there economic, political and social problems? Yes there are. Are some of those in power dishonest and doing things that are self serving? Of course! Yet despite all that, wealth is at an all time high as shown by the Net Worth figure on the US Households' Balance Sheet chart shown above.

Now make no mistake, there will be another market correction and we will get through that too, but let's just make sure to live our lives in a way that we can get through it financially and hold portfolios (cash, bonds, equities that are *not* speculative) that will weather the storms.

The Yield Curve

For the time being the yield curve is positive, meaning long rates are higher than short rates, as indicated by the graph below, where the red line is above the bold black horizontal axis—this is historically a good environment for stocks. This does not mean there will not be regular market pullbacks of 5% to 15%, or possibly higher, it just means the long-term trend is in our favour. We think that means we should be equity tilted in our portfolios.



Data source: YCharts. As of January 13, 2021

How Will the Government Pay Off the Debt?!

Debt is at high levels and the magnitude of the numbers are such that they are hard to fathom. History shows that this is just like after World War II. How did we turn things around back then? We eventually flattened spending, the economy grew, there was a little inflation, and the debt seemed "smaller" only because it was reduced relative to a larger economy. It did not really get paid off. Think of your first house, the mortgage probably seemed huge until your income grew over the next 20 years, then that debt seemed smaller in comparison. That is what the government will do, the key is that spending must be reigned in at some point.

Current Concerns (We wrote the following three paragraphs in January 2020, but it is just as likely that we would have written them today.)

With the recent runup in markets, investors are now concerned and the venerable Wall Street Journal published the following headline "Bull Market Shows Signs of Aging" that, unsurprisingly, is causing a lot of people to become worried! Should they move to cash and get defensive?

But wait! This headline was published in December 2009—more than 10 years ago! Since then the economy and markets have risen substantially. The point is that there is always someone calling for something bad to happen, even at what turns out to be the start of a long up cycle. Accordingly, we encourage you to establish a long-term plan and avoid forecasts like this one from June 2011, where a prominent forecaster was quoted in Fortune magazine, "Another recession is coming and soon." According to Fortune, the forecaster further mentioned that he was 99% sure that we would have another recession by the end of [2012].

We do not mean to beat up on these people, we are simply trying to assert that staying focused is key to achieving your goals and that it is not necessary to have a "view" into the market's future to do so. Forecasters are simply trying to be heard and get noticed in an overcrowded field, which usually requires saying something audacious, dubious, and of course, dramatic! ■

Action Bias

Investing extracts an emotional price from investors because money is emotional, or it serves financial needs and goals in our lives that are intrinsically emotional. We experience fear, regret, greed, and we also suffer from hindsight bias—where everything seems much more obvious than it really was at the time. We are not robots. Emotions can get heightened when financial markets get rattled, the economy sputters, the general social environment gets complicated, or you lose your job or your business suffers.

Because of this, investors are prone to **action bias**.

Source: Creative Commons, Michael Barera

Action bias is the desire to do something when doing nothing is actually better. This happens all the time in soccer.

Studies show that the goalie staying in the middle of the net will stop 33% of all penalty kicks, while jumping one way or the other results in stopping roughly 17% of kicks. So it is roughly two times better to stay in the middle of the net and do nothing. Yet goalies only stay in the center about 6% of the time, meaning 94% of the time they jump left or they jump right. Why? Action bias is the answer.

Goalies don't want to be seen as "doing nothing", or more accurately, they want to be seen as doing something. So they do something as doing nothing feels like they are not trying.

In real life, and particularly as investors, the best we should strive for is to:

- Have a plan based on where we are trying to get to
- Diversify across markets and asset classes to manage risks
- Keep cash for near-term needs
- Manage spending
- Stay disciplined and maintain a long-term perspective
- Take the daily news with a grain of salt
- Avoid reactive investment decisions based on fear or anxiety
- Keep from trying to predict future performance or to time the markets
- Develop a sensible investment plan based on a strong philosophy, and stick with it when the noise (either overly negative *or* positive) starts getting elevated

More importantly, it is crucial to always remember that money in and of itself is not a goal, it is a tool that helps us to accomplish very important goals in our lives such as a child's education, charity, retirement, etc. Keeping that in mind, we also need to remember that investing is not about completely avoiding mistakes, it is about minimizing them and allowing good decisions to compound. Everyone has investment mistakes in their past, and what makes them so obvious in hindsight is the clear and level objectivity we can take advantage of after the fact thanks to a lack of the heightened emotion we felt at the time.

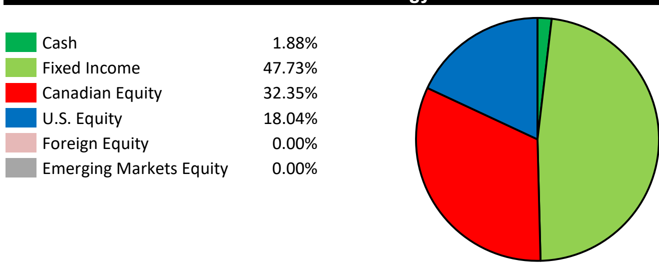
The bottom line is, we know that your family has made more good decisions than bad ones, which is why you have an enviable net worth, so feel good about that and your station in life. ■

R&R Investment Partners' Strategies

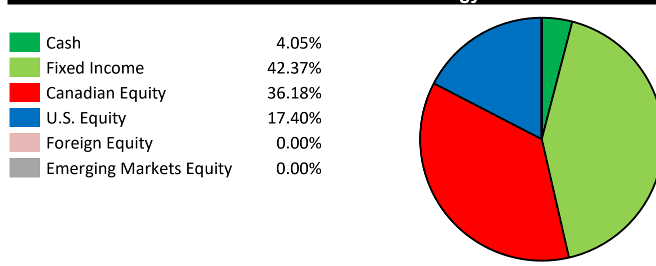
Annualized Returns (%)	2020	5 Years*	10 Years*
Canadian Focused Balanced Strategies			
Income	10.69	5.27	6.94
Income & Growth	6.74	4.87	6.91
Global Balanced Strategies			
Moderate Growth	11.97	6.67	7.83
Dynamic Growth	13.02	7.37	6.01
Canadian Equity Strategies			
Canadian Dividend Income	7.13	7.15	7.18
North American Equity Strategies			
Dividend Growth	9.45	7.49	9.64
Active Growth	3.14	6.25	7.10
U.S. Equity Strategy			
U.S. Dividend Income	15.67	N/A	N/A

Source: AMA program. All returns are gross of fees. As at December 31, 2020. *Values in percentage are annualized for periods of more than twelve months. Methodology disclaimer, "AMA Composite Performance", can be found on the last page.

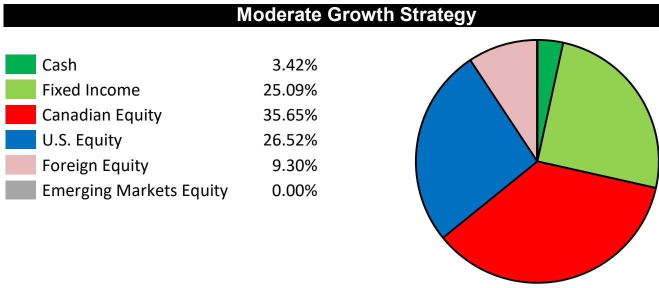
Income Strategy



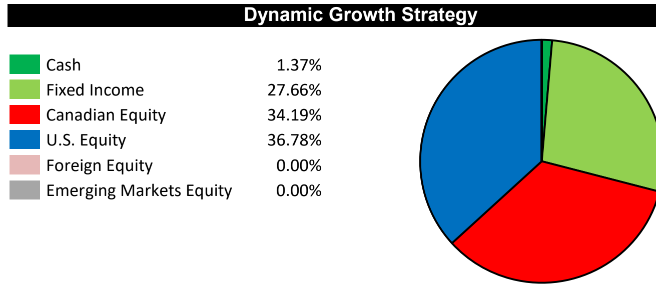
Income & Growth Strategy



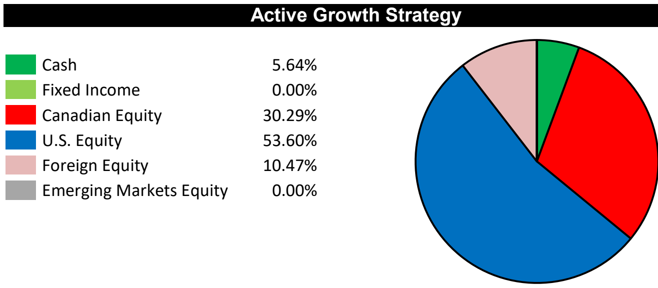
Moderate Growth Strategy



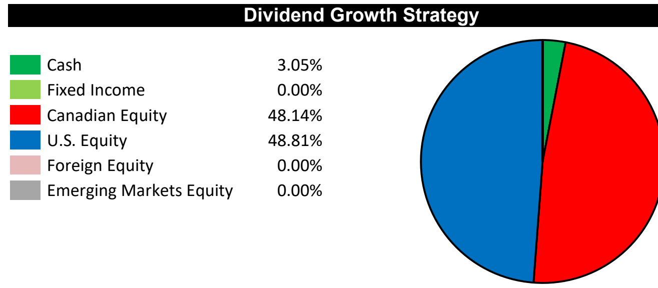
Dynamic Growth Strategy



Active Growth Strategy

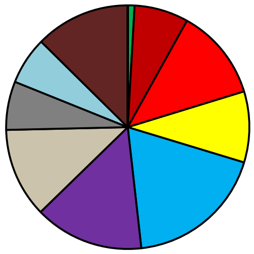


Dividend Growth Strategy



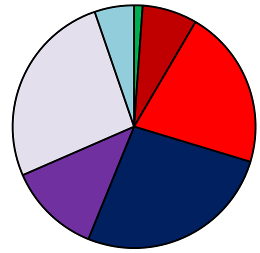
Canadian Dividend Income Strategy (Sector Allocations)

Cash	0.89%
Consumer Discretionary	7.20%
Consumer Staples	12.18%
Energy	9.42%
Financials	18.53%
Industrials	14.53%
Materials	11.90%
Real Estate	6.43%
Communication Services	6.30%
Utilities	12.63%



U.S. Dividend Income Strategy (Sector Allocations)

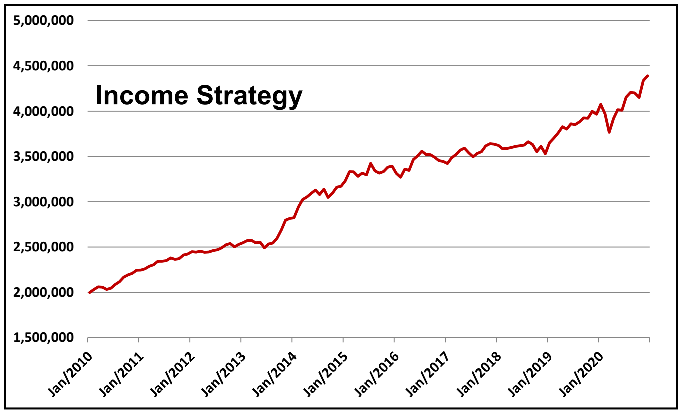
Cash	1.12%
Consumer Discretionary	7.32%
Consumer Staples	21.23%
Health Care	26.49%
Industrials	12.31%
Information Technology	26.26%
Communication Services	5.27%

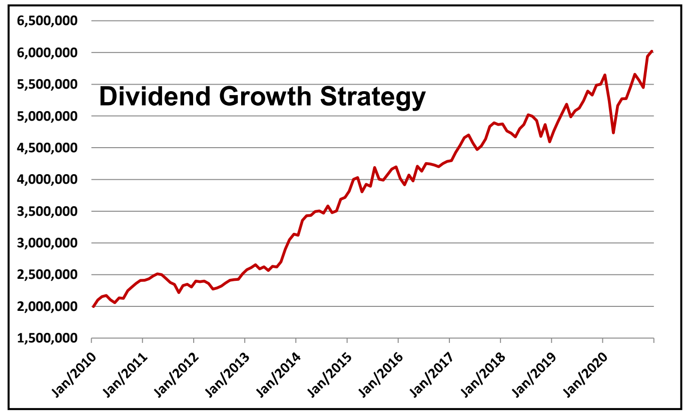


*The asset and sector allocations shown are as of December 31, 2020.
**The asset and sector allocations shown are per model; individual account holdings may differ.

Broad Strategy Comments:

All strategies have had satisfactory returns over the last decade with mandates invested exclusively in equities achieving higher performance and experiencing more fluctuations than balanced mandates like Income, and Income & Growth. That was and is to be expected.





Data source: AMA program, as of December 31, 2020. Gross of fees returns. These calculations and projections are for demonstration purposes only. They are based on a number of assumptions and consequently actual results may differ, possibly to a material degree.

The graph above on the left shows the pension-like Income Strategy, which is built for uncertainty with half of it invested in stocks and the other half among bonds, active bond mandates, and cash. Since 2010 $2.0m has grown to $4.4m with modest fluctuation. The Dividend Growth Strategy on the right is 100% equity focused on conservative companies with solid businesses and, as expected, it fluctuated more and grew $2.0m to a higher dollar amount, $6.0m, than the Income Strategy.

The Income Strategy fits bucket two, below, while the Dividend Growth Strategy fits bucket three, money that is not needed for at least five years or more. With solid dividend growth rates and allocations to solid companies like grocery stores, utilities, banks, and railroads, we expect these strategies will fluctuate but also grow capital over full market cycles.

With interest rates at historically low levels and the fed committed to keeping them there at the risk of inflation, we should be more concerned about losing real purchasing power by playing it “safe in bonds” than by investing for growth in equities.

- Cash
- High Interest Savings Account (HISA)
- GICs
- Bond Ladder
- No Volatility

- Income Strategy
- Income & Growth Strategy
- Moderate Growth Strategy
- Dynamic Growth Strategy

- Canadian Dividend Income Strategy
- U.S. Dividend Income Strategy
- Dividend Growth Strategy
- Active Growth Strategy

A sensible approach even in this low interest rate environment is to keep near-term needs in cash, as painful as it is to do so, and to keep long-term money invested in equities, subject to how much you can handle market fluctuations. Brief aside, market fluctuations are not risk, losing money is risk, and it bears repeating as our industry has convinced people that fluctuation is risk.

Most money that is truly “lost” happens in one of two ways, it is “invested” in a speculation that goes to zero, or the investment is sold to cash at market lows to be reinvested when things “recover”. Putting it another way, winter and -30 degrees are only a “risk” if you are unprepared and go outside in shorts and a T-shirt. If you are prepared for winter and expect the cold it brings, you put your jacket and hat on and go outside. With investing, market fluctuations are like extreme temperature dips in winter, they come with frequent irregularity and they also come to an end. No one ever says in January during a really bad cold spell, “I don’t think this will ever end so spring and summer will not come this year—I think this time it’s different”. Yet with investing, we hear this all the time, especially from smart people. They say, “But it is different this time, you do not understand, this *is* different.” What is different is that we have not lived through a similar time with as much at stake—our experience of something for the first time is always the only thing that is ever different.

So the only market fluctuation that creates real risk is the one we are not prepared for, where we don’t have our “jacket” on, and with investing the jacket is cash for near-term needs and manageable debt levels, as then we do not need to sell in a panic to generate cash for spending or to reduce debt which “freezes” our portfolio.

Should an Investor Continue to Own Bonds?

The real question should be what are your goals? If your goal is maximum capital growth over the next 30 years and you do not care about fluctuations in your capital then bonds may not provide the level of return that you are expecting, or need. If your goal is to invest for three to five years with modest fluctuation, bonds may be more beneficial to consider as part of a portfolio. Regardless, we have taken steps in 2020 and early 2021 to high grade the bond component of our portfolios:

- Holding short US bonds, which historically provide a hedge in market fluctuations as the USD typically rises.
- Adding high yield bonds at favorable prices.
- Reducing some high yield late last year as it became less favorable to own.
- Utilizing income notes where appropriate to generate interest income in sideways to down market for investors with shorter term needs for income.

In 2020 we also hedged some exposure to the USD for our equity portfolios, which has been prudent. At current exchange rates our view is that the CAD could go up or down, so keep your USD spending needs in USD cash and your CAD spending needs in CAD cash. Other than that we have no currency forecasts. As we have said in the past, when our dollar reaches parity it is typically a sign that it will start to go down and when it is worth USD 0.70 it is typically a sign that it will start going up. When it is in the middle, it has been our experience that there is no typical trend to speak of.

Overall, we were pleased with the performance of our mandates last year, although Active Growth lagged due to its exposure to Canadian mid-caps and small-caps. Like all things, however, we expect it will return to favour. If anything, we would temper expectations on balanced mandates as a balanced mandate like income is not going to earn 10% long-term, the math just does not support it with 50% of the portfolio invested outside of traditional equities. So we do not think last year’s return is repeatable in the long-term.

Finally, even though cash, for all intents and purposes, currently yields zero, it is still a necessary asset to hold for near term needs. ■

Conclusions:

At the risk of sounding trite, we continue to speak from the same play book. Establish a plan to follow and live your life. Spend less than you make and manage debt levels, and remember one day all of us will give away our assets so draft an estate plan and specifically, a will. We have yet to meet anyone who has bested father time.

One last thing, 2020 was a difficult year, but also an amazing year for many. We live in a free country with many blessings and it amazes us how often we meet new Canadians who love and appreciate it here almost more than we do as we can be guilty of taking the wonderful country we live in for granted. Maybe it has something to do with the fact that we are not dragged out of bed in the middle of the night to be incarcerated because we have the wrong political beliefs.

A final(?!) comment on COVID: We are all working under a very different structure than one or two years ago. As we talk to clients, friends, and family very few are in the office. Our team is no different, we are working remote and are in the office on a rotational basis, with one or two of us always in the office. We can say without exception that our team has worked tirelessly to serve you through 2020 and to handle your requests in a timely and proactive manner. Ian and I would like to give them a big thank you on your behalf. Many of you have thanked them as well and they certainly appreciate it!

Thank you and all the best in 2021! ■

R&R Investment Partners

Model Portfolio Strategy

Risk Management and Transparency

The portfolio is focused on 30 to 40 equities, yet diverse over asset classes in order to profit and protect.

We screen over 3,600 stocks and trusts daily according to our proprietary approach. Stocks that fail to meet our disciplined criteria are sold immediately.

We will have no more than 5% invested in any one company, we have no corporate buy lists to follow and we can own what we truly desire.

Your account is not a mutual fund, but individually segregated where you can see all holdings and transactions daily through your online access.

Market Timing and Big Picture Outlook

We are not market timers and prefer to be fully invested in equities for the portion of your portfolio that is allocated to this asset class (excluding the Dynamic Growth Strategy). However, we are dynamic and change stock positions frequently as our buy and sell signals warrant. We find that the best quality companies have the best potential to outperform over time if they were bought at the right price.

Our research and experience has taught us it is better to be invested with a dynamic sell discipline through all market cycles to achieve superior long-term returns. History has proven that your asset allocation is also very important. To this end, we review your asset allocation on a yearly basis to ensure it remains suitable for your present circumstances.

Our strategies allocate between ETFs, stocks, bonds and cash. They are constantly reviewed and modified according to our *big picture* macro outlook. We utilize a dynamic sell discipline to manage individual position risk and will change holdings frequently as our buy and sell signals warrant. Our research has indicated that superior long-term returns are achieved through a commitment to discipline and a sound personal asset allocation, which we construct personally for each client.

Investment Objective

Our return objective is for each strategy to beat their respective benchmark over a rolling five-year period.

Randy B. Yozipovic
Senior Portfolio Manager, First Vice-President

Ian S. Munro
Portfolio Manager, Investment Advisor

www.rrip.ca

AMA Composite Performance:

Performance results set out in this document are based on a composite of CIBC Wood Gundy Advisor Managed Accounts (“AMA”) with more than $75,000 invested in a specified investment strategy managed by the AMA Portfolio Manager. Composite inception date is based after the second month the first AMA account opened in the strategy. The subsequent AMA accounts in the strategy are included after second month following their inception. Also included in the composite are closed AMA accounts that held the strategy, up to the last full month the Strategy was held.

Composite performance returns are geometrically linked and calculated by weighting each AMA account’s monthly performance, including changes in securities’ values, and accrued income (i.e. dividends and interest), against its market value at the beginning of each month, as represented by the market value at the opening of the first business day of each month. Performance returns are expressed in stated strategy's base currency and are calculated based on gross of fees.

Individual account performance results for clients of AMA invested in the Strategy may also materially differ from the performance results set out in this document, which are based on the Composite, due to the factors described above, and other factors such as an account’s size, the length of time the Strategy has been held, cash flows in and out of the individual AMA client account, trade execution timing, market conditions and movements, trading prices, foreign exchange rates, specific client constraints and constraints against purchasing securities of related and connected issuers to CIBC Wood Gundy.

12 The equity securities of this company are subordinate voting shares.
13 The equity securities of this company are non-voting shares.
2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
9 An executive committee member or director of Canadian Imperial Bank of Commerce (“CIBC”), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

Randy Yozipovic and Ian Munro are Investment Advisors with CIBC Wood Gundy.

If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.