DIXON MITCHELL INVESTMENT COUNSEL

DM MONTHLY REPORT
May 2020

PORTFOLIO ACTIVITY

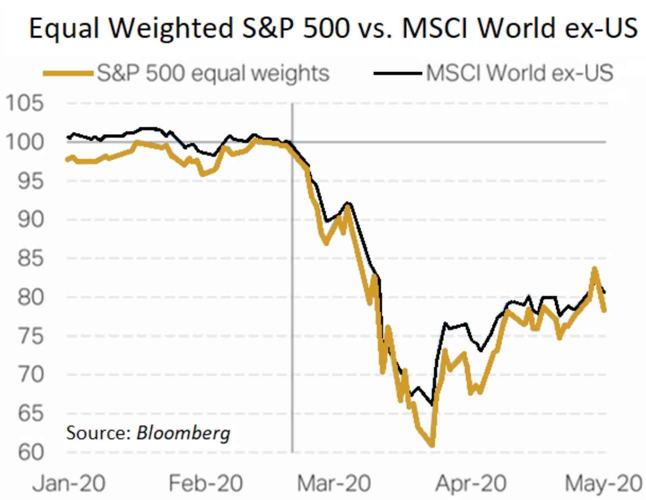
We neither added new names nor liquidated any existing holdings during April, though select rebalancing transactions were completed during the month.

FEATURE STOCK
Dollarama Inc. (DOL)

As Canada's leading discount retailer with nearly 1300 stores across the country, DOL was deemed an essential service during the COVID-crisis. Like many companies in recent weeks, DOL declined to provide guidance for upcoming quarters in its April 1st earnings release, but did say that it experienced a surge in sales as customers stocked up on essentials, then a slowdown when Canadians were instructed to stay at home as much as possible. Management also indicated that same-store sales comparisons will be negative for the balance of this quarter, with growth expected to resume as the broad economy reopens. During its fiscal year ended February 2nd, DOL generated diluted earnings per share growth of 7.5% and opened 66 new stores, on top of the 65 locations launched in the previous 12 months. In recognition of sacrifices made during a difficult time, DOL elected to pay its store, distribution centre, and warehouse employees an extra 10% between March 23 and July 1. Reflecting its core role in the Canadian consumer economy and its favourable position for the post-COVID world, DOL shares have significantly outperformed the TSX so far in 2020.

HAVE US STOCKS FALLEN FAR ENOUGH?

By the end of April, the S&P 500 had reclaimed a significant portion of its initial COVID-crisis decline, leaving some to wonder how Wall Street's seemingly sanguine mood could have become so disconnected from what we all see happening on Main Street. A good portion of the US bellwether's recovery, though, can be explained by its composition, rather than its constituents. The S&P is a 'cap-weighted' index, meaning that larger companies have greater influence on its performance and, at the moment, Microsoft, Apple, Amazon, Alphabet, & Facebook account for a 20%+ benchmark weight. These companies also happen to be faring particularly well in the new economic environment and their stocks have reflected this, with each now in positive territory for 2020. Looking at the market in a different way, the chart above plots an *equal weighted* version of the S&P 500 against the standard non-US global index. As you can see, US stocks *on average* are down significantly so far this year and by about the same degree as their peers in other major markets. In Canada, the TSX has been similarly influenced by Shopify, a high valuation stock which recently caught Royal Bank as the country's largest company by market capitalization.



One of the other potential reasons that markets have held up relatively well is because the competition for capital is fairly limited at the moment (a state that some have labelled "TINA", or *"There Is No Alternative"*). For perspective, the table to the left shows where the 10yr Gov't of Canada bond yield sat at the start of each of the previous significant bear markets. As you can see, an investor with $1 million had options at those times and could have retreated to the bond market to generate a reasonable level of income. Today, however, the natural alternative to stocks pays next to nothing and likely isn't providing much of a draw for investment capital.

Yr. of Bear Market	10yr Cda. Yield	Income on $1 million
1968	6.79%	$67,900
1973	7.56%	$75,600
1980	12.48%	$124,800
1987	10.42%	$104,200
1990	10.68%	$106,800
2000	6.02%	$60,200
2007	4.42%	$44,200
2020	0.61%	$6,100