Market Outlook

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Wish you all a happy, healthy and prosperous New Year. The pandemic taught us a lot and we all are adjusting to the new reality. Hope is that 2021 will give us more energy and happiness in the coming days.

It is the time to look back, review and look forward and make some adjustments if needed. 2020 was not an easy year. No need to explain much, the world is still under the grip of COVID-19.

At the beginning of last year, most of research reports didn't include COVID-19 as a major risk factor for 2020. It was seen as a problem in China, Italy, and some parts of UK. By mid-February the financial market was at it's peak in Canada, US and elsewhere. We all know what happed after that. By March 20, financial market were in a collapse mode. It took less than four weeks to drop more than 35%.

The beginning of 2021 is giving us the opportunity to ask the same questions as we do every year: What will be the biggest risk going forward? Or what will be the best opportunity in the coming months? In my 25 years of experience in personal finance and portfolio management, the simple answer to these questions are: Do not look for a prediction but rather prepare for the future. Every market correction teaches us some lessons: History will repeat itself. After every correction, there will be a recovery. Sector rotation is part of the process; the names may change from high technology sector to stay home economy or cloud etc. Stay invested and stay focused.

Market recovery was robust by the end of the year, as most stock markets around the world were positive.:

Table 1: S&P/TSX and Dow Jones Returns as on December 31, 2020

TSX Canada	5.59%
DOW JONES (US)	9.70%

Low interest rate pushes the investors to take more risk in the stock market to generate reasonable return.

Table 2: Fixed income performance

Govt Bond Yield	**1 Year T Bill**	**10- Year Bond**	**30 - Year Bond**
Canada	0.13%	0.76%	1.38%
US	0.07%	1.07%	1.83%

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Model Portfolio Performance

Let me take this opportunity to show you how my model portfolios, the growth & income portfolio as well as the balanced portfolio performed during the **last 5 years,** from January 2016 to December 2020. Our Investment objective is to provide long term capital appreciation and help investors with a stable stream of income.

Growth & Income Portfolio: The average rate of return per year is 9.78%, after fees, in this model for the last five years. This portfolio's total return for last year is 13.35%, compared to a 5.59% return for TSX index. To capture the global market trend, I took more exposure in US and international markets. Close to 45% of the portfolio is in US dollar investments. Reducing the portfolio fluctuation was one of the most important challenges in 2020 along with capturing the market recovery at the same time.

Balanced Portfolio: 73.76% of the portfolio were in equities as of December 31, 2020, and close to 20% in fixed income (mainly preferred shares), and rest in cash. With active management I was able reduce the fluctuation and was able to capture the growth opportunities. Total return of **10.76%** for the year 2020 and five year average return is 8.42% after fees. Geographically funds are invested in Canadian and US markets.

Yearly Rate of Return from Jan 12, 2016 to Dec 31, 2020

	2016	**2017**	**2018**	**2019**	**2020**	**Average**
Growth & Income (100% Equity)	10.9	9.74	-2.81	18.22	13.53	9.78
Balanced (80% Equity /20 % Fixed Income)	8.9	8.06	-3.03	15.41	10.76	8.02

Coming to portfolio over all performance, asset allocation is especially important; how much weightage is given to equities, fixed income, and other alternative investments. Equally important is the allocation in different sectors; because different sectors work in different cycles, different risk profiles and how they affect the overall portfolio structure. For example, when considering the global economy Canada represents only 3% of world's capital markets. But within Canada, financials, energy and materials sectors play a major role. But technology and pharma sectors are not getting much exposure in Canada, which is not the case in global markets.

Active management helps to reduce the fluctuations, which was particularly important in 2020. The portfolio was fully invested in the beginning of the year, but by end of February we started keeping more as cash, and by March the portfolio was kept close to 25% to 35% in cash. With that process we were able to reduce the downside risk substantially.

Outlook for 2021:

In my view, the market is overpriced and valuation is stretched to the highest based on the historic valuation models. But the ultra low interest rates and very accommodative central banks around the world is really helping the equity market. Sector rotation and new Democratic government polices will be the focus for 2021.