

ODLUM BROWN REPORT

04 2022



ODLUM BROWN
Investing for Generations®

INSIDE THIS ISSUE

Page 1

A Bear Market in Speculation is a Healthy Development

Page 3

Choosing a Pension Income Option

Page 4

Odlum Brown in the Community

Odlum Brown Limited

Suite 1100 - 250 Howe Street
Vancouver BC V6C 3S9

Main 604 669 1600

Toll Free 1 888 886 3586

Kelowna 250 861 5700

Victoria 250 952 7777

Chilliwack 604 858 2455

Courtenay 250 703 0637

Langley 604 607 7500

Email information@odlumbrown.com



Odlum Brown Limited



Odlum Brown Community



@Odlum_Brown



OdlumBrown



A Bear Market in Speculation is a Healthy Development

In “Human Nature 101,” the lead article in our April 2021 *Odlum Brown Report*, I shared a humbling experience about a pyramid scheme I fell for when I was at university. Despite a gut instinct that it was too good to be true, and a sound understanding of why such money-making systems collapse faster than most expect, I let envy, greed and the fear of missing out (FOMO) get the best of me – and my wallet.

The lesson was top of mind a year ago because uber-accommodative government and central bank policies were fueling a highly speculative market environment. Everyone seemed to have a neighbour, relative or friend with a “hot” investment idea with the prospect of supersized gains. While we didn’t think there was a general stock market bubble waiting to burst, we did declare a bubble in speculative areas of the market. We cited certain expensive and popular businesses, sectors and themes as the most worrisome. Among these vulnerable investments were Tesla, clean energy, Bitcoin, funds with returns of more than 100% in 2020 and initial public offerings (IPOs) that doubled in price on their first day.

We wondered what would happen to this speculative activity if, and more likely when, governments and central banks throttled back their extraordinary support for the economy. Would there be enough money – and investors – to maintain such lofty valuations?

Select Speculative Investments (\$CDN Total Returns)	2020	1 Year*
ARK Innovation ETF	149%	-56%
Goldman Sachs Non-Profitable Tech Index	199%	-55%
Renaissance IPO ETF	105%	-43%
IPOC SPAC Index	N/A	-31%
Bloomberg Galaxy Bitcoin Index	299%	-28%
iShares Global Clean Energy ETF	138%	-17%

*As of March 15, 2022

Source: Bloomberg

We now know the answer, and it isn’t pretty. Extraordinary government support payments have largely ended; the U.S. Federal Reserve and the Bank of Canada recently stopped injecting money into the financial system and started raising interest rates; and many, if not most, of the speculative investments that led the market in the first year of the pandemic have crashed. The table above highlights the boom/bust pattern with a sampling of returns for 2020 and the one-year period ended March 15, 2022, measured in Canadian dollar terms. Fast-growing, yet unprofitable, technology stocks have been among the hardest hit, with the Goldman Sachs Non-Profitable Technology Index yielding a loss of 55% over the last year.

If there was a fund manager to envy in 2020, it was Cathie Wood, whom I wrote about in February’s newsletter. Her ARK Innovation ETF owned many of the popular speculative growth stocks and returned close to 150% that year. But over the last 12 months the fund has lost more than half of its value as those stocks have come crashing back to earth. Canadian-listed Shopify, one of ARK’s largest holdings,

Continued on next page

briefly surpassed the Royal Bank of Canada as the most valuable company in the Canadian market, but it too has lost half of its value over the past year. Tesla is the one big holding in ARK's portfolio to buck the trend, with a total return of 16% over the last 12 months. Other clean energy investments haven't fared as well, with the iShares Global Clean Energy ETF shedding 17% of its value over the same period.

Once-hot IPOs have gone cold as well. The Renaissance IPO ETF, which holds a portfolio of the largest, most liquid newly listed U.S. IPOs, has produced a loss of 43% over the last 12 months. Food delivery company DoorDash illustrates the frenzy and the fall well. Its December 2020 IPO was priced at \$102 and began trading at \$182 on its first day as a public company. The stock peaked above \$257 in November 2021 before retreating to roughly \$80 in mid-March, a decline of almost 70% from its high.

Special Purpose Acquisition Companies, otherwise known as SPACs, brought high-profile companies like DraftKings, Virgin Galactic and Nikola public. They were all the rage in the second half of 2020 and into the first quarter of 2021, but investor interest has since waned alongside falling share prices. The IPOC SPAC Index has yielded a loss of 31% for the 12 months ended March 15, 2022.

Investor euphoria drove shares of lockdown beneficiary stocks like Zoom, DocuSign and Peloton to the moon in 2020, but those rockets are out of fuel. The trio produced an average loss of 71% over the last year, and all three stocks are back near their pre-pandemic levels.

Most things crypto-related have experienced a major drop in altitude as well; the Bloomberg Galaxy Bitcoin Index is down 28% over the last year.

Here in Canada, cannabis stocks have flamed out spectacularly, with the weight of their poor performance dragging down the S&P/TSX Health Care Index to a 52-week loss of 58%. The S&P/TSX Information Technology sub-group was the second-worst-performing sector over the same period, down 33%, largely due to the drop in Shopify's share price.

Fortunately for those who avoided the speculative pockets of the market and diversified their portfolios elsewhere, performance has been much better. In fact, Canada's S&P/TSX Composite Index has led the world's major equity markets with a one-year total return of 15%. Eight of the 11 major sectors have generated positive returns, aided by Energy, Materials and Financials with gains of 45%, 25% and 23%, respectively.

Major Market \$CDN Total Returns 1-Year to March 15, 2022	
Canada	15%
U.S.	12%
India	9%
U.K.	6%
Brazil	6%
Italy	-6%
Germany	-10%
Korea	-18%
Japan	-18%
Hong Kong	-33%
Russia	-34%

Source: Bloomberg

S&P/TSX Index Sector Total Returns 1-Year to March 15, 2022	
Energy	45%
Materials	25%
Financials	23%
Communication Services	22%
Consumer Staples	19%
Real Estate	16%
Utilities	12%
Industrials	9%
Consumer Discretionary	-7%
Info Tech	-33%
Health Care	-58%

Source: Bloomberg

U.S. equities have also done well. Over the last 12 months, the S&P 500 Index is the second-best among major stock market bourses, returning nearly 12%. Impressively, that return was achieved without much help from the so-called FAANGM stocks (Meta, Apple, Amazon, Netflix, Alphabet and Microsoft), which returned an average of just 4% over the period.

The Odlum Brown Model Portfolio¹ has held up remarkably well despite heightened market volatility. As of mid-March, the portfolio was down 3% year-to-date, and up over 17% compared to a year ago. Our emphasis on reasonably priced, high-quality businesses and a diversified approach have served us well.

COMPOUND ANNUAL RETURNS* (Including reinvested dividends, as of March 15, 2022)							
	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION**
Odlum Brown Model Portfolio	-3.0%	17.1%	13.6%	9.9%	13.3%	11.2%	14.4%
S&P/TSX Total Return Index	0.3%	14.8%	12.8%	9.7%	8.7%	8.0%	8.8%
S&P 500 Total Return Index (\$CDN)	-9.3%	11.6%	15.1%	13.2%	16.9%	7.7%	10.3%

* Except for YTD period. ** December 15, 1994.

While a deeper and more broadly based equity market correction is a near-term possibility due to the uncertainty around inflation, central bank policies and the Russia-Ukraine war, we are more constructive than we have been in a while regarding the medium and long-term outlooks for the economy and for stocks.

Our positive view is supported by three important considerations. First, the cleansing that has occurred in the speculative areas of the market is a healthy development. It has reduced the market's overall risk profile and enhanced aggregate return prospects. Second, central banks are finally taking the threat of persistently high inflation seriously, and are articulating a resolve to restore price stability. While that commitment might cause some near-term economic pain and stock market volatility, it greatly reduces the risk that inflation will undermine the foundation of the economy and asset values in the long run. Lastly, investor sentiment is broadly negative, with the CNN Business Fear & Greed Index² oscillating between "Extreme Fear" and "Fear" in recent weeks. The upside prospects for stocks are always better when sentiment is subdued, as there is more scope for sentiment to improve. As Warren Buffett wisely once said, "Be fearful when others are greedy and greedy when others are fearful."



MURRAY LEITH, CFA
Executive Vice President and Director, Investment Research
@murrayleith

¹The Odlum Brown Model Portfolio is an all-equity portfolio that was established by the Odlum Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

²cnn.com/markets/fear-and-greed

Odlum Brown's 28th Annual Address

A recording of last month's Annual Address presentation is now available online. Visit odlumbrown.com/address22 to view the video or read the transcript.

Choosing a Pension Income Option

Individuals with a defined benefit pension plan face an important decision when they retire: which lifetime monthly pension income option to choose. It is important to understand each choice and to consider what is important to you and your family for this next phase of life. After all, your choice will have far-reaching impacts for you, your spouse or common-law partner, and potentially other beneficiaries.

What options are offered?

The options offered upon retirement will depend on your pension plan but typically include single life (SL) or joint life (JL) options (if you have a spouse or common-law partner), various guarantee periods, and, if retiring before turning age 65, bridging benefits and possibly supplementary temporary annuity (TA) options. Some examples are illustrated in the table below.

Table 1: Sample pension options (for illustration purposes only)

Option	Monthly Pension Option	Basic Pension	Bridge Benefit	Total Pension Up to Age 65	Total Pension After Age 65	Surviving Spouse's Pension During Guarantee Period	Surviving Spouse's Pension After Guarantee Period
A	SL guaranteed 5 years	\$5,000	\$1,000	\$6,000	\$5,000	\$5,000*	\$0
B	SL guaranteed 15 years	\$4,600	\$1,000	\$5,600	\$4,600	\$4,600*	\$0
C	60% JL guaranteed 5 years	\$4,350	\$1,000	\$5,350	\$4,350	\$4,350*	\$2,610
D	60% JL guaranteed 15 years	\$4,200	\$1,000	\$5,200	\$4,200	\$4,200*	\$2,520
E	100% JL	\$4,000	\$1,000	\$5,000	\$4,000	\$4,000 (due to joint life, not a guarantee period)	
F	100% JL guaranteed 15 years	\$3,500	\$1,000	\$4,500	\$3,500	\$3,500*	\$3,500

* If both spouses pass away during the selected guarantee period, an amount representing the present value of remaining payments in the guarantee period would be paid to the beneficiary(ies).

Single life – This monthly pension continues for your lifetime only. You can choose it only if you are single or your spouse waives their right to the minimum 60% JL pension. SL pensions offer higher monthly income than joint life options because they are based on only one life.

Joint life – This type of monthly pension continues for your and your spouse's lifetime. If you die first, your spouse continues to receive all or a portion of your monthly pension for their lifetime, based on the percentage you selected. You must choose a minimum 60% JL pension unless your spouse waives their right to this minimum.

Guarantee period – A guarantee period determines if your beneficiary (or beneficiaries) will receive any amount from your pension after you die or, in the case of a JL pension, if both you and your spouse die within the guarantee period. The amount paid to your beneficiary would be the present value equivalent to the remaining monthly payments in the guarantee period. Choosing a short (or no) guarantee period increases your monthly pension while you are alive. After the guarantee period ends, nothing would be paid to beneficiaries.

Temporary annuity and/or bridge benefit – If you retire before age 65, your pension typically includes a bridge benefit and may also offer you the option to select a TA. Both of these are temporary benefits which stop at age 65 or upon your death, whichever happens first. As a result, your pension income declines at age 65, as illustrated above. Income from the Canada Pension Plan and/or Old Age Security often partly or fully offsets the decline.

Considerations

Each choice is actuarially equivalent, meaning that each would provide equivalent lifetime income, if certain behind-the-scenes assumptions being made by the pension perfectly match the future – for example, that you

Continued on next page



Odlum Brown Supports Humanitarian Aid in Ukraine

As we watch the events taking place in Ukraine, we are deeply saddened by their humanitarian impact. Our hearts go out to all who are affected, both abroad and here at home.

To support those impacted by this crisis, Odlum Brown has made a special donation of \$25,000 to the Canadian Red Cross Ukraine Humanitarian Crisis Appeal.

Money raised will support preparedness, immediate and ongoing relief efforts, long-term recovery, resiliency and other critical humanitarian activities as needs arise, both in Ukraine and surrounding countries, including supporting populations displaced. The Government of Canada recently matched \$30 million in donations made to this initiative.

For more on the Canadian Red Cross and this appeal, visit [redcross.ca](https://www.redcross.ca).

pass away on the date predicted by the pension's average life expectancy assumption. In reality, however, your 'best' pension choice is an educated but imperfect guess based on the information you have at the time of selection. Here are several factors to weigh when choosing your pension option:

- 1. Estate planning.** If you have a spouse or common-law partner, generally the pension plan will consider them to be your plan beneficiary. However, your spouse can waive this right so that you can appoint other beneficiaries (such as your children from a previous relationship). If you want to ensure that some of your pension value could be passed to a beneficiary who is not your spouse, consider selecting a longer guarantee period.
- 2. Early flexibility or lifetime security.** If you retire before age 65 and a TA is available, consider whether the benefit of additional monthly income early in retirement outweighs the reduced income after you turn age 65. For example, you may want to use additional funds early in retirement for paying off a mortgage, travelling or hobbies, or to reduce your taxable income later in retirement (e.g., if you expect an inheritance or larger RRIF withdrawals). If you worry about having insufficient income later in life you might instead prefer not selecting from TA options.
- 3. Life expectancy.** It's worth considering SL options if your spouse's life expectancy is meaningfully shorter than yours and they will have sufficient income from other sources if you predecease them. On the other hand, if your spouse is more likely to outlive you and has insufficient income from other sources, selecting a JL pension with a higher percentage of income continuance can better protect their retirement security.

Your income is not the only thing likely to change when you retire. In most cases, group benefits through your employer will cease. Some pensions may offer retirees an option to buy extended health, dental and/or insurance benefits through the pension plan. Before declining such coverage, be sure to review your insurance needs with an insurance specialist.

For more information about your pension and retirement income options, contact your pension plan. To discuss your retirement planning and the products and services offered by Odlum Brown Financial Services Limited, please contact us through your Odlum Brown Investment Advisor or Portfolio Manager.



HEATHER RIVERS, BA, CFP®, FMA
Communications and Education Specialist
Odlum Brown Financial Services Limited

Odlum Brown Financial Services Limited is a wholly owned subsidiary of Odlum Brown Limited, offering life insurance products, retirement, estate and financial planning exclusively to Odlum Brown clients.

Odlum Brown in the Community

We are committed to supporting the communities where we live and work, and are proud to sponsor the following upcoming event:



Bard on the Beach June 8 – September 24, 2022 Vancouver, BC

Odlum Brown is pleased to be the Presenting Sponsor of the Family Day & Relaxed Performances at Bard on the Beach. After a two-year hiatus, this beloved Shakespeare Festival is returning to the waterfront for its 33rd season, featuring three unique plays and a range of special events including Opera & Arias concerts, Bard-B-Q & Fireworks (dinner and play evenings), a Vancouver Symphony Orchestra performance and more.

For more information, including ticket sales starting this month, visit bardonthebeach.org.

DISCLAIMER & DISCLOSURE

Odlum Brown Limited is an independent, full-service investment firm focused on providing professional investment advice and objective research. We respect your right to be informed of relationships with the issuers or strategies referred to in this report which might reasonably be expected to indicate potential conflicts of interest with respect to the securities or any investment strategies discussed or recommended in this report. We do not act as a market maker in any securities and do not provide investment banking or advisory services to, or hold significant positions in, the issuers covered by our research. Analysts and their associates may, from time to time, hold securities of issuers discussed or recommended in this report because they personally have the conviction to follow their own research, but we have implemented internal policies that impose restrictions on when and how an Analyst may buy or sell securities they cover and any such interest will be disclosed in our report in accordance with regulatory policy. Our Analysts receive no direct compensation based on revenue from investment banking services. We describe our research policies in greater detail, including a description of our rating system and how we disseminate our research, on the Odlum Brown Limited website at odlumbrown.com.

This report has been prepared by Odlum Brown Limited and is intended only for persons resident and located in all the provinces and territories of Canada, where Odlum Brown Limited's services and products may lawfully be offered for sale, and therein only to clients of Odlum Brown Limited. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country including the United States, where such distribution or use would be contrary to law or regulation or which would subject Odlum Brown Limited to any registration requirement within such jurisdiction or country. As no regard has been made as to the specific investment objectives, financial situation, and other particular circumstances of any person who may receive this report, clients should seek the advice of a registered investment advisor and other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies discussed or recommended in this report.

This report is for information purposes only and is neither a solicitation for the purchase of securities nor an offer of securities. The information contained in this report has been compiled from sources we believe to be reliable, however, we make no guarantee, representation or warranty, expressed or implied, as to such information's accuracy or completeness. All opinions and estimates contained in this report, whether or not our own, are based on assumptions we believe to be reasonable as of the date of the report and are subject to change without notice.

Please note that, as at the date of this report, the Research Analyst responsible for the recommendations herein, associates of such Analyst and/or other individuals directly involved in the preparation of this report may hold securities of the issuer(s) referred to directly or through derivatives.

No part of this publication may be reproduced without the express written consent of Odlum Brown Limited. Odlum Brown Limited is a Member-Canadian Investor Protection Fund.

Odlum Brown Limited respects your time and your privacy. If you no longer wish us to retain and use your personal information preferring to have your name removed from our mailing list, please let us know. For more information on our Privacy Policy please visit our website at odlumbrown.com.



Platinum member

