February 2021

IN THIS ISSUE

HOW TO DEAL WITH ILLOGICAL THINGS

Mike Preto, CFP®

2021 is finally here…thankfully! I'm still spending an inordinate amount of time with the people I love the most: my family. There have been times where the old idiom about "too much of a good thing" holds water right now - not just for me, but for the rest of my family members as well (yes, even I can be too much for them from time to time!)

When you add a complication (i.e. pandemic life) to something incredibly complex to begin with (i.e. parenting), the highs get higher and the lows lower. I'm confident in my ability to get through this with love, persistence, discipline, and hard work - but if I feel out of my depth, I know I can, and will reach out for help.

In the realm of complexities, financial markets are complex at the best of times. Current markets are further complicated by the extenuating global circumstances we find ourselves in. Two noteworthy forces are **unprecedented stimulus**, in the form of Government spending, and **low interest rates**, both initiated to battle the pandemic causing havoc to the global economy.

The US GDP shrank by 3.5% in 2020, the most since 1946. Put simply, the recession in 2020 was 5 times as bad as the average of all recessions since the second world war, yet took place in 25% of the time (source: Stan Druckenmiller). While the final tally isn't in for Europe or Canada, the consensus is both economies shrank in the neighbourhood of 7%. As well, the unemployment rate in the U.S. peaked at 14.7% in April 2020 (U.S. bureau of Labor Statistics), while seeing the biggest rise in personal income in 20 years (source: Stan Druckenmiller).

You might be wondering how is it we're going through one of the most challenging economic times on record, yet personal income is increasing? Governments are giving people money, money they don't have. The US federal government ran a deficit of more than $3 trillion in 2020, over 15% of the GDP, the largest since 1945 (Trading economics). At home, the Canadian federal government spent more than $380b, almost 20% of GDP, and the largest amount out of 35 high income countries (as illustrated by the chart on the following page).

IA PRIVATE WEALTH'S NEW ONLINE ACCESS

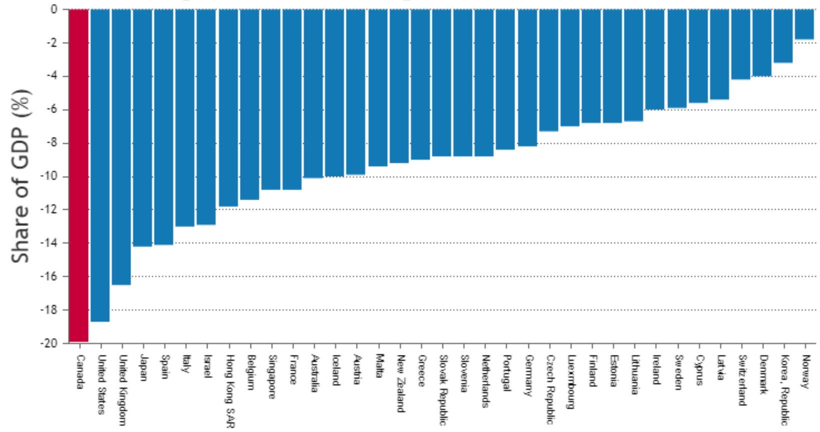
All clients received information about iA Private Wealth's new Client Portal for online access to your accounts.

While the old system (My Portfolio +) is still available for use, we have heard many agree that the new system provides the following benefits:

- An intuitive interface
- Easy self-registration and password reset
- Portfolio information at your fingertips
- Visualization of performance
- Convenient household management and access share

For assistance with the new system, please feel free to contact Rozita who is happy to help!

Figure 1: Net Borrowing as a Share of GDP, 2020



Source: https://www.imf.org/en/Data

The Canadian and US Central Banks are printing money to keep interest rates low. You can get a fixed 5-year mortgage for ~1.5%. The prime rate in Canada is 2.45%. Money is cheap to borrow and there's a lot of it out there moving around.

These unusual measures are having a big impact and Canadians are feeling it. We've been speaking to a lot of new folks in the last while, thanks again for your continued support and referrals, who are looking for guidance. Some sold their portfolios to cash in March 2020 and aren't sure what to do going forward. Others have been managing their own portfolios and feel they can no longer take care of this on their own. Some are trying to make sense of whether they take advantage of low interest rates and borrow money to invest in either the stock or real estate markets. While others are planning to retire in 2021 and aren't sure how to navigate these unchartered waters.

Your peace of mind is important to us. As many of the aforementioned concerns have come from outside the Hillside family, we would be naïve to believe you don't share them. In consideration of that, here are the commitments and philosophies we're leaning on to guide you through these uncharted waters.

1. Protect the future

It's easy to evaluate what's in front of you and take what might seem like the obvious choice to address an issue. It's crucial to take a step back, look at the future and identify what you're trying to accomplish. For example, borrowing money at 1.5% to buy an asset (stocks/real estate) you think is going to go up more than 1.5% seems obvious. This is exactly the thinking that led to the 2008/09 Global financial crisis. What if the 1.5% interest rate increases to 5.09% (the rate of my first mortgage in 2007) and/or the asset price declines? These are the hard questions that *need* to be answered before moving forward.

Protecting your future is a commitment we take seriously. Taking on debt to buy assets at all-time highs, with rates at all-time lows, all with the hope of enriching your future doesn't pass our sniff test. The flip side of this - selling everything to cash and waiting on the sidelines - also fails to protect your future. Not surprisingly, the best move is somewhere in the middle.

2. **Discipline consistently generates exceptional results**

We can't stress this enough, especially in these times. Staying focused on what you need to do to hit your targets will always keep you on the right track. In our portfolios, we have a price at which we sell 50% of a position, and another price at which we sell all the position. In March 2020, some portfolio positions breached these prices, and we acted accordingly. When the market turned and the prices at which we sold were breached to the upside we started buying back our positions. It certainly didn't feel like the right thing to do, but we stayed true to our plan and remained disciplined. We ask you remain disciplined during both the good times and the challenging ones - this will ensure you consistently generate exceptional results.

3. **Understand perspectives to prioritize what matters**

Why are Governments spending money they don't have? Why are central banks driving rates lower and printing money to stimulate the economy? Our suggestion is they're doing whatever it takes to keep the economy alive so we don't fall into an economic depression, which they believe will cost everyone more than the chosen path. If that's the case, is an economic depression really something that you want to borrow money to invest in? While we are in a very accommodative financial environment (low rates, Government handouts/spending and money printing) it's important to participate - but do so responsibly.

4. **Recognize and Honour responsibilities**

You've entrusted us with a huge responsibility – managing your money – and we take this responsibility seriously. We are committed to honoring this relationship, and we ask the same of you in return. Stay the course. Stay true to yourself, your values, and your end goals. There is a lot of noise out there right now. Don't hesitate to put on your noise cancelling headphones, sit back, and trust in the process.

Whether parenting or managing money, the seemingly obvious solution may provide a short-term fix, but likely fails in providing a sustainable long-term solution. Making a decision in line with your

JASON IN THE NEWS!

With so much happening in the world of finance during the new year, several media outlets have reached out for Jason's take on what has been happening in the markets including BNN's The Open and The Globe and Mail.

One of our favourite shows is BNN's Market Call. **Watch Jason as a guest on the January 26th episode** **online here** where he discussed North American Growth Stocks.

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philosophies and beliefs strengthens the foundation of what you're building moving forward. Regardless of how irrational the behaviour of Governments, Markets, Central Banks and kids can be, staying disciplined and seeing the other side's perspective will always help protect the future, a responsibility not to be taken lightly.

PORTFOLIO UPDATE: HONOURING OUR RESPONSIBILITIES IN GOOD TIMES AND BAD

Jason Del Vicario, CFA

It's been two months since our last newsletter; for those who are new to our work we write 10 letters a year with January and August being the two months without. We have had a huge increase in the number of people leaning into Hillside and our work. Welcome to our tribe. Much has happened during these last 60 days and I'd like to further add to one of our commitments discussed above, and corresponding philosophy in presenting my thoughts.

Commitment: Recognize and honour responsibilities.

Philosophy: Discipline consistently generates exceptional results.

During the past few months there has been a crescendo of friends and associates asking me about stocks… and these are people who never ask me such questions. Without fail the conversation goes like this 'Jason, what do you think of XYZ stock?'… I look up the symbol and invariably/politely respond 'this company has only been around for 1-3 years and they don't have any net income (profits) so I can't give you any opinion other than buying shares in this company is speculating not investing.'

It is often said speculative tops/bubbles are accompanied by a new uninitiated investor class piling in. This happened in the lead up to the tech bubble of 2000. A new generation (GenX) had access to discount broker accounts and a new wave of optimism was in the air: the internet would change the world! While the internet certainly did change the world it didn't prevent the Nasdaq from falling 83% (yes, 83%) from its peak… a level it took 15 years to recapture. This speculative fervour is starting again in certain pockets of the markets. Technology stocks with a sexy new product/service but no free cash flow (profits) are being bid to the moon. We've now got Millennials piling in… not only do they have access to easy trading but trading costs are FREE. Furthermore, much of the new money being thrown at the market is free money from the government (CERB etc.)… free money and free trading… what could go wrong?!

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 want to help our clients understand how we recognize and honour our responsibilities. They are as important now when times are good, as during the challenging times. We view our roles as wealth managers to include setting realistic return targets/goals and developing a portfolio management strategy giving us the maximum probability of achieving these targets. When Mike or Amanda run financial plans, they model a 4% rate of return (ROR). Given where interest rates are, we feel there is a very high probability in being successful in meeting these targets. If they used 20% the output would look amazing but the chances of us achieving this target is near 0%. The higher the target rate of return the lower probability of achieving it. Our responsibility is to therefore use realistic goals and targets and design a portfolio management process that maximizes the probability of success. Whether it's an education spending target or retirement spending target we only get one chance to get it right! Warren Buffet once quipped: ***"It's insane to risk what you have for something you don't need."*** If your goal is a comfortable retirement, let's put ourselves in a position to achieve this with a high degree of certainty (which we have) versus taking on crazy risk yielding a low probability of achieving your comfortable retirement (what we don't need).

This mindset cuts both ways. It means we won't take undue risk with your capital because it reduces our likelihood of achieving your long-term goals. It also means we won't take zero risk with your capital as this will also reduce the probability of success. We are aware many investors sold to cash in March 2020 as the pandemic was upon us. While we also dramatically reduced risk during this period, we didn't go to 100% cash, this wasn't our first rodeo. Experience in the investment business matters and we've experienced the bear markets of 2001, 2008 and 2020. Each time the world seems like it's going to end and going to cash (on the surface) sounds like the logical move. Going to 100% cash is risky because it requires one's decision to be 100% correct… not once, but twice! One has to make the correct call to go to cash and then they also need to make the correct call when to get back in the market. Holding cash (1% nominal return) won't cut it. When do you get back in? When the pandemic is over? After the US election? When the first vaccine is announced? When it is deployed? It's impossible to accurately know any of this. Hands up if anyone guessed we'd see the markets drop 35% in 3 weeks and then recover as quickly as they did. Markets bottom when the news flow is horrendous and peak when it seems like nothing can go wrong. Owning a basket of high-quality companies that have generated above average returns on invested capital through a myriad of economic climates is our best chance of achieving our long-term financial goals. Period.

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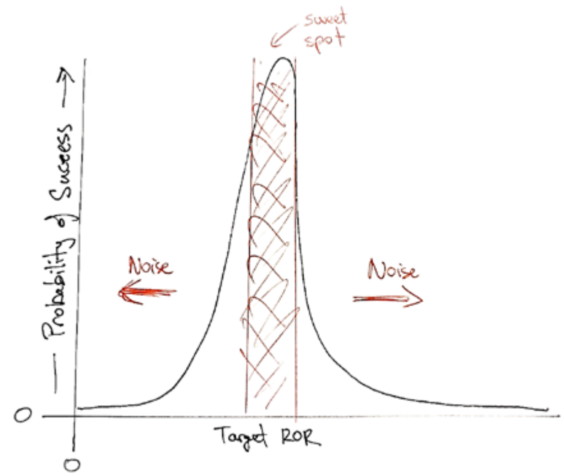
So: discipline consistently generates exceptional results. Someone may read this and think 'well a 4% return isn't particularly exceptional' and they are correct. We've been able to do much better than this and we have developed our Dreamscape process with this in mind. We aim to under promise and over deliver. We have every reason to believe this outperformance can continue for reasons we've covered in previous letters and will continue to cover in future letters. We are going to consistently execute our strategy while ignoring the increasing noise around us because in the end this offers you the greatest chance of achieving your goals. For those of you like me who pick up concepts best with a visual aid pls find my very technical and professional sketch below!



Source: Jason Del Vicario

Lastly, you may have noticed shares of Topicus.com in your account with a stated value of $0. Constellation Software (CSU) has been our largest position over the past 7 years and this company just keeps generating excellent returns for us. CSU recently acquired a Dutch software company: Topicus (TOI). The founders of Topicus wanted to keep their identity. CSU therefore combined this company with their other Dutch company (TSS acquired 2013) into their own public entity: Topicus.com. It was structured such that existing CSU shareholders (us!) received 1.86 shares of Topicus per CSU share. The shares were supposed to have started trading in the fall but there were some issues hence the $0 value noted in our accounts since then. I'm pleased to report as of today (Feb 2nd) Topicus is trading at $62/share representing a ~7% dividend from CSU, or a bump of ~0.35% to our overall portfolio values (Hillside Balanced weight). I suspect there will be some forced selling of these shares as portfolio managers may not be able to hold Venture Exchange shares nor non-North American securities. In the short term, we hope this trades down so we can scoop up more shares making Topicus.com a more meaningful weight in our portfolios. For those tax-minded folk, this corporate action will be treated as a stock dividend.

JANUARY 2021 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to January 29, 2021	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **	Added Value vs. Benchmark**
Hillside Conservative Growth*	**-0.55%**	**-0.52%**	**3.81%**	**6.22%**	**7.51%**	**7.69%**	**8.02%**	**2.73%**
HCG Benchmark[1]	*-0.63%*	*-0.49%*	*4.57%*	*6.18%*	*5.58%*	*6.5%*	*5.29%*	
Hillside Balanced Growth*	**0.34%**	**0.27%**	**6.91%**	**7.44%**	**8.17%**	**9.32%**	**10.19%**	**4.37%**
HBG Benchmark[2]	*-0.49%*	*-0.33%*	*6.23%*	*6.96%*	*5.93%*	*7.5%*	*5.82%*	
Hillside Focused Growth*	**1.46%**	**1.89%**	**17.1%**	**14.19%**	**7.52%**	**10.16%**	**9.96%**	**2.28%**
HFG Benchmark[3]	*0.05%*	*-0.04%*	*12.89%*	*9.39%*	*6.53%*	*11.04%*	*7.68%*	

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.

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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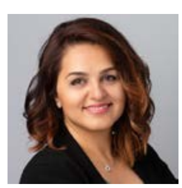

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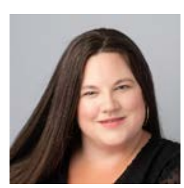

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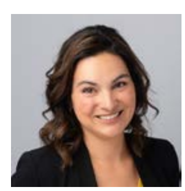

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