

# The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzone, and Sharon Mitchell  
Financial Advisors  
Raymond James Ltd. – Victoria BC

January 8<sup>th</sup>, 2021

## This week's articles and insights

1. *The Buffett Dilemma*
2. *2021 – The Long and Winding Road*
3. *Supply and Demand*
4. *Monday Webinar*

**“Do not take yearly results too seriously. Instead, focus on four or five-year averages.”**

**- Warren Buffett**

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	31,041	+ 1.42%	+ 1.42%
S&P 500	3,804	+ 1.27%	+ 1.27%
TSX	18,028	+ 3.41%	+ 3.41%

## The Buffett Dilemma

Starting in the 1950s, Warren Buffett grew a small stake of \$10,000 in personal savings into \$84 billion today. He beat the S&P 500 in many of those years and, in 2008, became the richest man on Earth when he hit the level of \$62 billion. Bill

Gates passed him just months later. Bill had held the title before for several years and seized it back when Microsoft began to climb out its post-dotcom bust malaise.

Don't fret for Mr. Buffett. He is still worth \$84 billion, even after giving away \$37 billion to charity. From the #1 spot in 2008, he has slid to #7 on the billionaire list, having been passed by more technology titans, including Jeff Bezos (#1) and newcomer Elon Musk (#2). As of Thursday, Musk is now the world's richest person.

Mr. Buffett is one of the few truly diversified billionaires. Those richer than him tend to have all their eggs in single baskets. His company, Berkshire Hathaway (**NYSE BRK.A**), invests in a myriad of companies from railways to beverages to banks. Warren Buffett has always been a "value guy" in the sense that he rarely overpays for anything. He is picky about positive cash flows, the value of a company's assets, and the width of a corporation's economic moat. Traditionally, he has owned very few technology shares in his portfolio, claiming he just doesn't understand their valuations. In recent years, he has accumulated a large position in Apple (**NASDAQ AAPL**), which has helped his performance.

2020 was a mediocre year for Mr. Buffett's portfolios, as it was for most people - Berkshire Hathaway returned just over 2% for the year compared to 18% for the S&P 500. The company holds a record \$150 billion in cash, or 38% of its entire portfolio.

On the surface, U.S. stocks were the stars this year. Looking more closely, it was the handful of technology companies that most benefited from the stay-at-home edicts. These are not the companies Berkshire Hathaway traditionally buys.

In fact, in 2020, the more extreme the valuation of companies and the worse their earnings were, the better the shares seemed to do. Tried-and-true dividend-paying companies performed poorly, as some were forced to cut their dividends. The Dividend Aristocrats – those companies which have raised their dividends for 25-50 years, and where Mr. Buffett typically shops, returned just 3% in the U.S. and -3% in Canada.

Most world markets do not have the same high weighting of technology companies in their indexes. As a result, Canadian stocks had a lackluster year with a return of about +5%. Global markets were the same.

So how did Mr. Buffett's year go? He was caught off guard, as were most investors.

Berkshire Hathaway came into the year expecting the economy to pick up. He owned \$4 billion in four airline stocks (Warren dislikes airline stocks and he vowed not to own them just a few years earlier) and then plunked down \$20 billion for Occidental Petroleum shares on March 6<sup>th</sup>. Ouch. He dumped the airline stocks for a big loss in May, saying their future had become far too uncertain, and then sold a portion of his Occidental Petroleum near the lows in June. His bank stocks limped along all year until the vaccine was announced in November.

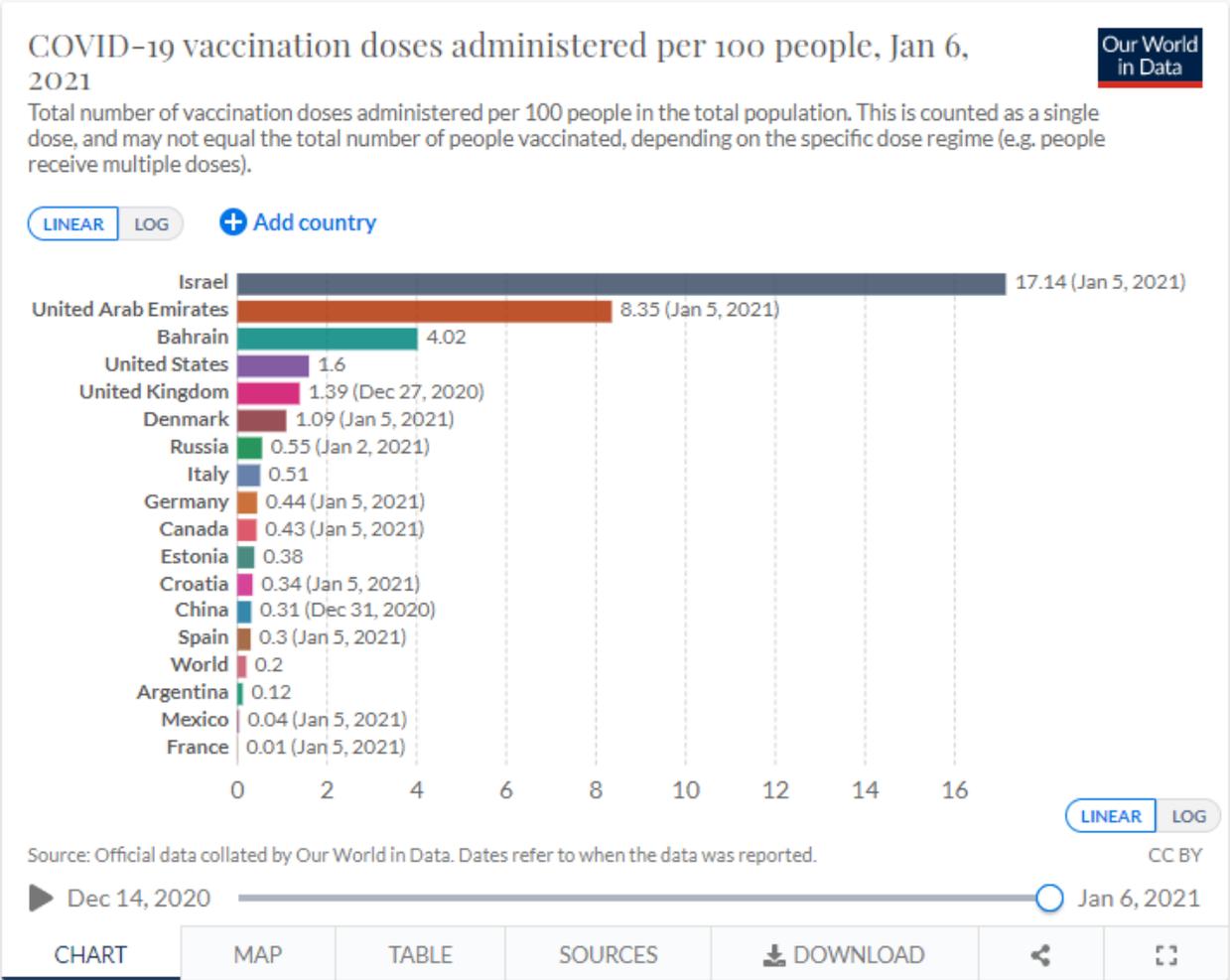
Did he buy anything? Being a value guy, he struggled to find bargains this year. He added to his Bank of America (**NYSE BAC**), convinced that U.S. banks are truly cheap (they are), waded into the hated energy sector with a purchase of some natural gas pipelines for \$4 billion, bought shares in Barrick Gold (**NYSE GOLD**) - his first foray into gold - and finished up by buying into four Japanese conglomerates. Many think Japan is finally turning the corner, and Mr. Buffett obviously agrees.

So banks, oil, gold, and foreign stocks. Except for gold, these were not the favourites for 2020. However, they may be for 2021.

Warren Buffett faltered this year, just as most value managers did. Don't count on it continuing in 2021.

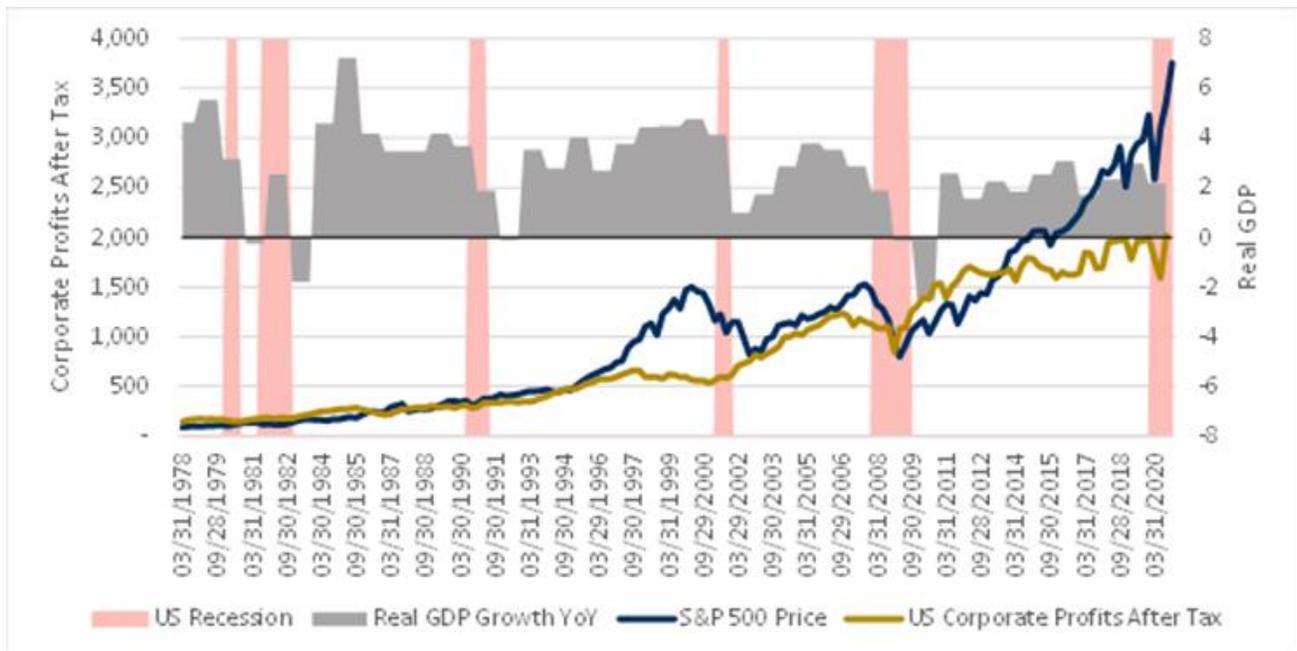
## 2021 – The Long and Winding Road

Welcome to 2021, the New Year that looks suspiciously like the old year. At least we have a vaccine to look forward to, although the rollout is slower than expected. Israel has vaccinated 17% of its population, the US about 1.6%, while Canada has completed just 0.4% of our population. Expect the pace to accelerate everywhere in the weeks ahead.



New lockdowns are delaying a global recovery. However, increased vaccinations and ongoing support programs will mitigate this.

Last year, the stock market outperformed the economy. This year, the two may be reversed, with the reopening economy outperforming the stock market. The graph below shows how much the stock market has outperformed corporate profits. Note that in past cycles, they usually meet back in the middle in due course.



As we recover, our spending will shift away from buying things like new laptop computers, toilet paper, and renovating our homes, to travel and entertainment.

One thing to note is how important the flow of newly-printed money – stimulus – is to the direction of the stock and bond markets. *It is very important.* Markets began their recovery when the giant interest rate-lowering and money-printing programs began in March of this year. This is the same pattern we saw in 2009 after the Great Financial Crisis. When the money was flowing in with QE1, stocks rose. When this stopped, stocks faltered.



There was a QE3 program after QE2 starting in late 2012 because the economy continued to be weak. If we call the most recent stimulus program QE4, we can see that the U.S. has done as much stimulus in 9 months in 2020 as they did in six years from 2008 through 2014.

And they aren't even close to being finished.

Balance sheet expansion under rounds of quantitative easing (QE), USD billions							
	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	\$300	\$1,074	\$0	\$1,403
QE2	11/3/2010	6/29/2012	19	\$829	-\$196	\$0	\$568
QE3	9/13/2012	10/29/2014	25	\$822	\$874	\$0	\$1,674
QE4***	3/23/2020	Ongoing	9	\$2,209	\$715	\$197	\$3,245

Source: JPMorgan

In the U.S., the Democratic party completed its sweep by taking two seats in the Senate in Georgia. The Democratic agenda has been to spend more than the current Republican administration, and this removes an impediment to that.

Therefore, the risk of the stimulus being turned off has been averted. Expect to see more stimulus cheques, spending increases to assist states, and possibly student loan relief. There is likely to be a large tax increase, but the spending will

likely outweigh any tax hikes for now. Marijuana is likely to be legalized across the U.S. in this next presidential term, and we expect a big increase in on-line sports gambling. Both would provide needed sources of new revenue.

We can also expect a large infrastructure program in the next year, as well as improved overseas relations. This means global stocks should have better performance going forward.

Also, inflation is coming, which means gold and commodities should continue to shine. A shift from “new economy” technology stocks to “old economy” value stocks is occurring, as well. This should help Mr. Buffett and the other value investors out there.

## Supply and Demand

The pandemic has been brutal on department stores, especially those in malls. Canada’s Hudson’s Bay has deferred its rent payments in several mall locations and its former parent, Lord & Taylor, has since closed its doors. Sears, once the nation’s biggest retailer, is down to just 100 stores. Consumption has increased nationwide, but not from department stores. Demand has shifted to the digital on-line world.

And speaking of that, one of the biggest questions we are asked recently concerns bitcoin. This is the digital currency that few understand, but that keeps going up by the day.

Bitcoin was designed as a currency and payment platform to circumvent the banks and traditional payment systems, such as credit cards. It is created by computers doing enough complex calculations (“mining”) until a new bitcoin is earned. These digital coins can then be spent at the touch of a button. There can only be so many bitcoins mined, which makes them somewhat scarce.

And that is pretty much all you need to know. Bitcoins are scarce, while dollars are being created by the billions every minute. Some say bitcoins will replace gold one day as the new store of value, but many are not so sure. Gold is tangible and has 5,000 years of history; whereas, bitcoin could be rendered illegal overnight by a central bank.

Financial bubbles often occur in new technologies getting ahead of themselves. We saw this in the internet from 1995-2000 when we wrapped the world in fibre optic cable four times over, and most were empty. The stocks of these

companies collapsed. Along came the i-phone and these cables were overflowing with data by 2010.

Similarly, there was a mania in railway construction in England starting around 1830. There was so much interest in railway stocks, 48% of all quoted stocks were railway shares and 15 new stock exchanges had been created to trade them by the mid-1840s. From 1845 to 1848, the value of the railway index was cut in half as the bubble popped. England was left with a first-class rail system, but most investors lost money.

For the moment, the scarcity (and mystery) of bitcoins prevails, meaning they could rise even further. However, they display all the hallmarks of a classic bubble: exponential rise in price, devoted investors, and few understanding what is going on.

## Monday Webinar

Raymond James will be broadcasting a webinar entitled TEN THEMES FOR 2021 on Monday at 1:15.

*Please join Raymond James Chief Investment Officer, Larry Adam, as he presents his 10 Themes for 2021 – Seeking the Thrill of Victory.*

*The Olympic Games are a fitting metaphor for the current times, as the events were cancelled in the midst of the pandemic last summer and are now rescheduled to begin on July 23, 2021 – a date that should coincide with the sustainable reopening of many parts of the world. The Olympics will be utilized as a framework for our 10 Themes, as each theme will be tied to an Olympic sport. From the US economic recovery taking on a triathlon, to keeping portfolios en garde despite low yields, to earnings doing the heavy lifting to help the S&P 500 break records, to riding the ESG wave, we aim for our views on the economy and various asset classes to become a reliable, integral part of your investment game plan.*

We have sent out an invitation with the link. If you don't have it and would like to listen in, send us a reply and we will forward it.

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

<http://www.dividendvaluepartners.com>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

### How to contact us:

[paul.siluch@raymondjames.ca](mailto:paul.siluch@raymondjames.ca)  
[lisa.hill@raymondjames.ca](mailto:lisa.hill@raymondjames.ca)  
[peter.mazzoni@raymondjames.ca](mailto:peter.mazzoni@raymondjames.ca)  
[sharonmitchell@raymondjames.ca](mailto:sharonmitchell@raymondjames.ca)

(250) 405-2417

### Disclaimers

*The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.*

*Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.*

*Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.*

*This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.*

*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.*

*Apple - Raymond James & Associates, Inc. makes a market in the shares of Apple Inc. Raymond James & Associates received non-investment banking securities-related compensation from Apple Inc. within the past 12 months.*

*Barrick Gold - Raymond James & Associates, Inc. makes a market in the shares of Barrick Gold Corporation. The analyst or associate at Raymond James Ltd. has viewed the material operations of Barrick Gold. Within the past 12 months, Newmont Corporation has paid for all or a material portion of the travel costs associated with a site visit by the Raymond James Ltd. analyst and/or associate.*

Prices shown as of January 7<sup>th</sup>, 2021

*You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at [www.rjcapitalmarkets.com/Disclosures/Index](http://www.rjcapitalmarkets.com/Disclosures/Index).*

---

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.

---

This message and any attachments are intended only for the use of the addressee or their authorized representative. It may contain information that is privileged and/or confidential. Any unauthorized dissemination, distribution or copying of this communication or any part thereof, in any form whatsoever is strictly prohibited. If you have received this communication in error, please delete permanently the original e-mail and attachments, destroy all hard copies that may exist, and notify the sender immediately. Raymond James may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. The designation Raymond James, mentioned in this notice and disclaimer, refers to and include the following divisions and entities: Raymond James Ltd., a member of the Investment Industry Regulatory Organization of Canada (IIROC) and of the Canadian Investor Protection Fund (CIPF); its divisions 3Macs, MacDougall, MacDougall & MacTier and Raymond James Correspondent Services; and its subsidiaries: Raymond James Financial Planning Ltd. registered as a life insurance agency in all provinces except the province of Québec where it is registered as Financial Services Firm with the Autorité des marchés financiers (AMF); Raymond James Investment Counsel Ltd., a firm primarily regulated and governed by the British Columbia Securities Commission but registered and regulated by securities commissions in other Canadian provinces, and also regulated by the U.S. Securities and Exchange Commission; Raymond James Trust (Canada), a trust company regulated by the Office of the Superintendent of Financial Institutions (OSFI); and, Raymond James Trust (Québec) Ltd., a trust company regulated by the AMF.

---

---

Ce message ainsi que le ou les fichiers qui y sont joints sont à l'usage exclusif du destinataire ci-dessus ou de son mandataire autorisé. Cette communication pourrait contenir de l'information privilégiée et confidentielle. Toute diffusion, distribution ou reproduction non autorisée de cette communication électronique, en tout ou en partie, sous quelque forme que ce soit, est strictement interdite. Si vous avez reçu cette communication et toute pièce jointe par erreur, veuillez les supprimer de façon permanente de vos systèmes, en détruire toute copie et en informer immédiatement l'expéditeur. Raymond James peut surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, communiquées par courriel ou dans une boîte vocale, ne seront pas acceptées, ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des instructions d'opérations boursières. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas approuvés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Le nom Raymond James utilisé dans le présent avis et clause de non responsabilité réfère et comprend les divisions et entités: Raymond James Ltd., une société membre de l'Organisme canadien de réglementation du commerce des valeurs mobilières (OCRCVM) et du Fonds canadien de protection des épargnants (FCPE), ses divisions 3Macs, MacDougall, MacDougall & MacTier et Services de correspondants Raymond James; et ses filiales : Planification financière Raymond James Ltée, société inscrite en tant que société d'assurance-vie en lien avec la vente de produits d'assurance dans toutes les provinces sauf dans la province de Québec où elle est inscrite en tant que Cabinet de services financiers auprès de l'Autorité des marchés financiers (AMF); Conseils en placement Raymond James Ltd., firme principalement réglementée et régie par la Commission des valeurs mobilières de la Colombie-Britannique mais également soumise à la surveillance et inscrite auprès des Commissions de valeurs mobilières d'autres provinces canadiennes) et est réglementée par la Commission des valeurs mobilières des États-Unis (SEC); Fiducie Raymond James (Canada), une société de fiducie inscrite auprès du Bureau du surintendant des institutions financières (BSIF); et, Fiducie Raymond James (Québec) Ltée, une société de fiducie inscrite auprès de l'AMF.

---

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.