Every Dog Has Its Day

At our 2019 Annual Address, we highlighted seven stocks in the Odum Brown Model Portfolio* that performed especially poorly last year. Surprisingly, the audience reacted with chuckles. Perhaps that was because of the guilty looking dog we projected on the screen. We suspect some of the quiet laughter reflected relief that we were acknowledging our mistakes.

Investing is a humbling affair and it’s always wise to recognize errors; but, that was not the purpose of the discussion. Rather, it was to suggest that selling the dogs when they are loathed and depressed would likely exacerbate the situation.

It’s natural to have doubts when investments disappoint. However, doubt can damage your portfolio if it promotes selling at an inopportune time. Most investors perceive greater risk when stocks go down, but the opposite is often true. The risk of losing money goes down as prices fall, while prospective returns go up. Think of it like a teeter-totter: price/risk on one end and return on the other.

We have owned frustrating stocks before, and patience has yielded big rewards. Not all dogs recover, but history and our own experience suggest many dogs will have their day. That has certainly been the case this year. The seven stocks highlighted at the Annual Address produced an average return of 31% for the year through to mid-April, led by Coty Inc. – our worst performer in 2018 – with nearly a 70% return. Comparatively, last year’s 10 best-performing stocks yielded an average return of 13%; that’s less than the 16% and 15% returns for the respective S&P/TSX Composite Index and the S&P 500 Index ($CDN).

While this recent experience highlights the potential benefits of a contrarian investment approach, it would be a mistake to get carried away betting on the laggards. We believe our dogs have done particularly well this year because the general disdain for such stocks was extreme late last year.

In fact, it was the first time in many years that we felt investors were irrational and unjustifiably negative toward a group of stocks. In a December 20, 2018 Market Comment titled, “The Storm Will Pass,” we identified leveraged businesses, Canadian energy companies and U.S. housing-related stocks as severely beaten up and discounting an overly pessimistic outlook.

Investor sentiment has improved considerably since then, and the valuation spread between loved and unloved stocks is not as extreme; as such, the odds the dogs will outperform are no longer as good.

Moreover, contrarian investing has generally not worked well in recent years; it has been more profitable to ride the winners. While that might seem intuitive, it is not always the case. In the Model’s first 10 years, we regularly took profits from our winners and reinvested them into the laggards. This strategy worked very well and produced a compound annual return of roughly 20% between 1994 and 2005.

But, times have changed. We live in a more challenging, slower-growth world, in which the competitive advantages of the best businesses are fortified. Technology, increased regulation and globalization are key reasons for this trend and are unlikely to change. Our investment style has evolved to Continue on next page
Echo our view that the best businesses are most likely to thrive in this economic environment. It’s not like the good old days, when a rising tide lifted all boats.

Still, we reflect on the strong performance of our dogs this year as a reminder that contrarian investing is not entirely dead. It’s a strategy that works when investor sentiment is excessively negative. It’s worth remembering the expression “every dog has its day” the next time you feel anxious about a bad market and the dogs in your portfolio.

THUNDERBIRD SHOW PARK
Spring and Summer 2019

We are pleased to once again be a Premier Partner of Thunderbird Show Park. Upcoming events this season include the Odium Brown BC Open, featuring the prestigious Longines FEI Jumping Nations Cup™ of Canada, from May 28 to June 2, and the Odium Brown Limited Grand Prix on July 7, 2019.

Thunderbird Show Park continues to be ranked one of the top horse show venues in North America. This premier equestrian facility is located in Langley, home of one of our Odium Brown branches and the horse capital of British Columbia.

For more information, visit tbird.ca.

Finding Value in Canada’s Best Dollar Store

Some of my fondest memories as a child are of going to the dollar store. It was the only place my meagre allowance would go very far. To my childhood self, dollar stores were the best and they are still adored by many Canadians today. When I think of dollar stores now, the largest Canadian brand comes to mind: Dollarama.

Despite its favourable image among value shoppers, Dollarama shareholders probably felt very differently about the company in 2018. Shares began the year trading at roughly $50. The company was heralded as one of Canada’s greatest businesses and investors were optimistic. However, things quickly took a turn for the worse. The company reported a series of disappointing financial results. Same-store sales growth, which measures sales growth in stores open for at least one year, slowed to a rate not seen since the 2009 recession. Moreover, negative headlines about the company’s prospects began to circulate, causing investors to worry. To add insult to injury, a short-seller (someone who profits from a drop in the stock) came out with a negative report on the company, causing investors to outright panic and dump their shares. Coinciding with skittish investor sentiment and generally weak equity markets, Dollarama’s share price bottomed near $30 towards the end of 2018, down 40% from where it started the year. Did the value of the business deteriorate that much, or was this a case of investors overreacting?

After studying Dollarama carefully, we concluded that investors were indeed too pessimistic on the company’s outlook. We subsequently recommended the stock in late 2018 and added it to our Odium Brown Model Portfolio* in March of this year.

Dollarama is different than the average dollar store because it sources goods directly from manufacturers and sells merchandise at fixed-price points, up to a maximum of $4.00. Dollarama does not change prices week to week the way other retailers do. Instead, it offers a consistently low price every day, thus maintaining its reputation as the lowest-cost retailer. Canadians respond favourably to this approach, which is why Dollarama has over 1,200 stores across the country and continues to grow. While the company’s long-term target is 1,700 stores, we think the ultimate number could be far greater.

Beyond Dollarama’s national ambitions, management is also exploring exciting opportunities in Latin America. The company has the option in February 2020 to purchase a majority stake in a Latin American chain called Dollar City, which closely resembles the look and feel of Dollarama. The opportunity to create shareholder value is significant, given that Latin America’s population is considerably greater than Canada’s. In addition, Dollarama still has several levers it can pull to increase sales and profits. The company can introduce higher price points, allowing it to sell an even greater assortment of goods. Dollarama also recently launched an online platform to sell products in bulk, which is beginning to see repeat customers. This is an encouraging sign that its offerings are resonating well with consumers.

Just as Dollarama caters to the value-conscious shopper, the stock is well suited for value-focused investors. When weighing the company’s fundamentals and prospects with its valuation, we are definitely getting a bargain!

* The Odium Brown Model Portfolio is an all-equity portfolio that was established by the Odium Brown Equity Research Department on December 13, 1994, with a hypothetical investment of $250,000. It shows the results of 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.
Guaranteed Income Options with Life Annuity Products

For many clients, annuities may provide a solid foundation for guaranteed retirement income. Annuities can range from a simple life annuity to a more complex variable annuity (commonly referred to as guaranteed minimum withdrawal benefit plans [GMWB]). In this article we will exclusively discuss life annuities.

One of the most common questions we are asked is, “How much income would I receive from purchasing a life annuity?”

Several factors influence the income received from a life annuity, including the:

- Demographic of the annuitant (i.e. gender and age);
- Type of annuity purchased (i.e. single life or joint life);
- Frequency of income payments received (i.e. monthly or annually);
- Length of the purchased guaranteed payment period;
- Type of funds used to purchase the annuity (i.e. registered, non-registered or pension); and
- Other special features chosen (i.e. indexing).

One of the most important decisions to make before purchasing an annuity is finding a guarantee that suits your circumstances. A guarantee specifies what happens to the remaining capital when an annuitant dies. There are many options available, ranging from a zero guarantee (where payments stop when an annuitant dies) to a cash refund of the original annuity purchased (less the income received before death), payable to a named beneficiary. It is important to note that if an annuitant dies during a guaranteed period, the balance of the guaranteed payments is provided to the estate or beneficiary named. If the annuitant lives beyond the guaranteed period, the annuitant will still continue to receive payments for the duration of his or her life.

Here is an example of the lifetime monthly income you could receive from an annuity purchased with $100,000 of non-registered funds, providing a minimum 10-year guarantee.

<table>
<thead>
<tr>
<th>Age</th>
<th>65</th>
<th>70</th>
<th>75</th>
<th>80</th>
<th>85**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Life Male</td>
<td>$489</td>
<td>$569</td>
<td>$654</td>
<td>$755</td>
<td>$892</td>
</tr>
<tr>
<td>Single Life Female</td>
<td>$464</td>
<td>$526</td>
<td>$606</td>
<td>$708</td>
<td>$830</td>
</tr>
<tr>
<td>Joint Life Annuity*</td>
<td>$420</td>
<td>$472</td>
<td>$546</td>
<td>$651</td>
<td>$729</td>
</tr>
</tbody>
</table>


*The Joint Life Annuity is based on a male and female of the same age for illustration purposes.

** At age 65, the guaranteed period is five years, as this is the maximum that can be purchased at age 90.

Annuities purchased with non-registered funds have an added advantage, as only a portion of each payment is considered taxable income. As listed above, the monthly payment for a joint life annuity purchased for a male and female, aged 75, is $546. The "taxable" portion of this monthly annuity income payment would be $79, or $948 annually. In many cases, annuity income will also qualify for the annual $2,000 Pension Income Tax Credit, which can reduce or eliminate the tax otherwise payable on the annuity income.

You may wish to consider a life annuity if you seek:

- Guaranteed income for life;
- Higher monthly income than many other guaranteed income products provide;
- Guaranteed payments without exposure to market volatility; or
- Tax advantages for annuities purchased with non-registered funds (available in some cases).

To understand the many options for today’s annuity products and whether they may be suitable for your retirement income needs, please contact us through your Odulum Brown Investment Advisor or Portfolio Manager.

RITA AGER, CFP, CLU, CHS, CPC, FEA
Insurance Specialist
Odulum Brown Financial Services Limited

Odulum Brown Financial Services Limited is a wholly owned subsidiary of Odulum Brown Limited, offering life insurance products, retirement, estate and financial planning exclusively to Odulum Brown clients.
5 Tips for Being Cyber Safe

Data security is very important to us at Odlum Brown and we regularly participate in security training and software upgrades to protect your data. Here are a few tips for how you can improve your cyber security at home.

1. Protect your email account with a strong password
A major portion of cybercrime thefts are linked to hackers gaining control of an email account. With control of your email account, a cybercriminal has the ability to impersonate you and make requests for products, services and fund transfers. In addition, your email account can be a treasure trove for access to your personal identity information. To protect your email account, make sure your password is strong and has a minimum of 10 characters. A good practice is to use a passphrase from a sentence you can easily remember.

Here is a simple passphrase example based on a Sun Tzu quote: “In the midst of chaos, there is also opportunity.” You can then add a number sequence such as “1600” and a special character “?!” that you will remember. The resulting password for this example would be: 16007?tmoctao

Many email account providers also provide multi-factor authentication to verify your identity for account use verification. This will provide you with more assurance that your email account is safe. For example, if someone tries to change your password, it will be more challenging for them as they will need to have more bases covered such as access to your mobile phone, a secondary email address, etc. In addition, you are alerted when an attempt is made to alter your password. If this option is available to you, you should take advantage of it: it’s both simple and convenient to activate.

2. Be careful with WiFi public hotspots
Avoid doing business or submitting any of your credentials over public WiFi. Also, do not download software applications over public WiFi. LTE Mobility services are a better option if you need to do business when using mobile.

3. Keep your computer and mobile device updated
Today’s operating systems from companies such as Apple and Microsoft are developed with security and data protection as a core deliverable. New vulnerabilities are constantly being identified and updates are being released to address them.

4. Beware of phishing
If you are being asked to do something or to provide personal information, be very careful. Verify the request is legitimate by making your own inquiry to confirm the person or agency making the request is not being misrepresented. Also, ensure you understand why the information or action needs to be taken. For more information on phishing, visit odlumbrown.com/phishing.

5. Home Internet
Change your default home router administrator and network access passwords for WiFi. Many home routers come equipped with a default user name and password that cybercriminals will attempt to use.

If you have any questions about how Odlum Brown protects your data, please do not hesitate to contact your Portfolio Manager or Investment Advisor.

For additional resources to enhance your cybersecurity awareness, please visit:
http://www.getcybersafe.gc.ca/index-eng.aspx or
https://www.sans.org/security-awareness-training/ouch-newsletter