

The Market in Review

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This week's articles and insights

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“Opportunity is missed by most people because it is dressed in overalls and looks like work.”

- Thomas Edison

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	29,999	+ 0.10%	+ 5.12%
S&P 500	3,668	+ 0.04%	+13.54%
TSX	17,593	+ 1.12%	+ 3.11%

Shorter Day, Longer Night

Solstice comes from the Latin word for “sun stands still”.

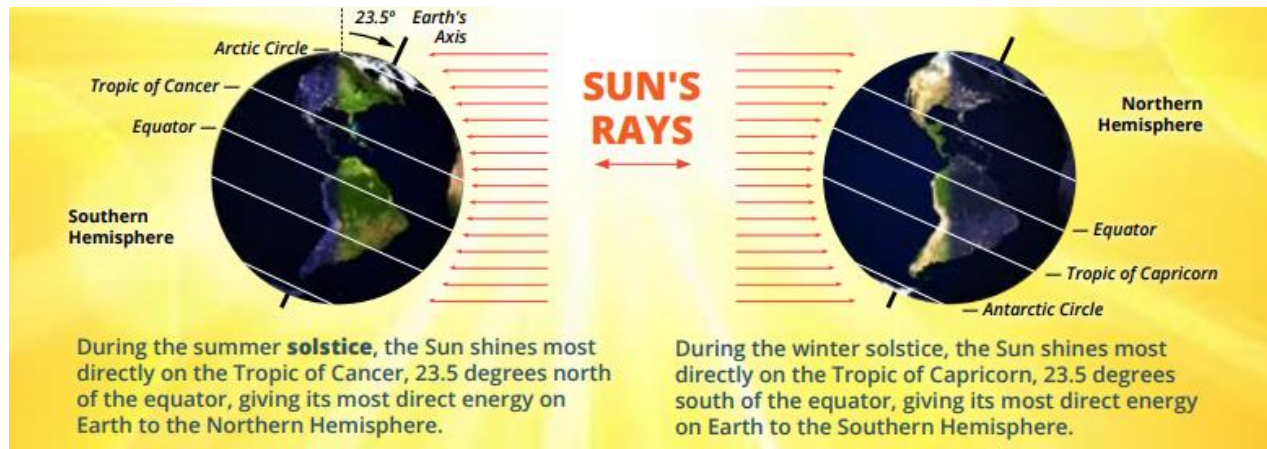
The ancient Persians called it Mithra, after their god of light. The Chinese call it Dong Zhi, which means “winter arrives” while to the Jewish tribes it was Tekufat Tevet. Scandinavians called it Juul, which we turned into *Yule* when we adopted their burning of a log for Christmas: the yule log. It is a day celebrated by many as the return of the sun and darkness turning into light, a time of feasting on autumn harvests and drinking the wines and ales that had been fermenting since the summer.

On Monday December 21st, at 2 a.m., the northern hemisphere will pass through its winter solstice, which is our shortest day of the year and longest night. Christmas happens for Christians just a few days after on the 25th, which some historians say was chosen to replace earlier pagan festivals. For whatever reason, it is now the largest and most widely-celebrated holiday on Earth. Most festivals at this time of year also include charity and lights to drive away the darkness. Rome’s celebration was called Saturnalia, which introduced the concept of gift-giving. Saturnalia was also big on debauchery. We don’t include much of that anymore, but who knows this year? Everyone is locked down again, and very bored.

The ancient global calendar had multiple celebrations at the winter solstice. Humans have observed it as far back as the Neolithic period—the last part of the Stone Age around 10,200 BC. Structures from Stonehenge and Angkor Wat to Machu Picchu are aligned with the rising sun of the winter solstice because, to the ancients, it was a time of great hope. It is still seen that way by millions of people eager to see spring return.

The winter solstice is not the coldest day of the year, nor is it the point when the earth is furthest from the sun. The coldest day comes about 6 weeks after solstice, thanks to the slow cooling of our oceans continuing to give off heat until early February. It is the same at the summer solstice, because the oceans absorb heat until mid-August and then start giving it back. Most planets in the solar system also have solstice days, but their hottest and coldest points occur exactly at the solstice moment because they don’t have oceans acting as blankets.

Also, what matters for heat is the angle of intensity. Because the northern hemisphere is tilted away from the sun in winter, we receive the weakest solar rays in December even though Earth is closest to the sun in January.



Source: NASA

Your noontime shadow will be the longest of the year on the 21st, if it is a sunny day and you want to try this.

However you look at it, we are just 10 days from the winter solstice, which means more light and longer days ahead. It can't come soon enough.

Too Much, Too Soon?

The theme of hope and rebirth has never been stronger than this year. Winter solstice in 2020 coincides with the global rollout of huge vaccination programs. We will see mass inoculations starting from Pfizer (**NYSE PFE**) and Moderna (**NASDAQ MRNA**) in the UK and North America, Sputnik V in Russia, as well as China's internal ones in that country. The U.S. government now says every American who wants a Covid-19 vaccine will have one by June. Canada is likely to have to wait until autumn before we receive enough doses.

There are a few problems with this, however.

"Everyone has a plan 'till they get punched in the mouth."

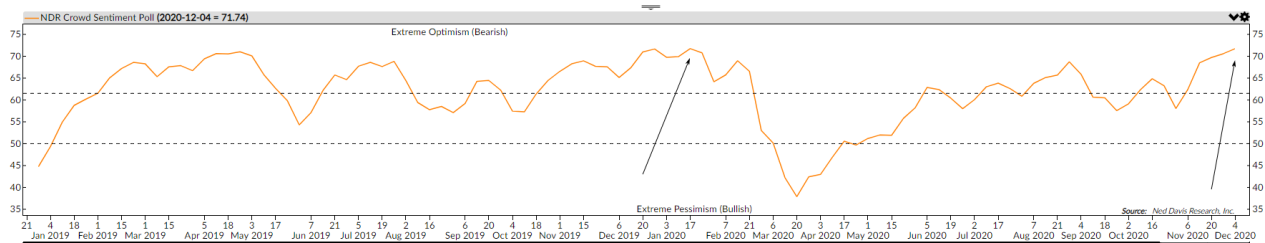
- Mike Tyson

Ever since November 9th when Pfizer announced its successful test data, markets have been celebrating. We've 'baked in' a lot of good news before it even happened. What if we get some bad news?

For example, the \$1 trillion stimulus bill in the U.S. remains stuck because the two sides can't come to agreement. Markets have become addicted to new money flowing in and they were expecting this to happen before now.

Also, going back to the solstice analogy, the coldest day of the year occurs 6 weeks after December 21st because of the temperature lag. Drug companies have only begun ramping up vaccine production. Distributing them to every town and nursing home will be an enormous logistical challenge. Expect to hear of delays, lost shipments, and thefts over the next few months. As a result, markets could be quite volatile as investors swing back and forth between “stay at home” and “re-opening” stocks. We are already seeing some of this because of the renewed lockdowns announced over the last week.

Bullish sentiment is now back to where it was last January. Markets don't have to crash, but they usually cool off when investors get too giddy. When Crowd Sentiment gets this high, markets often decline or stay flat for several months.



Everybody Loves Technology



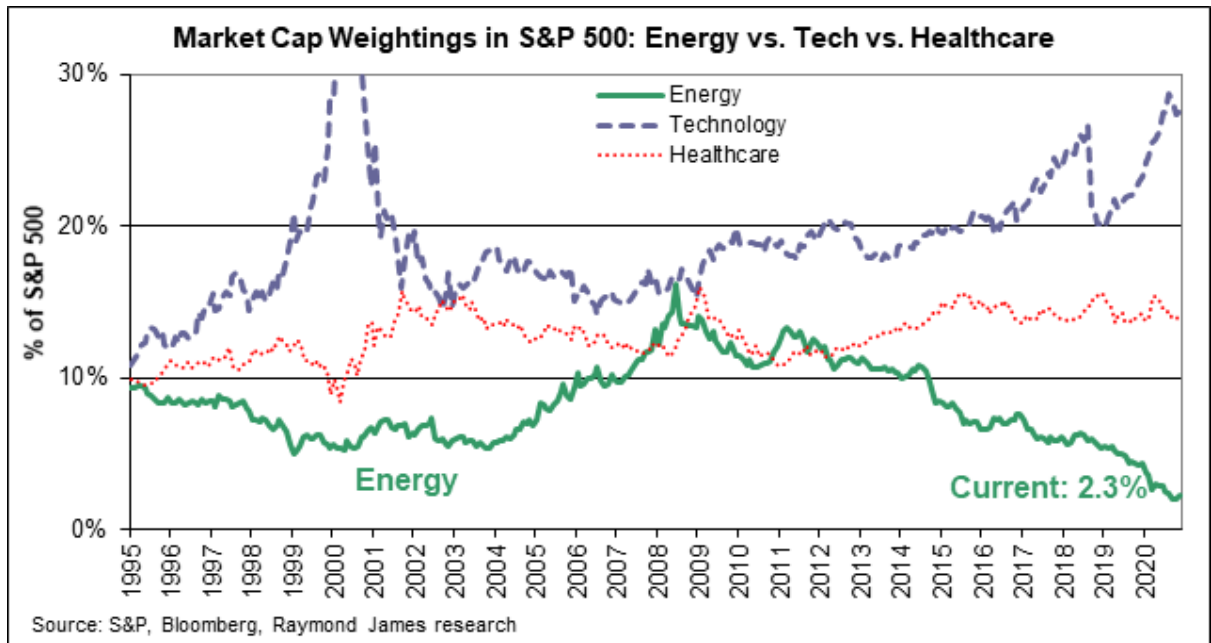
Like the old TV show, today *everybody loves technology*. And why not? Technology shares have been in a bull market since 2009. And 2020 has seen the best performance for this sector since 1999.

Can we get more? Sure. Even including a -30% decline in 1998, the Nasdaq index doubled from 1998 to 2000.

Valuations became ridiculous by 2000, though, and the Nasdaq proceeded to fall almost -80% over the next two years. It wasn't all bad news. Both Alphabet (**NASDAQ GOOGL**) and Netflix (**NASDAQ NFLX**) were born during this period. We are always on the lookout for the next big thing, but valuations today in many technology names are even more extreme than they were in 2000. When investing in technology today, we have to tread cautiously.

We do want to know where the next boom is going to be, though. Let's start by looking back 25 years.

In 1995, technology and energy both accounted for 10% of the S&P 500 index. That also happened to be the year that e-mail and the internet took off, leading to the Tech Bubble of 2000. Both fell for a few years but by 2008, the two were equal once again at 15% each. Oil shares were higher because prices had surged to \$100 per barrel. The next decade saw technology outpace everything on its way to almost 30% of the index, thanks to the pandemic, on-line shopping, and cloud computing. Energy, on the other hand, declined as renewable power sources took off and climate issues came to the forefront.



Today, energy is a paltry 2.3% of the S&P 500, leading many to believe it is on its way to zero. In fact, most commodities have performed poorly, from iron ore to copper to wheat.

Energy is an interesting topic. While many say we have to replace oil with green energy sources, the truth is, we are going to need all of them. Humans are an energy-thirsty bunch. We charge everything from cars and watches to toothbrushes and screwdrivers now – everything is electric. Our beds may have motors to tilt them up and down, and our bathrooms and kitchens have heated floors.

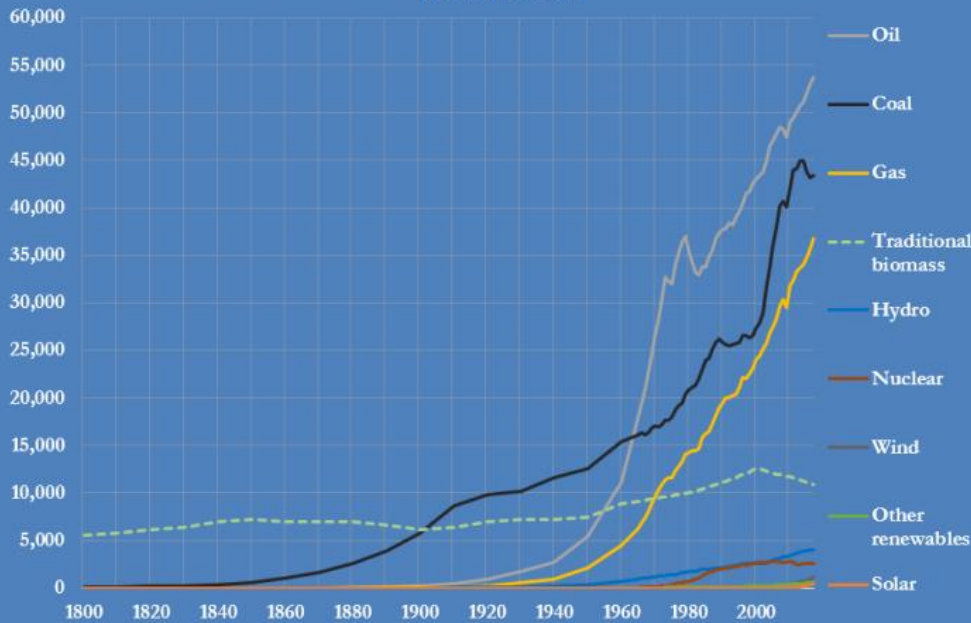
While coal was passed by oil in 1963 as the world’s primary fuel, we did not stop using it. In fact, we’ve never used more than today. The only energy source that has actually declined is the burning of wood – everything else from solar to nuclear to natural gas is being used more every year.

Energy transitions increase total consumption of energy

Cheaper energy increases consumption and encourages new uses

New sources complement rather than substitute existing sources in early/mid stages

Global primary energy consumption, 1800-2017
terrawatt-hours

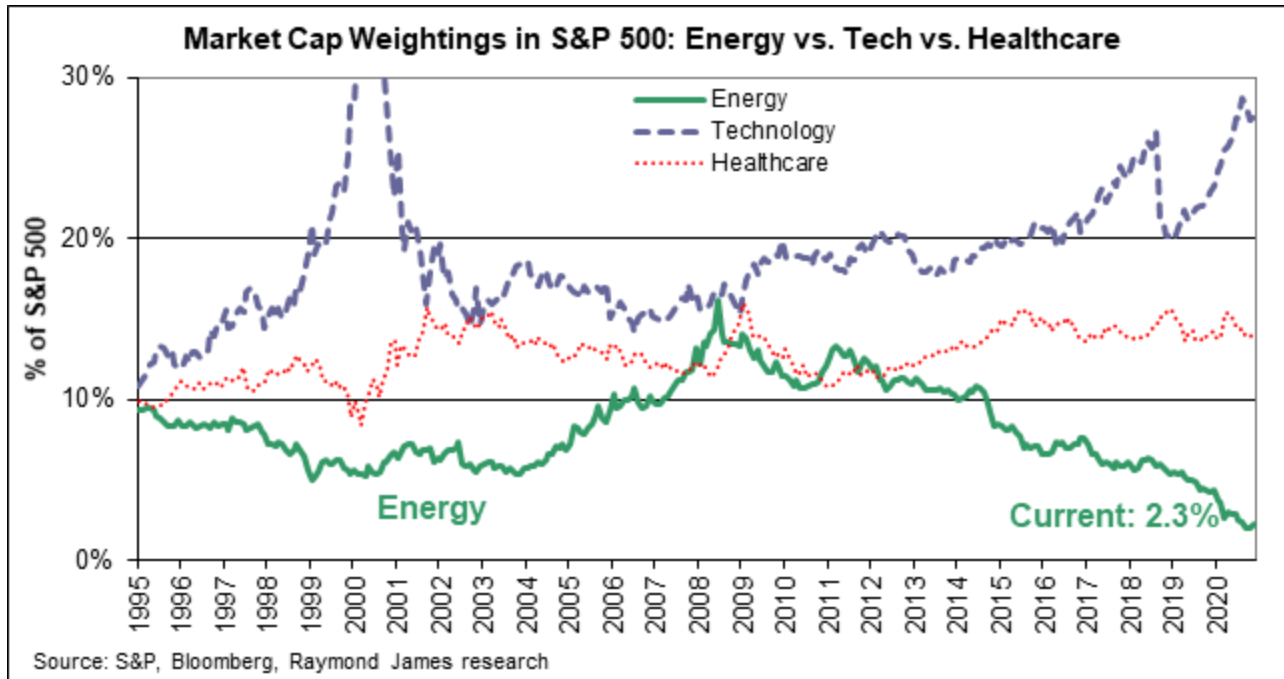


Source: Our World in Data, from Smil and BP Statistical Review of World Energy
@JKempEnergy

We asked Ned Davis Research to show us the most undervalued parts of the market right now. We are concerned about the high valuation of the overall index, so wanted to know if there were sectors that were cheap, or at least *relatively cheap*.

What came back were financials – banks, in particular – and, not surprisingly, energy. These are the two sectors that were hurt most this year, and have rebounded the most since news of the vaccine was announced. The surprise of 2021 could be oil back above \$60 per barrel, and how profitable this will make many energy companies.

The other interesting sector is the middle one in this graph, which we show again: health care. It has muddled along for years with decent returns, but is often the wallflower at the dance when technology shows up.



Some have said the 2020's will be a golden age for health care investments. By 2026, every Baby Boomer in the U.S. will be eligible for Social Security. This means the nation's biggest generation will be at the age where they need more health care, or demand higher quality health care.

Just in time, technology advancements are coming to the rescue. Technology is changing everything from implantable devices to speeding up the discovery of new drugs.

And the pandemic has certainly accelerated many existing trends:

- Telehealth is exploding. For many conditions, this is unconditionally more efficient for patient and doctor alike.
- Research into vaccines for the coronavirus will ultimately benefit influenza and every communicable disease. Researchers are even harnessing viruses to kill cancer cells – a new brain cancer therapy using a virus was announced in July.
- We are entering a golden age in biotech and robotics/automation with new implantable lenses for eyes and better replacements for knees and hips.

We own two stalwarts – Merck (**NYSE MRK**) and AbbVie (**NYSE ABBV**) in our Dividend Value portfolios. There are health care mutual funds and ETFs that target newer and faster growing companies in the health care field. This is an area we are doing active research on.

Pay Me Later

Governments today are borrowing amounts that dwarf the imagination. They have also become very fond of telling us how cheap debt is, so not to worry.

“Our borrowing costs have never been lower!”

However, while interest costs are cheap, we still need to repay the principal. That part never goes away. And because they have not cut costs, governments will be looking at tax increases.

In the U.S., the incoming Biden administration campaigned on reversing the Trump tax cuts. Americans can look forward to higher tax bills in the next few years.

In Canada, the top tax rate is already over 50% in every province. CIBC’s Jamie Golombek said this in a recent National Post article:

“I’m really not sure we can go much higher in terms of competitive advantage, and we are already paying a significant amount of tax. The top 9% of all taxpayers in Canada earn about one-third of all the income but pay about 55% of all the personal income tax.”

His best guess is that the federal government will hike the Goods and Services Tax (our national sales tax) from 5% to 7%. They will then look very closely at increasing taxes on capital gains, which is another hike on middle and higher-income Canadians.

“In a nutshell, I would say capital gains inclusion rates is probably the most likely of all these particular changes.”

This means some investors will consider taking more capital gains this year or early in 2021, before the new budget is announced.

Also, because capital losses can offset capital gains, any portfolio losers you hold might be worth saving until later next year. Capital losses are about to become more valuable in 2021 if capital gains become more highly taxed.

Merry Christmas!

This will be the last newsletter for 2020, unless Paul finds himself inspired before New Year's Eve.

We hope for a calmer, freer, and vaccinated year in 2021. Our best wishes to you and your socially-distant families!

Thank you for your referrals this month! They are always handled with great care and discretion.

<http://www.dividendvaluepartners.com>

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Netflix, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Netflix, Inc.

Prices shown as of December 10th, 2020

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