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# THE JOHNSON LEGACY REPORT

Building Trust for Generations



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## For the Record Books.

The last nine months have been nothing short of...crazy! We were cautiously optimistic entering 2020 following a pretty decent year in the stock markets. However, no one could have predicted what was about to unfold starting in March.

### The Drop:

Dating back to post WWII, a +30% drop in the S&P500 took an average of 18 months to complete from top to bottom. The longest being 30.5 months from March 2000 to October 2002 when the tech bubble burst. Fast forward to February 19, 2020 and the market took just 1.1 months to fall 33.9% from peak to trough setting a new record and making unprecedented history.

### The Recovery:

On the flipside, (thank God there's a flipside!) the average number of months it takes the market to recover from the bottom and/or start marking new highs is four to five years (49-66 months). This time around, it took the S&P500 less than SIX MONTHS to start making new all-time highs. A mind boggling statistic to say the least.

So what's fueling the fastest bear market recovery in history? A multiple of things like record low interest rates, a massive amount of government stimulus, but mainly a surge of money flowing into a few mega-cap technology stocks. We all remember the FAANGs from a few years ago, Facebook, Apple, Amazon, Netflix and Google. Now throw in companies like Tesla and Zoom and you've got a handful of companies carrying the index higher and creating a major disconnect between them and the majority of other great companies that are still negative on the year.

Speculation in Tesla has pushed its share price so high it's now the ninth largest company in the US, more valuable than companies like Toyota, Walmart and Johnson & Johnson. To put this in perspective, Toyota's stock market value is \$185 billion, they sell approximately 10 million cars per year, pays a 4.0% annual dividend and had a net profit of approximately \$23 billion in 2019. Their stock price is -6.0% year to date.

On the other hand, Tesla's stock market value is \$443 billion, they sold 367,200 cars and didn't make a profit in 2019. Their stock price is up 430% year to date. Stretched valuations like this should give investors pause as history often suggests buying into an expensive (technology) market limits future gains.

While growth in technology is attracting all of the attention, high quality dividend paying stocks are still expected to outperform in the coming decade. Dividend paying stocks have outperformed the TSX over the last 40 years and with government bond yields below the level of inflation, investors will continue to gravitate to higher yielding investments that can meet their requirements for income.

Bottom line, don't give in to your inner FOMO by chasing the current momentum and euphoria in a handful of technology stocks. It's more important to have a balanced, well-laid-out game plan, focused on diversification and the long-term fundamentals then sticking to it.



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## Market Pulse:

Major Stock Indexes	Level/Price	YTD Return Ending Aug 31st/2020
S&P/TSX Comp	16,514	-3.22%
S&P 500 Comp	3,500	8.34%
Dow Jones Industrial Avg	28,430	-0.38%
Major Bond Index		
Dex Universe	1,210	7.66%
Commodities		
Crude Oil - WTI (US\$/bbl)	\$43.03	-29.53%
Gold (US\$/oz.)	\$1,991	30.69%
N. Gas (US\$/MMBtu)	\$2.57	17.41%
Currency		
Canadian Dollar (CAD/USD)	\$0.77	-0.30%

Source: FactSet, Raymond James Ltd.

## Personal Updates:

Lori is wondering where August went. She and a girlfriend did enjoy five nights on Vancouver Island. She stayed in Sidney for two nights and took ferries to Salt Spring Island and Pender Island from there. Lori spent two nights in Victoria and did a lot of walking and sightseeing and spent the fifth night in Cowichan Bay. Paul Johnson's daughter works at Shawnigan Lake School so she toured Lori and Kirsten around the amazing property and took them boating for the day. It truly is a beautiful part of Canada.

Jay and the family had a wonderful August! Lots of trips to the dog beach with Dolly Parton (their seven year old chocolate lab), a few boating trips to rattle snake island and out to Vernon, lots of biking and a four day trip to Whistler. One of the highlights of Whistler was an amazing multimedia night walk/show through Cougar Mountain created by Vallea Lumina. On the way home, they decided to drive the back roads through Pemberton, Lillooet, Spences Bridge and down to Merritt. Apart from the kids getting slightly car sick, the scenery was amazing 😊.

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