CIBC PRIVATE WEALTH MANAGEMENT

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Turning the Page on 2020

Had you told me at the beginning of February 2020 that we would have a global pandemic, the economies of entire countries locked down, the majority of people working from home and still end the year positive in the markets I wouldn't have believed you.

That said we still had to come to work and steer the ship. Admittedly, since March it has been in ripped jeans and a T-Shirt from the home office. My feet may reject dress shoes when I eventually need to wear them again.

The Canadian Focused Equity Portfolio outperformed its benchmark again in 2020 and ended the year with a 19.51% return. This is ahead of our 15% annual return goal for the portfolio. The Canadian Focused Equity Portfolio's benchmark is 70% S&P TSX Composite Index and 30% US S&P 500. The one year, two year and since inception returns are shown below.

	1 Year	2 Years	Since Incpt
Canadian Focused Equity Portfolio	19.51%	24.79%	16.63%
Benchmark Returns	8.89%	15.97%	8.37%
Outperformance	10.62%	8.81%	8.26%
	1 Year	2 Years	Since Incpt
Up-Market Capture	1.24%	1.11%	1.06%
Down-Market Capture	0.92%	0.76%	0.74%

The portfolio achieved its outperformance in 2020 as it had in the past by trying to abide by Warren Buffett's two rules of investing: Rule #1 - Don't lose money; Rule #2 - Don't forget rule #1.

That is not to say that the portfolio did not drop in value. Of course it did. The portfolio simply did not drop as much and rebounded faster than the benchmark overall. There was no permanent loss of capital.

The portfolio benefitted from having an already high cash position leading into February (15.07%) and moved to further raise cash as the markets began to fall. We exited positions that would be impacted by a longer lockdown. Casino operator Great Canadian Gaming and retail chain Ulta Beauty Inc were exited in late February.

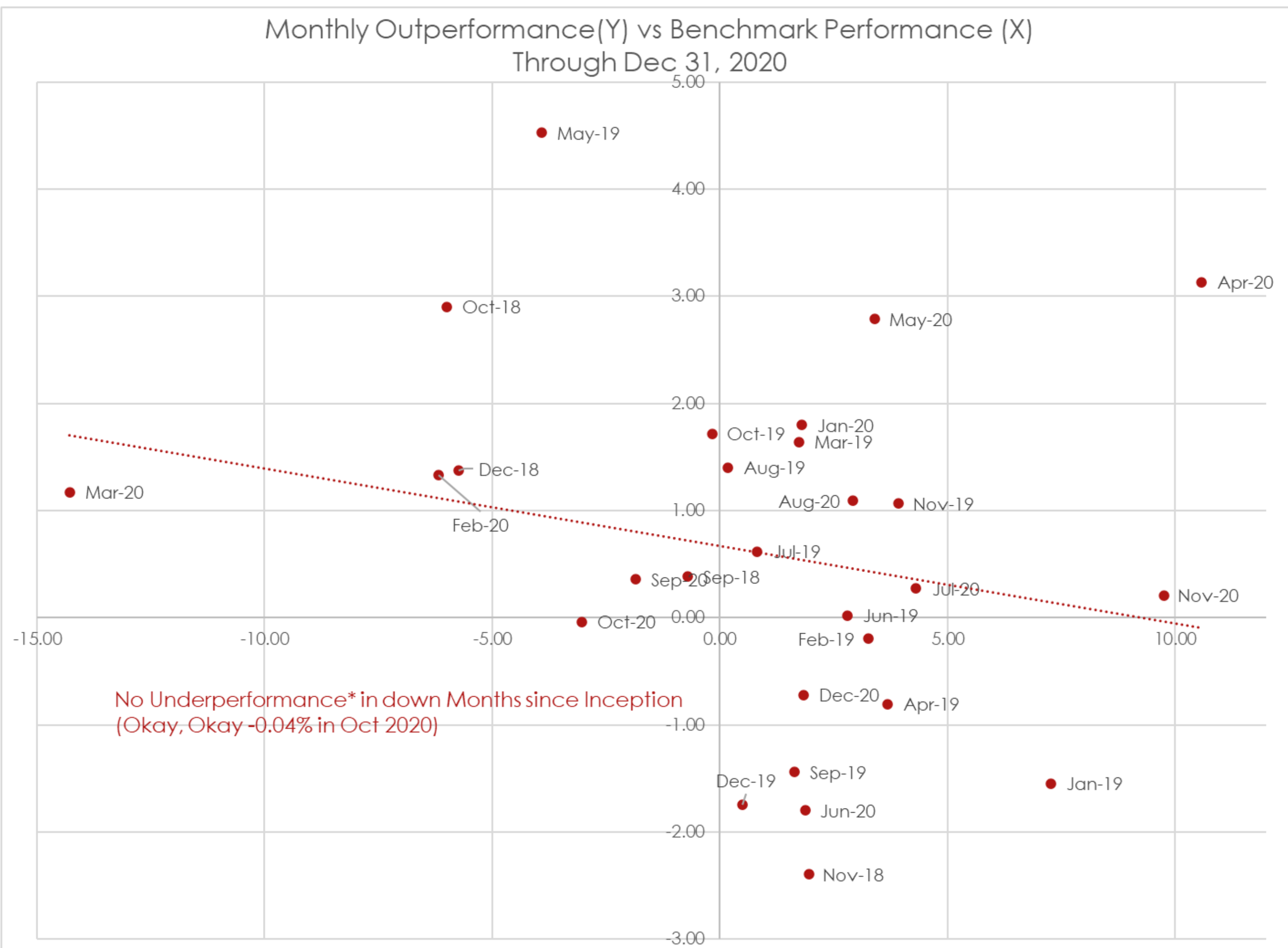
Admittedly, buying started too early in March and hurt the overall performance as share values continued to fall. Purchases made in early or mid-March would have benefitted from waiting until closer to the market bottom of March 23rd. This is far easier to say after the fact. It is hard to sit on your hands with attractive opportunities in the market and cash burning the proverbial hole in our pocket.

Of the several buys added to the portfolio in March, shares of Shopify were added on March 16th. The company is growing very quickly and not focused on bottom line profitability. Investments to grow or improve software businesses are recorded as increased expenses rather than capital improvements. This makes companies like Shopify difficult to value. Prior to the sell-off, the shares had been trading in the mid-$600 range with a previous high of $786. Shopify was added to the portfolio at $460 with the theory that if the shares rebounded over the next two years, it would prove to be a very good investment. The shares rebounded nearly immediately and the last of the position was exited by the end of April at $823 per share. This was apparently too early but again Shopify is difficult to value.

Other positions were sold too early and mistakes were made. For example, I underestimated Lightspeed, a Canadian point of sale software & technology provider. I failed to see how a technology provider servicing restaurants, retailers and golf courses would bounce back earlier than their end users.

Sales were done to raise cash levels anticipating volatility as the United States prepared for a potentially volatile and divisive election period. If errors are made, they should be done to make the portfolio more conservative and take less risk with our client's money.

The results of this conservation first philosophy are displayed in the chart below. Sorry if this gets a little too detailed. The monthly return of the benchmark is plotted (x axis) versus the outperformance of the portfolio (y axis). Points on the left of the page are months when the benchmark was negative. The further left the more negative. Points on right are positive benchmark months. Points above the midline are monthly outperformance. The higher the point the more outperformance. You get the idea.



The lack of data points on the lower left hand side of the chart shows that the portfolio has been able to outperform in months when the benchmark has fallen. The trendline shows that this outperformance lessens as the benchmark returns increase.

The past performance is obviously no guarantee of future results. We will stick to the process that has made us successful so far. We outline some of this process in our prior blog post **ROI is King**.

I think we all look forward to 2021 and the changes it will bring. A broader vaccination rollout, a step towards the new normalcy and hopefully seeing our families again.

We will be here steering the ship even if it means putting on dress shoes… one or two days a week.

As always, please reach out to us if you have questions or comments.

Sincerely,

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To find out more, please check out our website at www.BallardMudgeFinancialGroup.com or contact us directly at David.Mudge@cibc.ca