SIM
STODGELL
INVESTMENT
MANAGEMENT

2021 in Review

Back for the Future

Last year's annual review started with a discussion about the 'alarming increase' in COVID 19 cases. Last January the US had just surpassed 21 million infections. Since then, the world has endured two additional variants, with a fourth recently rumoured to be incubating in the Middle East. Now total infections in the US are almost 58 million, with deaths exceeding 830,000. Canada's infections total more than 2.4 million cases and 30,544 fatalities. World-wide numbers as of the first week of 2022, which are likely understated, number just under 300 million infections with 5.41 million fatalities. Sadly, this is not over. Ontario recently entered a fourth variation of a lock down and despite a relatively high vaccination rate, numbers are increasing quickly. The province of Ontario recently announced that fourth doses of the inoculant will be offered to those most vulnerable. It is hard to imagine when Canadians might achieve herd immunity. Thankfully there are signs that Omicron levels may be peaking in Africa and some parts of the U.S. After almost two years hopefully we may be close to the end.

Our predictions from last year were;

1) Defensive stocks will outperform growth stocks in 2021.

2) Equity prices in North America will provide positive returns and outperform mid to long-term fixed income.

3) Canadian equities will outperform US equities as measured by the S&P TSX index versus the S&P500 index.

Defensive stocks performed very well. Equity prices in North America soundly outperformed mid and long terms bonds which posted negative returns last year. While the S&P TSX index return was marginally below the SP500 (in Canadian dollars) in 2021, the Canadian index did outperform the SP500 up until early November. The SP TSX index gained 25.1% in 2021 versus 27.7% for the SP500 (Cdn$).

…./2

Defensive stocks, for the first time in the past several years, did outperform growth stocks in 2021. Dividend paying companies, typical of SIM's investment philosophy, generally performed better than broad indexes. In the Canadian equity markets there were two significant contributors- Financial and Energy stocks.

As regulators lifted restrictions on North American banks, most major financial institutions announced significant dividend increases and sizeable stock repurchase programs as earnings and cash flows continued to improve. Regulatory filings among Canada's top 5 banks stated intentions of purchasing approximately 160 million of their own shares at an estimated value of approximately 19 billion dollars. Patient investors were we well rewarded in 2021 and will continue to be in the year ahead.

Energy companies, benefiting from improving crude prices last year, also reported strong earnings and cash flows, rewarding long standing investors with increased dividends and share buybacks. Other defensive sectors such as Real Estate, Pipelines (part of Energy), Consumer Staples and Communication Services significantly outperformed noted growth sectors such as Information Technology, Health Care (which contains the Cannabis stocks) and Industrials.

Bonds provided negative returns for the first time in decades last year. While returns for cash and cash equivalents were marginal, they were superior to bonds. While our view on bonds was correct this past year, we were early transitioning to cash equivalents in prior years. Going forward we maintain our conviction that bonds do not provide a suitable risk reward profile. There will be a time when bonds will become attractive again however we don't see that opportunity in the upcoming year.

Predictions for 2022. We are going to double down- predict the same as we did in 2021.

1) Defensive stocks will outperform growth again. More importantly we would emphasize defensive investing- invest primarily lower priced stocks relative to earnings and companies that pay dividends.
2) Equities will outperform mid to long term bonds. Interest raises will rise again in 2022 putting pressure on high priced growth companies.
3) Canadian equities will outperform U.S. equities. U.S. mid-term elections later this year will likely increase volatility in global equities markets, particularly in the U.S.

Thank you for your confidence in the past. Best wishes for good health and prosperity in 2022.

Stodgell Investment Management Limited • 40 St. Clair Avenue West • Suite 405 • Toronto • Ontario • M4V 1M2 • Tel: (416) 214-6767 • Fax: (416) 214-6778