PORTFOLIO ACTIVITY

In December, we trimmed profit in HCA Healthcare and liquidated Intl. Flavors & Fragrances in DM Foreign Equity, with resulting funds added to our positions in Cisco Systems and Middleby Inc. In DM Canadian Equity, we deployed accumulated cash to select portfolio holdings.

FEATURE STOCK

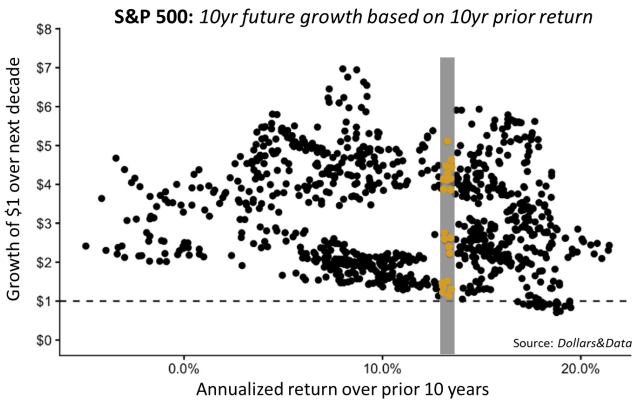
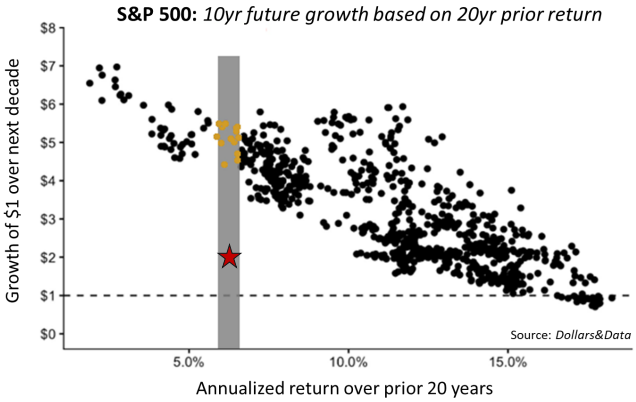
Apple Inc. (AAPL)

AAPL shares defied common wisdom in 2019 by generating an astounding total return of more than 88%. Just months ago, the prevailing narrative said that AAPL's best growth years were behind it: the iPhone was reaching marketplace saturation, the company was so big that no new product could possibly move the needle and, because it was so widely held, there was no one left to buy the stock anyway. Helped by this downbeat storyline, AAPL carried a significant valuation discount to its large cap peers in the tech space, prompting one portfolio manager to observe that it was trading "like a steel mill going out of business". Just as disinterest in the stock was peaking, however, it staged a massive turnaround, propelled by stronger than expected iPhone 11 and Airpod sales and momentum in its services business. Now analysts are talking about the start of a "5G supercycle" for the iPhone and ratcheting up share price targets in tandem. Despite their meteoric 2019, we continue to like AAPL shares for the year ahead.

MORE THOUGHTS ON THE DECADES PAST AND FUTURE

In our Q4-19 portfolio commentary, we facetiously claimed to know exactly what the coming decade would bring (actually, we were imagining it was January 1990 instead of 2020 and that we were about to invest with the benefit of perfect geopolitical and economic foresight). Our aim was to emphasize that, even though compelling predictions for the next 10 years are now abundant and illuminated by vivid descriptions of current conditions, stock performance often bears little correlation to what our rational minds perceive to be the most important factors.

Another common cognitive bias that influences investor behaviour is the belief that an extended period of growth is most likely to be followed by reciprocal weakness. The first scatterplot below displays how the S&P 500's performance in one decade (vertical axis) is correlated with what it had done in the previous 10 years (horizontal axis). As you can see, there is no discernible relationship between the two variables, with a completed decade holding almost no predictive power for the next. When the S&P has earned something similar to the 13.5% generated from 2010 to 2020 (grey shaded bar), history has shown that virtually any result is possible over the following decade (gold dots).



If returns for the prior *two* decades are considered, however, things get interesting. When this data is plotted, a definite pattern emerges, showing a fairly strong inverse relationship between past and future performance. Over the 20 year period to the end of 2019, the S&P generated an annualized return of about 6.2%. When similar two-decade results have occurred in the past (grey bar), performance for ensuing decades has been exceptional, with stock prices rising by between four and six times. If the market were to 'only' double over the coming decade (implying a 7.2% annual return) the red star on the chart would be exceptional in its deviation from trend. Of course, history is not compelled to repeat, but for those interested in precedent, the current backdrop might look appealing.