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INVESTMENT COUNSEL

RAYMOND JAMES®

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Dear clients,

Under the "heat dome" at the end of June a piece of sidewalk near our house buckled, forming a concrete tent about eight inches high. No creepy circus clowns emerged from the underworld as far as I know. But it was a reminder that when our worlds experience stress, the effects can pop up in unexpected ways. For many of us, financial and political anxieties have been building throughout the COVID-19 lockdown. Now that society is opening up again, those pressures are subsiding, and we may start to notice "cracks" in our lives that we didn't see before. This summer feels like a "summer of repair" – vacations, trips, getaway leisure time – catching up after too long without. The sidewalk has already been re-poured. I hope you have some "repair time" planned this season, too!

Markets and your portfolios

Stock market values have been rising, making geniuses out of the droves of millennial "redditors" who opened discount brokerage accounts and borrowed money to "invest" in this money-machine known as "the capital markets". Bitcoin, cannabis stocks, GameStop and AMC… This is easy! The trick, though, is finding a chair when the music stops.

Part of the reason these new market participants are having such success is that markets have become unhinged from fundamental realities. This is not anyone's fault – the global lockdown created a massive hiccup in many companies' profits, and at this point it is difficult to know what "normal" is. Will company earnings sustain themselves once the pandemic is behind us? It's a bit like trying to walk in your third trimester, when the hips (I'm told) feel only loosely connected to the body. Not a time when you should be strapping on roller-skates – and yet investors seem to be doing exactly that, because company fundamentals are not terribly useful right now.

My approach

Before investing in a company I spend a lot of time thinking about what could go wrong. In normal times I use investment factors such as valuation (price relative to earnings), earnings quality, and market volatility to select stocks that are more likely to maintain their value in times of stress. But when these factors are not reliable, I focus on ensuring that each company is at least backed by a qualitative risk management argument. For example our Canadian oil stocks are supported by surging demand and tend to act as an inflation hedge. Our real estate investment trusts (REITs) have been largely overlooked in the recovery and could offer protection if governments increase corporate taxes. Our preferred share portfolio is underpinned by diminishing issue supply and historically low interest rates.

We may miss out on the high-flying meme stocks, but once the economy emerges from recovery mode and companies' fundamental realities reassert themselves, our portfolios should be more likely to hold their value. I am comfortable with this.

Performance reports

Your quarterly portfolio review report was emailed along with this letter. It shows performance since your accounts were transferred from my previous Raymond James branch. The blue "net invested" bar was your portfolio value on the date of transfer in December 2020, plus or minus any deposits or withdrawals since that time. If you need information about your performance before the transfer, give me a call and we can source that information together using prior reports you received.

Website and Facebook

My website at **ThomlinsonIC.com** briefly describes my biography and the services I offer. It is a good starting place if you wish to give friends and family an idea of who I am and what I do. Along the same lines, I am regularly sharing articles on my Facebook page – if you wish to read those I encourage you to "Like" my page. Your support and referrals mean a lot to me.

Enjoy the summer!

Bill