Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Timely Update On Your Discretionary Portfolio

Current Thoughts

Dear Clients,

Over the last couple of weeks, we have been making a number of adjustments to the discretionary portfolio, as there had been a significant rebound in equity markets, from the lows in late March. Approximately 50% of the losses seen in the markets from peak to trough had been recovered recently, as investors began to look for signs that a recovery was on the way. This quick partial recovery has been common in previous market selloffs. However, this level can also be a large resistance point for further gains in the short term, depending on the outlook for the economy at the time.

While we still expect that the market will fully recover down the road, we felt that the short-term risk in the markets was to the downside, especially after the significant market rebound. As a result, we subsequently increased our cash position earlier this month by selling the XSP ETF we had held in the Canadian model as a short term exposure to the S&P 500 (please note that this is in addition to the cash we raised in early January). We will continue to be holding this cash in the short term, until a better opportunity arises.

We have also been using this bout of volatility as an opportunity to rebalance positions in both our fixed income and equity models.

Earlier this month, we noticed that the corporate bond market had begun to be severely underpriced, based on the rush to the exits. This was dragging down even high quality corporate bond prices. The opportunity was short-lived, as these bond prices have begun to significantly recover. However, since we are able to react in a timely and efficient manner through our discretionary mandate, we increased our corporate bond exposure in the model while trimming some of the government bond positions that had performed extremely well since we added them last year when interest rates were much higher. This trade has worked out quite well, as the corporate bond funds we hold have increased in value several percentage points since we made the change.

We have also just recently rebalanced our US equity model on Monday morning, which will reposition each stock held to our preferred weighting in the model. At the same time, we removed Bank of America (BAC) from our model and added PayPal (PYPL) and Activision Blizzard (ATVI). Earlier this month, we also removed Union Pacific (UNP) and replaced it with Lockheed Martin (LMT). We continue to prefer companies that will not only perform well in this current economic climate, but also will come out the other side in a great position to thrive.

We have not rebalanced the Canadian model as of this time, but have made some changes throughout March and April to reflect our best ideas. The main part of this was removing any direct energy exposure that we had in early March. We have always been extremely light on energy exposure, but last month we made the decision to get out entirely. As recent events in the oil market have shown, this sector is extremely risky, as a good company's fortune can still be too dependent on a commodity price. We also removed companies that had more specific risk associated with a longer economic downturn (Suncor, Brookfield Property Partners, Onex, Canoe Energy), and added to some high quality companies in our model that were trading at significantly discounted prices (Telus, Royal Bank, Fortis, Granite REIT, WSP Global to name a few).

As always, we are staying vigilant and making the best decisions possible. We continue to expect increased volatility throughout the next few months, which can be stressful, but also an opportunity for disciplined investors.

We also wanted to mention that we are extremely pleased with the relative outperformance of the portfolio throughout this crisis. We have no direct energy exposure, we are slightly underweight financials, overweight technology and healthcare, which have all worked in our favour. In the past week, a number of companies in our model have actually traded at all-time highs such as Cargojet, Amazon, DocuSign and Netflix.

We know this may take a while for things to feel normal again, but in the meantime, we are 100% capable of managing your portfolio from our remote offices (homes).

Thank you for your trust in us. And as such, if you know any family member or friend that is struggling with their portfolio or any wealth management need during these most difficult times, we would be more than happy to help and reach out to them directly.

Please feel free to contact us directly if you have any questions.