PRIVATE WEALTH MANAGEMENT

CIBC WOOD GUNDY
BALLARD MUDGE FINANCIAL GROUP

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Not According to Plan

Since the beginning of the Covid 19 pandemic things have gone better than expected in the financial markets. After an initial drop the markets have come roaring back.

The pandemic has made clear winners and losers. Hospitality, travel, or service industries have suffered while technology, home renovation and online shopping companies have clearly benefitted as consumer spending patterns have changed.

As the pandemic drags on into the later innings the distortion caused by the change in behaviour continues.

A shortage of computer chips used in the car manufacturing has caused a shortage of new cars and a boom in used car sales. Used car sales in the United States was up 10% month over month between March and April 2021![1]

Cooped up in their homes and spurred on by low interest rates homeowners are keeping entertained by upgrading their homes and entering bidding wars for new primary properties or cottages. This has all lead to an increase in lumber prices and many an internet meme of lumber being the new luxury accessory.

Anecdotally, we have several neighbours who have recently added a dog or cat to the family and were shocked by the price they had to pay. When people start casually talking about “Dogflation” it is no wonder then that investors have been worried about inflation.

I believe that these pressures are temporary and prices will revert over time as capacity picks up and life gets back to a new “normal”.

We do our best to find great businesses with a sustainable competitive advantage but what happens if a portfolio company gets caught on the wrong side of the economics of a crisis like this?

In the early stages on the pandemic. Preservation of capital was the priority. Raise cash by selling the businesses that would be the most directly impacted by the pandemic. The goal was to raise funds for security and to have ample available at the market lows.

Now market prices have largely recovered and world economies are beginning to open up. Shares are being whipsawed depending on their latest quarterly earnings reports.

Through April 30th, 2021 the Canadian Focused Equity Portfolio has outperformed its benchmark by 2.46% over 1 year (34.58% return vs 32.12% Return), 8.95% over 2 years (21.40% Return vs 12.45%) and by 7.31% annually since inception (18.44% return vs 11.13%). May will prove to be a more difficult month as a few portfolio companies have had quarterly earnings disappointments.

Disney is still home to the media empire. They still own the theme parks, the Pixar, Marvel and Star Wars movie families despite not meeting their quarterly number.

Boyd Group Services Inc. still has a structural advantage in the autobody repair business over regional players. They wield a strong relationship with insurance companies and buy up smaller regional players. Boyd Group then improves operations and uses their strong relationships to drive more business through the newly acquired locations. Prior to the pandemic Boyd Group was constrained by the availability of qualified workers. With the pandemic this has worsened and the average amount of driving has been reduced. Due to these pressures Boyd Group missed their quarterly expectations.

[1] https://www.marketplace.org/shows/marketplace/consumer-prices-jumped-higher-than-expected/

We are confident that over the long run the portfolio companies will continue to outperform and Star Wars movies will continue to be profitable (and Awesome!).

As always, Please let me know what you think.

Sincerely,

CIBC Wood Gundy

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