



January 2021 Q4 Year End Summary

We hope you had a safe and enjoyable holiday season. 2020 has been a remarkable year in so many ways. We are incredibly grateful to have been blessed to be employed in an industry that remains 100% functional when many others have suffered. We are also fortunate that our team and their immediate families have remained healthy throughout this challenging time. We remain optimistic that the worst is behind us and that 2021 will be much more promising. We wish you and your family good health and prosperity in 2021.

In this summary we provide you with an update on our team, a review of the markets in December and an annual review of our portfolios.

Team Changes

We wanted to inform you that Katrina Umali has left our team as of December, 2020 to start her own social media service business. She was an excellent administrator, and we will miss her efficiency and happy attitude. Katrina has been replaced by Frank Raso. After graduating from the University of Guelph in 2019 with a BA in Finance, Frank joined BMO as Customer Services Representative. He later joined BMO Nesbitt Burns in an administrative capacity with another branch downtown. Frank will be in charge of all administrative duties for our team. If you have any questions regarding wires, electronic fund transfers, statements or Gateway you can reach Frank directly at **416.590.7689**.

December Market Recap

Equity Markets End 2020 on a High Ahead of COVID Relief

Wall Street and Canadian stocks rallied into the new-year, capping off a highly volatile 2020 on a positive note. The major indexes finished the year in positive territory, a testament to the market's resilience following the "great liquidity crisis" of March.¹

North American Stocks Rise in December



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Canada's benchmark TSX Composite Index ended the month with a gain of 0.8% and finished the year in positive territory. The index rebounded 56% from its March lows, ending the year at 17,433.

All of Wall Street's major indexes closed December at record highs. The Dow Jones Industrial Average recorded its 14th record close of 2020. The S&P 500 notched its 33rd record of the year, while the Nasdaq set its 56th record close for 2020.² For all of 2020, the Dow rose 7.3%, the S&P 500 16.3% and the Nasdaq 43.6%.

The CBOE Volatility Index—a measure of implied volatility in the U.S. stock market—closed the year slightly above its long-term average, notching a final reading of 22.75. The VIX trades on a scale of 1-100, with 20 representing the historical average. An elevated VIX suggests market participants are still concerned about volatile trading conditions in the short term.

COVID-19 Vaccine Rollout Begins

The fight against COVID-19 intensified in December, as Canadian and U.S. health authorities began phased distributions of vaccines. The Canadian government has pledged to make the vaccine available to anyone who is recommended to get the treatment by their respective health agencies.³

Although America's vaccine rollout appears to be behind schedule, more states are ramping up efforts to distribute doses to at-risk people. By December 31, only 5.3 million doses were distributed, which is well below the 20-million target set earlier.⁴

Federal Reserve Commits to Bond-Buying Until Economy Recovers

The Federal Reserve's final policy meeting of 2020 revealed few surprises, as policymakers maintained the short-term borrowing rate near zero and kept the pace of bond purchases at \$120 billion a month. The U.S. central bank said it would continue to buy at least \$120 billion worth of bonds each month "until substantial further progress has been made toward the Committee's maximum employment and price stability goals."⁵

Meanwhile, the Bank of Canada announced it would maintain its current level of policy accommodation until its inflation goals are achieved. "The Bank is maintaining its extraordinary forward guidance, reinforced and supplemented by its quantitative easing (QE) program, which continues at its current pace of at least \$4 billion per week," the Bank said.⁶

Congress Certifies Biden Electoral Win

Democratic nominee Joe Biden was certified by Congress as the winner of the 2020 presidential election in early January, ending a volatile post-election period in American politics. President Trump also confirmed in a statement that he would commit to an orderly transition of power.⁷



Biden's inauguration has been set for January 20th. Biden's certification came amid a wave of violence on Capitol Hill as pro-Trump supporters swarmed the building. NBC reports that four people died during the riot.⁸

Portfolio Overview 2020

Our investment process for our Multi Asset Portfolios is designed to capture most of the market's upside, while seeking to avoid most of the market's downside volatility. The process utilizes a multi asset approach which may include Canadian equities, U.S. equities, developed international equities, emerging international equities, currencies, commodities, gold, oil, infrastructure, Real Estate Investment Trusts (REITs), bonds, preferred shares and cash. We actively measure the supply and demand for each asset class, and allocate our investments to the strongest prevailing asset classes.

Each of the Multi Asset Portfolios has two positions – a “Core” position and a “Tactical” position. The core position is designed to hold specific assets at all times, while the tactical positions change based on the universal law of supply and demand.

Core Position

The core position contains our North American (N.A.) stock portfolio and our fixed income portfolio.

The N.A. stock portfolio consists of 20 individual stocks, equally weighted, and rebalanced annually. The N.A. stock portfolio experienced its second best year since inception (2008), easily outpacing the benchmark. This was due to large gains in a variety of companies including Microsoft, PayPal, Tesla and Lightspeed.

The fixed income portfolio consists of Canadian bonds, global bonds and preferred share ETFs. The fixed income portfolio experienced mixed results. Prior to the meltdown in March, the portfolio owned a number of very high quality individual preferred shares. For years, these shares have provided consistent tax efficient income. Unfortunately during the collapse, almost all of these preferreds declined 30-40% in value as liquidity completely dried up, as few investors were willing to purchase regardless of price or intrinsic value. To mitigate future liquidity events which will almost certainly arise, in July, we sold all of the individual preferred shares and used the proceeds to purchase two preferred ETFs. The ETFs provide similar income, but offer liquidity that was previously unavailable.

Tactical Position

The tactical position can have up to two positions of the aforementioned asset classes, and may from time to time be invested only in cash.

The Tactical portfolio was successful in raising cash prior to the global market meltdown in March and April. For a large portion of the year this component remained on defense and invested in cash, cash equivalents or market neutral ETFs. Eventually by the fall, positions in Emerging markets and the S&P 500 had been added such that the portfolios were again fully invested prior to year end.



We are pleased with the overall portfolio results in 2020. You can view all the portfolio results [here](#).

However, we are consistently seeking additional methods to enhance performance. Over the summer, Anthony invested more than two hundred hours testing existing risk measurement tools, as well as a number of new ones. We have implemented a number of these tools and believe they will provide additional upside returns, while further reducing the downside volatility of the portfolios.

What's Next

We are optimistic about the economy in 2021. With a number of vaccines continuing to be distributed, a resumption of economic growth in the global economy is highly probable, as is a significant reduction in unemployment. However, stock valuations by many historical standards are high. With interest rates low, and expected to remain low for a number of years to come, investors have little choice but to seek higher returns beyond bonds and money market instruments. As a result, we expect demand for stocks to be relatively consistent barring some unforeseen economic or political event.

If you have any questions regarding this summary or your investment portfolio, please call us.

Wishing you good health and prosperity in 2021.

Sincerely,

[Ferrie Petruccelli Wealth Management Group](#)

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¹ Financial Times. "Great liquidity crisis' grips system as banks step back."

² Caitlin Ostroff and Paul Vigna (Dec. 31, 2020). "U.S. Stocks Notch Records in Final Trading Day of 2020." The Wall Street Journal.

³ Government of Canada. Vaccines and treatments for COVID-19: Vaccine rollout.

⁴ Jen Christensen (Jan. 6, 2021). "As 'messy' rollout continues, states begin to prioritize more people for vaccination." CNN.

⁵ Jeff Cox (Dec. 16, 2020). "Fed commits to keep buying bonds until the economy gets back to full employment." CNBC.

⁶ The Bank of Canada (Dec. 9, 2020). "Bank of Canada will maintain current level of policy rate until inflation objective is achieved, continues its quantitative easing program."

⁷ The Wall Street Journal (Jan. 7, 2021). "Congress Certifies Biden as Winner After Riots - Live Analysis."

⁸ Allan Smith, Ginger Gibson, Daniel Arkin, Pete Williams and Dartunorro Clark (Jan. 6, 2021). "4 dead, Congress evacuated, National Guard activated after pro-Trump rioters storm Capitol." NBC.