



December 2020

IN THIS ISSUE

1. Big, Meaningful Dreams in 2021
2. Portfolio Update: A Closer Look at Bitcoin
3. Performance Results

BIG, MEANINGFUL DREAMS IN 2021

Mike Preto, CFP®

What a year 2020 has been! Everyone's life has been altered in some way; many far more than others. We all know someone who has had a much tougher time through 2020 for a variety of reasons. Our hearts go out to them. For me to sit here and complain about 2020 would be ridiculous; my family is well and safe, and the Hillside Family is growing (thank you again for your support). Nonetheless, it's a year that I'm sure most, including yours truly, will be happy to tuck in and put to sleep.

Prior to the revelations that made 2020 remarkable, it was on track to be an eventful year for all of us in the Hillside Family. We knew we wanted to bring another dimension to our work, and spent a good chunk of 2019 THINKING BIG. We asked ourselves the following questions:

Why do we do what we do?

What is the purpose of the work we do for you?

What do we want you to remember about us when you reach the end of your journey?

These are tough questions to say the least. It would've been a lot easier to stick to the program and just manage the money, but **easier is not more fulfilling**.

The only reason we were able to ask ourselves these questions is because we have spent the last 5 years implementing an extremely efficient Portfolio Management system. Because of that work, we know where your money is **all** the time. We have 3 model portfolios and your money is either in one of or a combination of them. The model portfolios are constantly monitored and managed, by extension so is your money. A by-product of the efficiencies we've built into our Portfolio Management offering is the resources we've freed up to allocate elsewhere. We want to bring more to your table and we are now set up to do it.

Why do **we** care so much about your money? Let's talk about the elephant in the room - when we do a good job managing your money, your portfolio goes up in value. You may then be motivated to add money into your portfolio, and as a result Hillside also makes more money. Of course we want to do well, but by now I'm sure you know this is a secondary motivation. The primary motivation goes deeper, much deeper.

To figure out what makes us tick, we needed to find out what makes **you** tick. So why do **you** care so much about your money? I'm going to take a leap of faith here and answer for you: because you want to enjoy a comfortable lifestyle for



HAPPY HOLIDAYS!

On behalf of all of us at Hillside Wealth, we'd like to take this opportunity to [wish you and your family the best during the holiday season](#).

Although celebrations will look different for many of us this year, we wish you happiness, health and peace in 2021.

Your Hillside Wealth family,
Mike, Jason, Amanda, Heidi,
Rozita & Sabrina

perpetuity. Most people view retirement planning through this lens of sustainability, which is prudent and admirable, but also boring. There's another dimension which brings more colour to the picture and we want to bring that dimension to life for you.

Life is short, way too short for some and 2020 has proven that. We want to do whatever we can to put you in a position to make the most of it. That motivates us to do our part to make sure that you get everything possible out of life. First things must come first. We need to make sure you are financially prepared for the future, without this, we have no foundation to build on. Here's how we do this together:

- Step 1: Develop a target lifestyle- use today's lifestyle as a measuring stick.
- Step 2: Develop and implement the action plan needed to make sure you hit that target on time.
- Step 3: Monitor and update you on your progress to ensure you're on track to hit your target.

This is where most people stop, but this is where we want to keep going for you. We want you to know if you have more than you need, a [Dreampool](#). Having more is a good thing; knowing what to do with more is better.

Let's assume someone is walking through life and acquires more money along their journey. This doesn't necessarily bring them more happiness, but it does provide them the potential to. If they do something meaningful with the wealth, the potential will be realized. Asking yourself what matters most to you and your family is a big question, but if answered, to steal a line from Bono, *you got the right shoes to get you through the night*. The process can take time, good thing there's no rush, and we are happy to work at your pace.

Clearly, your money is very important to us and we recognize and honour the responsibility you've given us to manage it which will always be our top priority. Going forward from here it is our commitment to continue to manage your money as we have, track your progress relative to your targets, report the surpluses that build along the way and help you discover where those surpluses should be directed to so you experience the most benefit. For 2021 and beyond, we ask that you allow us to bring more to your table and work together with us to realize your big, meaningful dreams.

PORTFOLIO UPDATE: A CLOSER LOOK AT BITCOIN

Jason Del Vicario, CFA

For those of you who were able to join us for our annual (virtual) Hillside update you'll know that we added Bitcoin into the mix as a scarce asset that may be able to provide us some protection against currency debasement and inflation.



What we didn't say during the presentation is we already have a position in Bitcoin although perhaps not in the way we might expect.

Below is a very short summary of a lengthy discussion below:

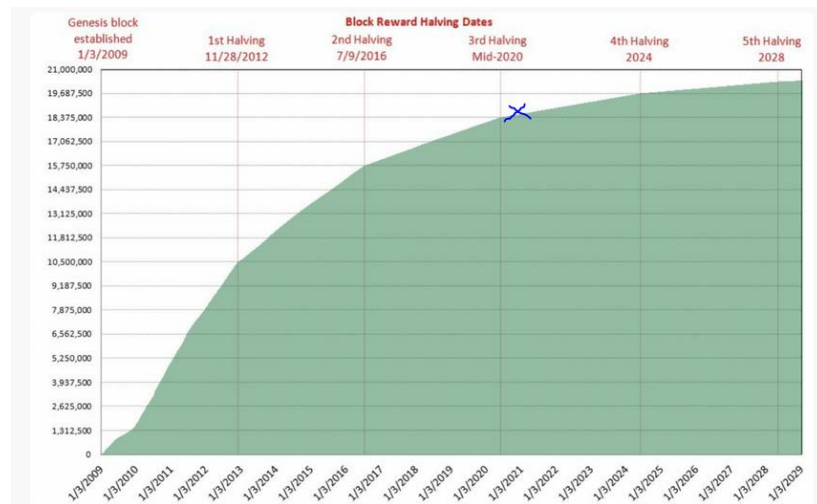
1. We have changed our minds about Bitcoin.
2. This came as a result of continued attention and observation of the space for the past ~5 years.
3. Many wealthy and highly regarded private investors have invested or commented recently.
4. We found a nifty way to achieve Bitcoin exposure.
5. We now have a ~1% weight in Bitcoin.
6. Our thought process and gory details below...

I've been on record on BNN as well as in this newsletter saying I thought Bitcoin had no value and it was a fad that would pass. My biggest concern has always been how governments would respond to this 'monetary competition.' After a massive run up in 2017/2018, and equally dramatic 90% crash, it appeared my concerns were well-founded. Bitcoin hasn't gone away; however, and in fact is challenging its 2017 highs. We seemingly hear daily of some company or wealthy individual going on record as being owners. At Hillside we have two commitments which are well-represented in this newsletter:

1. Collaborate with experts for concentrated learning.
2. Lead with informed opinions.

Over the years I've kept an eye on bitcoin to see how it behaves in relation to other asset classes and in response to certain events such as the Covid-19 pandemic.

The facts is that Bitcoin has basically outperformed every asset class under the sun during its 13-year existence and continues its torrid ascent. We are particularly attracted to the fact that only 21m can ever be 'mined' of which 18.5m are already in existence. The supply is limited. The chart below shows the number of bitcoins in circulation with the blue 'x' marking late 2020.





WATCH JASON ON BNN MARKET CALL

Don't miss Jason's latest guest appearance on BNN Bloomberg's #Marketcall on December 17th where he discussed North American Growth Stocks.

The full episode is [available online](#).

Bitcoin therefore qualifies as a scarce asset and in theory should help hedge if/when we experience heightened inflation and/or currency debasement. It is an asset class and different than buying shares in a company; more akin to buying gold bullion. A company's value and prospects are fairly 'easy' to determine because we have historical data and well-established methods to determine value. Bitcoin or gold for that matter are more difficult because their value is predominantly tied to supply/demand and the market's aggregate willingness to assign value. Rather than babble about the case for Bitcoin, here are some of the many sources I've used to conduct due diligence and build the case for ownership. At Hillside we have a commitment to collaborate with experts for concentrated learning. One of the people we respect most as a macro economic thinker is Lyn Alden. She is extremely bright, hard working and doesn't have an agenda or bias. She has recently been retained as a consultant to a bitcoin exchange which she discloses in the second link. This consultancy was established after her interest in Bitcoin led her to invest.

This article was written in July 2020 (updated recently) and lays out her thought process: [3 Reasons I'm Investing in Bitcoin](#) – Lyn Alden July 2020

More recently she has been fielding a lot of questions regarding her thoughts on the space and penned this article: [7 Misconceptions About Bitcoin](#) – Lyn Alden November 2020

In between these two dates there was an announcement that caught my eye: a public company decided to allocate nearly all their treasury cash (excess cash on balance sheet) into bitcoin. This was significant because public company directors have a fiduciary duty (not unlike myself as a CFA!) to act in the best interest of their shareholders. This was a bold move and I started to get my hands on anything and everything I could to learn more about this decision. It turns out that Michael Saylor, the CEO of Microstrategy (MSTR) was the driver behind this decision.

Below is a very long (2 hours!) but excellent interview with Michael Saylor. It covers the entire due diligence process of the decision as well as Michael's history which in itself is quite fascinating. He is the ONLY CEO of a 1990s founded tech company still at the helm. The rest have either been fired or acquired! At around the 33-minute mark it delves into how and why Michael decided to put \$425m of their \$500m cash into bitcoin.

[Bitcoin Infiltrates Corporate America \(w/ Michael Saylor and Raoul Pal\)](#)
– Raoul Pal & Michael Saylor – October 2020

Around the same time Square announced they were [buying \\$50m of bitcoin](#). Earlier this month PayPal announced all users in the US can now [buy, hold and sell cryptocurrencies](#). Interestingly the demand has been so strong, PayPal and Square's cash app have scooped up [100% of newly mined bitcoins](#).

REFERRALS: THE HIGHEST COMPLIMENT

At Hillside Wealth, we take referrals from existing clients as one of the highest compliments. The responsibility of knowing that can recommend us to family and friends is one we don't take lightly.

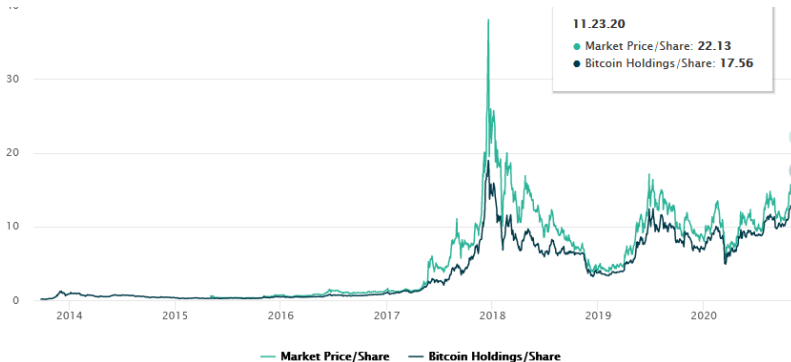
We are currently accepting new clients primarily by referral from existing clients. If you have family or friends who would be a good fit for our specialized wealth management services, please feel free to [get in touch](#).

We've also had some very well respected money managers enter the fray with [Stan Druckenmiller](#) and [Paul Tudor Jones](#) divulging they have initiated positions in bitcoin.

Lastly, rather than central banks looking to ban Bitcoin they have all for the most part come out and said they will be developing their own electronic currencies. [The Bank of England](#) has created its own, the [Federal Reserve](#) is working on their own digital dollar, etc.

Making the decision to own Bitcoin is one thing, but actually buying it or having exposure is quite another. One bitcoin sells for ~\$19,000USD; it's therefore neither reasonable nor scalable for us to buy coins directly on behalf of clients. Furthermore, storage of bitcoin offers a whole other level of complexity. In short, direct ownership simply isn't an option for us.

Up until very recently the only other way we could own Bitcoin was through the [Grayscale Bitcoin Investment Trust](#) (GBTC). The challenge with this trust is they charge a 2% fee (we try and avoid anything with an embedded fee wherever possible!) but more importantly it usually trades at a premium. On the day below (Nov 23rd) that premium was 26.02%. This means for every \$1 we invest, we get \$0.74 of bitcoin. If we asked you to give us a \$1 and we'd give you \$0.74 back - you'd tell us to jump off a dock into cold water (which we would do but that's besides the point). NO THANK YOU!



Source: [www.grayscale.co](#)

In addition, GBTC can't be held by Canadians in registered (RSP, TFSA, RIF) accounts. Recently, a similar trust has been set up in Canada but it's much smaller, also charges 2% and trades at a premium to NAV.

Which takes us all the way back to that MicroStrategy (MSTR) announcement. This got me thinking... well how much is \$425m in relation to the size of the company? What does the company do and do we or could we like the company on its own? I had never heard of MSTR nor Michael Saylor but was intrigued.

On October 23rd I spent the weekend going down the [MSTR rabbit hole](#). I learned that this company had been around for a long time and run by the founder (we like that). I learned it is a software company specializing in business intelligence with an attractive list of



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customers. I learned about the CEO and the reasons behind why they made the bitcoin decision/purpose. Let's make one thing clear, MSTR doesn't pass our strict selection criteria (meaning it's not statistically an exceptional company per se) BUT they have no debt (in fact they had \$500m of cash... that doesn't just show up out of nowhere: the business generated this over the years) and they are profitable and their results are growing nicely. I noticed in their most recent quarterly results they expect to do \$60-90m in operating income in 2021. (Readers will recognize the following calculation as we focused on FCF yield last newsletter.) At the time MSTR's market cap was \$1.5B. If we strip away the cash (now bitcoin) worth \$500m they had an enterprise value of \$1B (the way to think about this is as if we were to buy the whole company... we pay \$1.5B for a company with \$500m cash it's really like paying \$1B). Taking the middle of the \$60-90m estimate of \$75m and divide by \$1B we're looking at an operating income yield of 7.5% on just the business (leaving aside the bitcoin position). I would argue this is a reasonable valuation while realizing this is forward guidance and much can change. When GICs pay 1%, a 7.5% yield more than compensates for the risk. Furthermore, for every \$1 we'd invest in MSTR we'd get \$0.33 of bitcoin exposure ($500m/1.5B$) which means, all things being equal, if bitcoin goes to \$0 we'd still own an interest in the operating company (not related to the success/failure of bitcoin). For this downside protection of sorts we'd (in theory) have to give up some of the upside of bitcoin as we wouldn't have 1:1 exposure. My last piece of due diligence was sending a quick text to a colleague that read 'I think I've found a sneaky way to get bitcoin exposure; check out MSTR'... to which she quickly responded 'I own it.' This is someone who sits on public boards and has an excellent financial mind. I made the decision to initiate a position. Cards on the table: bitcoin is VOLATILE. It frequently rises and falls more than 10% and has had no fewer than three 80%+ drops during the past 13 years. While currently up massively it certainly has not been a smooth straight ascent. Having made the decision to invest the next decision was to think about position size and exposure. I felt that a ~1% (meaning we'd need to buy 3% of MSTR) weight would be a good starter position for us. Bitcoin had already been doing very well and so I decided to buy a 2% weight of MSTR in the Balanced and Focused models while a 1.5% weight in the Conservative model. The idea was if it took off, this would get up to a position size we'd ultimately like to have (4-5%) and if it tanked we'd be able to add at lower prices to bring our position up.

Lastly, Andrew Left at Citron Research recently wrote a piece describing the thesis behind our decision to invest in MSTR very well. While not specifically committing to hard targets the report does show some extremely optimistic scenarios. It can be read [here](#).

Fortunately our experience so far has been excellent and the stock is up over 100% in less than a month. Saylor and MSTR seem to be at the



forefront of this public company interest and demand for their shares has shot through the roof. The blue 'x' below marks our entry position:



Source: www.finance.yahoo.com

To be clear we will own this for as long as we feel the need to hedge against currency debasement and inflation. This is not a short term play and I believe we've found a very 'off the map' and slick way to gain exposure to bitcoin. I have never spent this much effort in a newsletter explaining a decision but I think this situation warrants it. This is a new asset class that's value isn't necessarily obvious. I have publicly expressed major questions and concerns however I've changed my opinion as a result of extensive due diligence. The bitcoin market is \$250B in size while the gold market is trillions of dollars. I think the best way to think of this exposure is similar to our exposure to gold. Our interest is based on desire for diversification as well as protection against large scale money printing and debt monetization.

I would like to take this opportunity to thank the Hillside team as well as our loyal clients. I devote 100% of my time to researching and managing our clients' assets and feel proud to have such a dedicated and capable team to help deliver excellent client service, financial planning and administrative support. While 2020 has been nothing short of a dumpster fire (as Sabrina often says), we have managed to deliver on our purpose which is: **real people working together to realize big, meaningful dreams**. Wishing you all a safe and happy holidays and your team at Hillside Wealth is looking forward to seeing everyone in person as soon as it is safe to do so!

NOVEMBER 2020 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to November 30, 2020	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception**	Added Value vs. Benchmark**
Hillside Conservative Growth*	6.93%	5.74%	7.93%	6.12%	7.67%	8.62%	9.93%	4.17%
HCG Benchmark ¹	7.49%	5.67%	9.91%	7.91%	6.21%	6.71%	5.76%	
Hillside Balanced Growth*	10.47%	9.35%	16.61%	7.57%	6.78%	7.8%	9.31%	1.77%
HBG Benchmark ²	7.47%	10.95%	17.74%	9.33%	6.9%	9.04%	7.33%	
Hillside Focused Growth*	7.43%	4.17%	5.89%	6.27%	7.2%	7.49%	8%	2.71%
HFG Benchmark ³	7.27%	4.84%	8.1%	7.36%	5.76%	6%	5.29%	

Past performance is not an indication of future returns.

* Performance is presented gross of fees. **Inception: Sept 2, 2014. Results beyond 1 year are annualized.

¹ Hillside Conservative Growth Benchmark: 100% Vanguard Conservative ETF

² Hillside Balanced Growth Benchmark: 100% Vanguard Balanced ETF

³ Hillside Focused Growth Benchmark: 100% Vanguard All-Equity ETF

Source: SIACharts.com

The performance presented in this portfolio report is hypothetical and does not represent a specific client account. Details regarding actual returns of an investment account are available from the client's advisor.

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Insurance products are provided through Hollis Insurance Agency. Only services offered through HollisWealth®, a division of Industrial Alliance Securities Inc. are covered by the Canadian Investor Protection Fund.

Performance is calculated using month-end market values of the model portfolio. Since we use a model portfolio to calculate performance there are no client-initiated cash flows (deposits/withdrawals) to account for. Performance is calculated by dividing the change in the model portfolio's market value by the model portfolio's market value at the beginning of the performance period. Also, all income generated by the portfolio's holdings are held within the model portfolio in cash and is accounted for in the portfolio's month-end market value - this results in a total return measure of the model's performance.

Returns for periods less than 1 year are shown as periodic returns while returns for periods greater than 1 year are annualized. Returns do not include fees and actual returns experienced by an investor may differ from those shown. Past performance is not a guarantee of future results.



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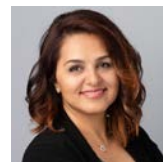
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