DIVIDEND VALUE PARTNERS | RAYMOND JAMES®

The Dividend Value Discipline™
3rd Quarter 2020 Review

Quarterly Commentary

Elections and the Markets

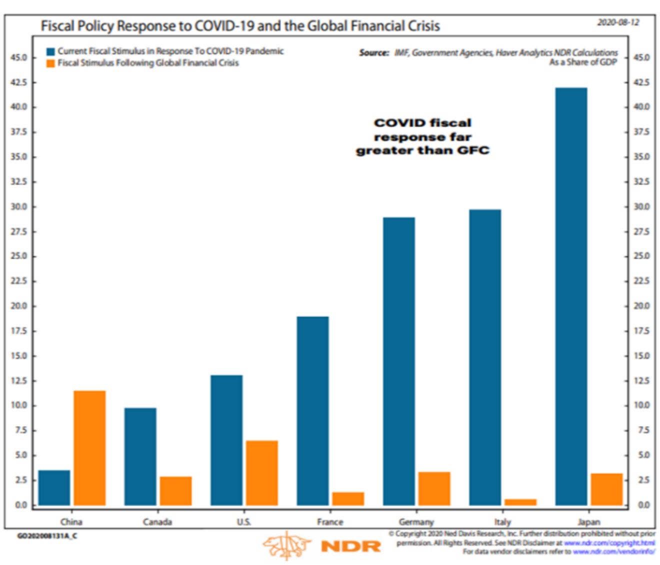
The election for the 46th president of the United States is quickly approaching. At the time of writing this commentary, PredictIt.org data shows a 66% probability Joe Biden will win the presidency. Republicans currently control the US Senate, but they are defending 23 seats versus only 12 for the Democrats. Polls show a 63% probability the Senate will shift to a Democratic majority. In the House of Representatives there is an 87% probability the Democrats will maintain their current majority. We all know the polling data can be misleading, but this is what it shows for now.

S&P performance across 2 year Congressional terms

Presidential term	Avg S&P 500 performance in 2 year Congressional term
Unified government	10.2%
Divided government	19.9%
Democrat President, Republican or divided Congress	34.1%
Republican President, Democrat or divided Congress	12.7%
Democrat President, Democrat Congress	13.4%
Republican President, Republican Congress	9.6%
Democrat President	23.8%
Republican President	11.9%

Source: Refinitiv, Credit Suisse research

Historically, the composition of the US government does have an impact on market performance. Since 1964 the optimal political outcome for the S&P500 over a 2 year Congressional term has been a Democrat president with a divided Congress. Divided governments in general tend to deliver stronger equity performance than unified governments by almost double. However, if the current polls are correct, a Democrat president with a Democrat Congress still looks fine for the markets, averaging a 13.4% return.

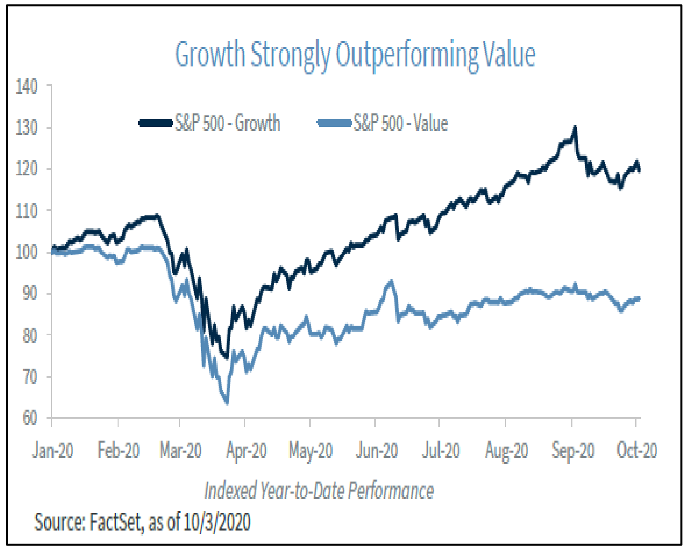


The Fiscal Covid-19 Response

It seems not a week goes by without another announcement of fiscal aid due to Covid-19. The willingness of governments and Central banks to do whatever it takes to keep the economy going is unprecedented. The magnitude of aid today dwarfs that of the financial crisis of 2008/09. On top of this, the speed of which money has been distributed is remarkable. The Covid pandemic and related shutdowns created the sharpest recession in history, but the historic financial aid response that followed back-stopped the global economy and made it the shortest recession in history. Like everything else these days, even recessions happen at an accelerated pace.

No love for value . . .yet

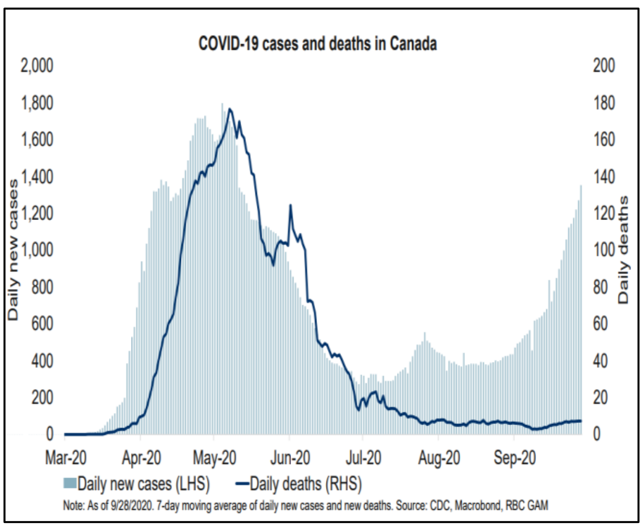
You may notice that the name of the porfolio we manage is called the Dividend Value Discipline. The name exemplifies the focus we put on stocks with dividends and value charactistics, and the disciplined approach we take towards investing. Although we hold both growth and value names within the portfolio, we tend to skew towards better value overall.



Since the recovery began in April, there has been limited improvement for value stocks. Growth stocks have outperformed as money chases the few stocks that still have growth potential in this environment. Goldman Sachs and JP Morgan Chase both recently noted the market is due for a rotation into value stocks. We tend to agree and believe a rotation will occur amid greater confidence the global economy is on the road to recovery.

Many of the value names we hold are large stable companies that continue to generate positive cash flow even during depressed economic times. Eventually these charactictics will be rewarded in the markets.

Covid 2.0



The markets continue to be hyper-sensitive towards pandemic news and we see this daily as virus cases and vaccine news affect the market direction. As predicted by many, daily cases for Covid-19 are on the rise as we move into the cold and flu season. Canada and Europe are entering their second wave of the virus and the US looks to be entering its third wave.

Much has been learned about the virus and vaccine development and treatment solutions continue to evolve. Monoclonal anitbody treatments from companies like Regeneron offer the most promising treatment option thus far. This is the treatment President Trump received shortly after testing positive. It's not a cure, but this type of treatment will likely receive emergency-use authorization to help save lives.

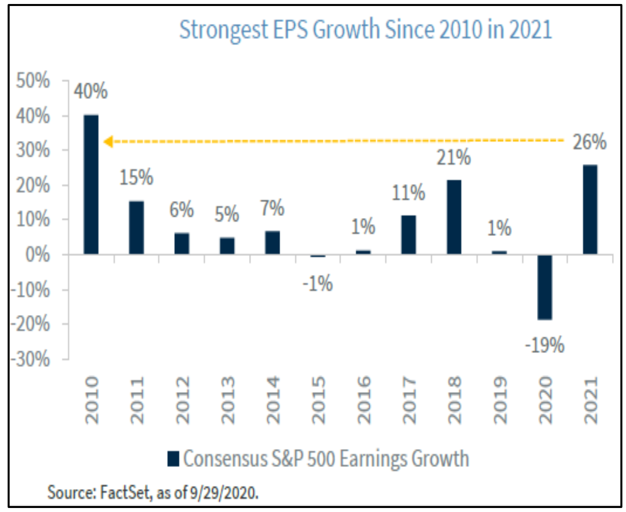
On the vaccine front, Pfizer and its partner BioNTech say they could seek emergency-use authorization in the US by late November with their vaccine available by year end. Moderna estimates it should have their vaccine approved for emergency-use by early December and distribution ready in the new year. Astrazenica is close behind with their US and European vaccine studies making progress. Sinovac, a Chinese biotech company, is also in large scale phase 3 trials for their vaccine.

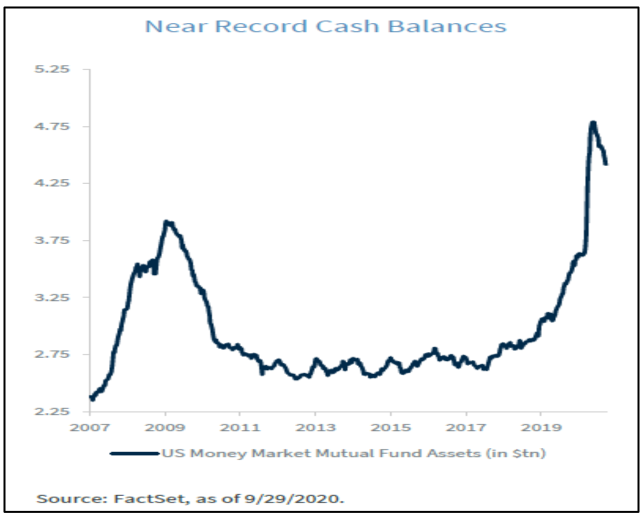
There are promising developments on multiple fronts and significant preparations are also being made for the manufacturing and distribution of vaccines worldwide.

Reasons to be Optimistic

A Covid-19 vaccine will certainly help improve the outlook, but there are a number of other reasons why 2021 looks encouraging for stocks.

Earnings growth is expected to rise by 26% after the dramatic fall experienced in 2020. That would be one of the strongest growth rates seen in a decade. This has been driven by a sharp recovery in consumer spending, housing, and manufacturing. Third quarter economic growth looks to be on track for a strong recovery. The Citigroup Economic Surprise Index shows economic releases have been beating consensus expectations and forward looking components point to further economic gains.

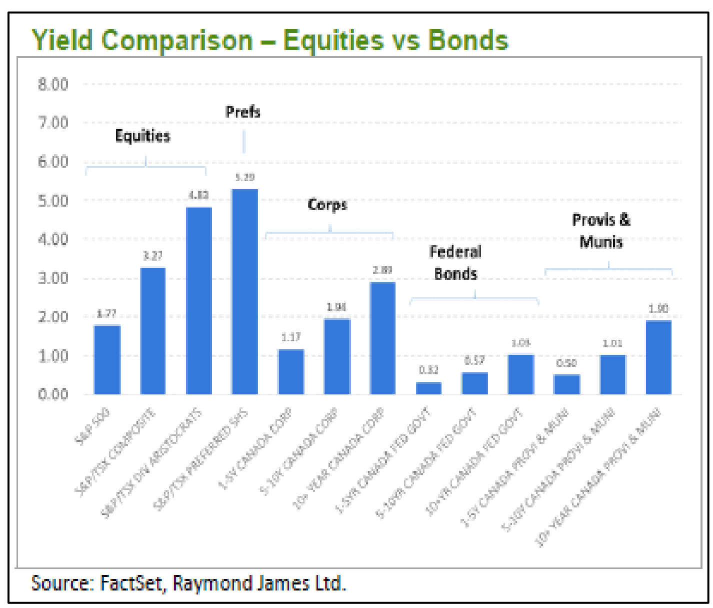




As the economic outlook improves, the appeal of holding risk-free cash that earns virtually zero will fade. Morgan Stanley estimates there is $4.7 trillion sitting on the sidelines in cash funds and another $6.0 trillion sitting in bank deposits ready to be deployed into the economy and financial markets. Once this capital begins to shift, it will be supportive of higher asset prices going forward.

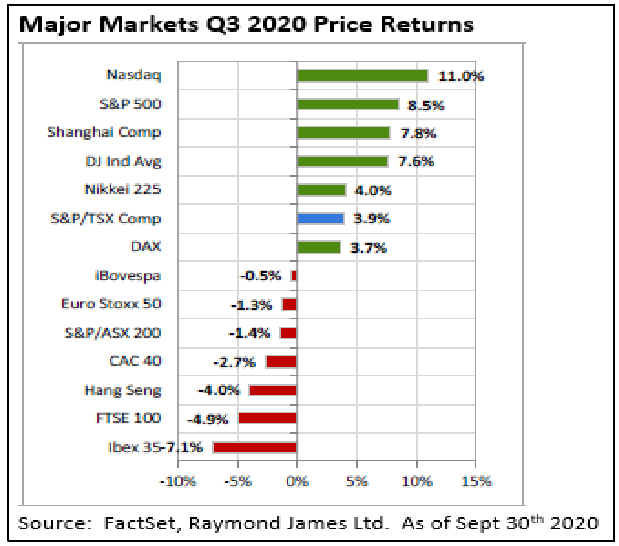
Despite hardships due to Covid-19, surprisingly personal incomes rose at the fastest year-over-year pace on record during the recession. People are paying down debt and saving more money. This should support higher spending in the months ahead as the economy continues to reopen.

Interest rates are now back to the extreme lows seen after the financial crisis of 2008/09. This makes financing debt very attractive for both consumers and corporations. This also creates low yields for bonds. Roughly 76% of the S&P500 stocks now have dividend yields higher than the 10-year Treasury bond. Dividend paying stocks look increasingly attractive for income seeking individuals, institutions, and pension funds.

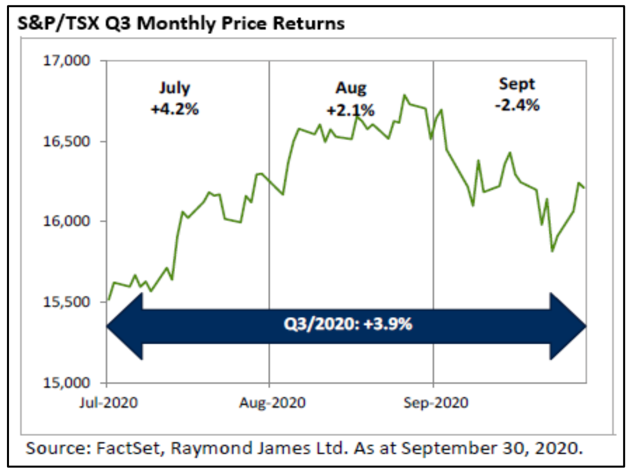


Understandably there are concerns over what will happen in the months ahead, but there are silver linings as we look forward and maybe 2021 will be better than we think.

The Dividend Value Portfolio



The Dividend Value model portfolio returned 2.0% for the third quarter (net of all fees), versus our benchmark return of +4.4%. For the year-to-date, the portfolio is -5.6% versus the benchmark of -2.0%. We are a step behind the benchmark due to our focus on dividends and value. We benchmark performance against the overall market (both Canada and the US), not just the dividend or value sectors within the market. This is significant because the overall market includes both overvalued and non-dividend paying stocks which have gone through an unusual period of outperformance. When you view a dividend only index you can see the disparity. The S&P/TSX Canadian Dividend Aristocrats index is -15.90% and the US iShares High Dividend Equity Index ETF is -19.50% for the year-to-date. This makes our -5.6% year-to-date performance seem better in comparison, but we are working hard to get our performance back into positive territory.



Two steps forward and one step back seems to be how the third quarter progressed. July and August were both positive months for the portfolio at +1.1% and +2.7% respectively, and September saw a step back at -1.8%.

On the Canadian side, we added to our existing position of Algonquin Power & Utilities. This utility scores well on many metrics and ranks highly on the ESG scale (environment, social, governance). Most of its revenue is generated from hydroelectric, wind, solar, and thermal power and the company pays a 4.0% dividend yield.

The US markets remain amongst the strongest in the world. Our US stocks now represent 60% of our total equity exposure in the portfolio. After a strong run up we trimmed some profits from Apple. Apple shares also split 4 for 1 in the portfolio. We added AbbVie, a global biopharmaceutical company with a 5.5% dividend yield. We also added Costco Wholesale which has been strong throughout the pandemic. We sold Citigroup to reduce our overall exposure to financials which have struggled.

The bond portfolio added value with positive performance across all seven of our bond mandates. Higher levels of volatility within the markets have kept a constant bid under bonds. The preferred share mandate continued its significant recovery with a bit of help from regulators. Bond yields are likely to remain very low as interest rates in both the US and Canada remain fixed at 0.25%. Central banks seem content to leave interests low for the foreseeable future even if inflation starts to creep back into the economy.

Three significant events lie ahead which create uncertainty for the markets: the US election, the second/third wave of the pandemic, and the pace of the economic recovery. Within the next few weeks the election will run its course and regardless of the outcome the uncertainty will be gone. Next, we should see the first approved Covid-19 vaccine and treatment in the US before the year end which will help change the narrative on the pandemic. Finally, more government aid will be approved to help support the global economic recovery. Resolutions to the current uncertainty are near, and this should help improve the overall outlook for the markets. Hopefully we will see a strong fourth quarter and brighter outlook for 2021.

The Dividend Tracker

Fundamentally, we believe that owning strong, stable companies with a track record of consistently growing their dividends is the best way to grow your money. For this reason, we track the number of dividend increases received in our portfolio every quarter and for the year-to-date. In the third quarter, two Dividend Value stocks increased their dividends. Due to the challenging economic circumstances, fewer companies have been increasing dividends. No dividend cuts were announced this quarter for stocks in your portfolio.

Q3 Dividend Changes (Quarterly)			
Fortis Inc.	Increased from 0.477 to 0.505	**Microsoft Corp**	Increased from 0.51 to 0.56

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	2.00%	-3.29%	2.65%	4.67%	5.67%
Dividend Value Benchmark	4.37%	-0.07%	2.83%	4.76%	5.23%
S&P/TSX Composite Total Return	3.90%	-3.20%	1.00%	3.90%	2.70%
S&P/TSX Preferred Share Total Return	11.40%	2.80%	-1.10%	4.10%	1.40%
Europe Asia Far East ETF (Cdn$)	12.80%	-1.80%	-0.20%	2.10%	4.10%
FTSE-TMX Universe Bond	0.40%	7.10%	6.10%	4.30%	4.40%

The above performance data is current as of Sept 30, 2020. Not all portfolios will be alike, given different starting dates, slightly different securities owned, or the timing of funds added or removed. Please see the individual client statements that are being included separately for specific account performance.

DVD Quarterly Transactions

The following securities were bought this quarter:
Abbvie (ABBV)
Costco Wholesale (COST)

The following securities were sold this quarter:
Citigroup (C)

The following securities were topped-up this quarter:
Algonquin Power & Utility (AQN)

The following securities were trimmed this quarter:
Apple (AAPL)

Sincerely,

Paul Siluch
Senior VP, PM
Raymond James Ltd.

Lisa Hill
Senior VP, PM
Raymond James Ltd.

Peter Mazzoni
Financial Advisor
Raymond James Ltd.

Sharon Mitchell
Financial Advisor
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Company Name	**Disclosure**
Algonquin Power & Utilities Corp.	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.
CAP REIT	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.