



Financial Letter
Volume 11 Number 3



July 31, 2020

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Introduction

Hello everyone,

Stock markets have a habit--good for some, annoying for others--of often doing the opposite of what the average investor expects. At the end of March, prophets of doom loudly proclaimed that the global financial system was on the brink of collapse because of the current crisis. They were proven wrong. Once again – history has been repeating itself for over 200 years – the North American stock market recovered in spectacular fashion. Of course, the current pandemic will have a longer-term impact on markets, and we must be prepared to turn defensive at the first signs of a downturn. However, as the ousted CEO of Citigroup aptly put it: “As long as the music is playing, you’ve got to get up and dance!”

Once again in this quarter, our trend following approach paid off. As of July 31, all our traditional strategies were positive for 2020 while the indexes remained in negative territory. Click on the link below to view the gross return of the equity portion of our portfolios:

<https://rivemont.ca/wp-content/uploads/2020/07/Actions-2020-06-30.pdf>

On a different note, Les Affaires Plus magazine regularly profiles a recognized Quebec investor. The Summer 2020 issue tells the story of Martin Lalonde, founder of Rivemont. I strongly urge you to take a look, especially if you don't know me well.

<https://rivemont.ca/wp-content/uploads/2020/06/image-ML-1-et-2.png>

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We begin this newsletter with an overview of the current crisis and its impact on financial markets, followed by an in-depth analysis of our investment decisions for the Rivemont Alpha Fund, which performed particularly well during the market decline. Then, as usual, we will present our market outlook and our largest positions.

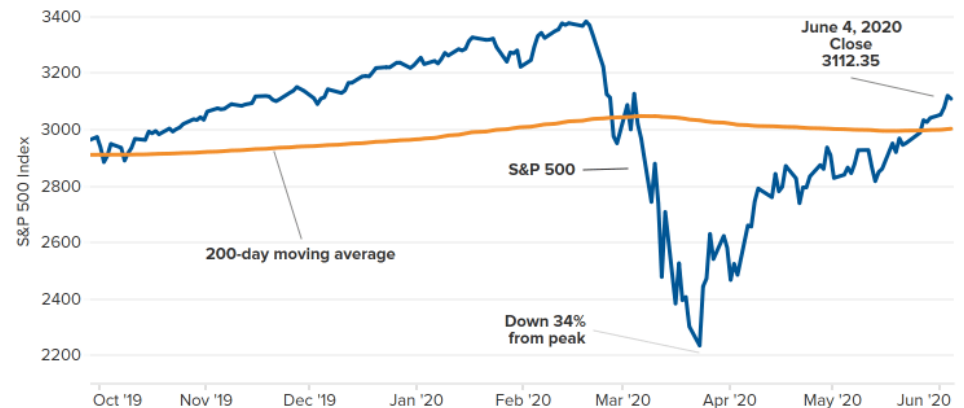
Enjoy!

Coronavirus and Equity Markets

Borders are closed, events are cancelled, unemployment is on the rise and global growth is completely stalled. Nevertheless, the rebound in markets was as sharp as it was unexpected. The reason is obvious. A certain consensus now exists among financiers that the crisis is temporary, a vaccine will soon be developed and that there will be a strong rebound in consumer activity during the recovery. Although this might seem like an optimistic scenario, history teaches us that this is more or less what happened during previous pandemics, including the 1918-19 Spanish flu epidemic that preceded the Roaring Twenties.

“the strength of the rebound is commensurate with that of the decline that preceded it.”

Comeback from the coronavirus



SOURCE: FactSet



The chart above clearly illustrates a V-shaped recovery, where the strength of the rebound is commensurate with that of the decline that preceded it.

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However, there is a big caveat here, because this recovery is one of the most uneven in history if we compare industries. In fact, big technology firms contributed almost all the gains in the major U.S. indexes, which partly explains the underperformance of the Canadian market over the same period. This situation resulted in two important consequences that investors must absolutely take into account in upcoming quarters.

First, the five biggest technology companies now make up nearly 20% of the S&P 500, something that has not been seen since the tech bubble of the late 2000s.



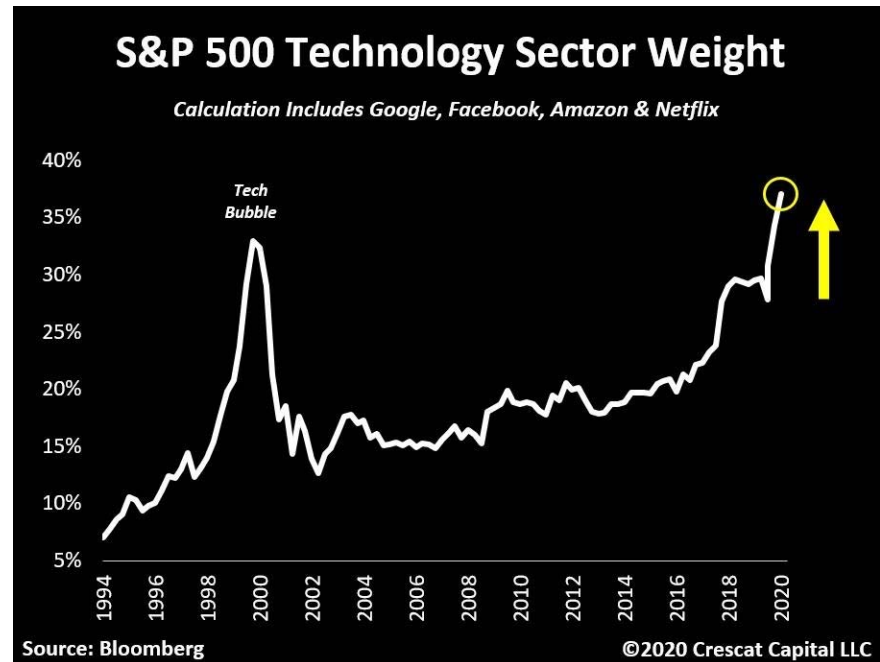
“The recovery is very uneven among the sectors of the economy.”

Here is how each industry is trending among U.S. large caps:

GICS Sector	6/30/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Communications	10.78%	10.39%	10.13%	-	-	-
Consumer Discretionary	10.83%	9.75%	9.94%	12.21%	12.03%	12.89%
Consumer Staples	6.97%	7.21%	7.42%	8.20%	9.37%	10.05%
Energy	2.82%	4.35%	5.31%	6.08%	7.56%	6.50%
Financials	10.09%	12.94%	13.30%	14.79%	14.81%	16.48%
Health Care	14.63%	14.20%	15.54%	13.78%	13.63%	15.17%
Industrials	7.99%	9.05%	9.20%	10.27%	10.27%	10.05%
Information Technology	27.47%	23.20%	20.12%	23.78%	20.77%	20.69%
Materials	2.52%	2.66%	2.73%	2.99%	2.84%	2.76%
Utilities	3.07%	3.32%	3.34%	2.94%	3.17%	2.99%
Real Estate	2.84%	2.93%	2.97%	2.89%	2.89%	-
Telecoms (discont.)	-	-	-	2.06%	2.66%	2.43%

Source: Sibilis Research.

And here is the weighting of the four largest companies in the technology sector:

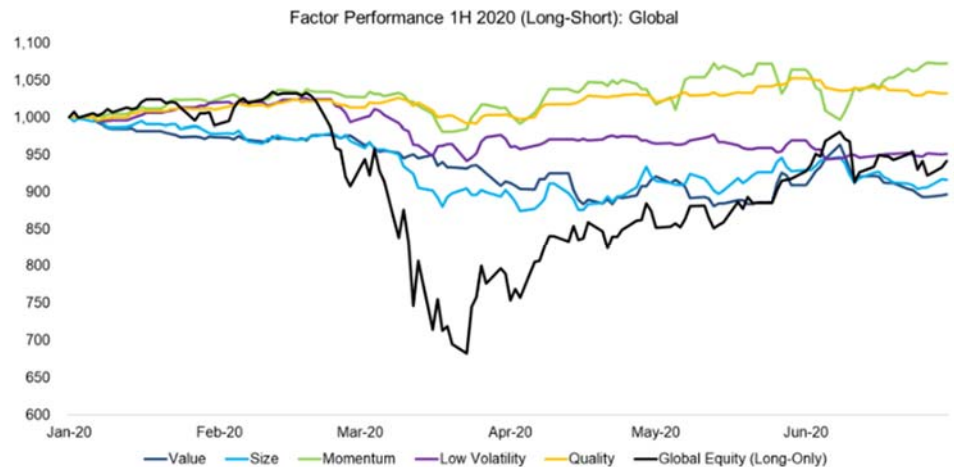


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Currently, an investor choosing certain Exchange-Traded Funds would get a concentration that is possibly higher than desired along with less than optimal diversification.

Second, the performance of the technology sector has meant that value strategies have produced mediocre returns over the past decade compared to growth strategies. Here is the return by investment style since January 1, 2020:



Source: Factor Research, Factor Olympics 1H 2020

Rivemont's trend monitoring strategy has benefited its investors the most in 2020. It did better before, during, and after the crisis, across all strategies.

Rivemont Alpha Fund

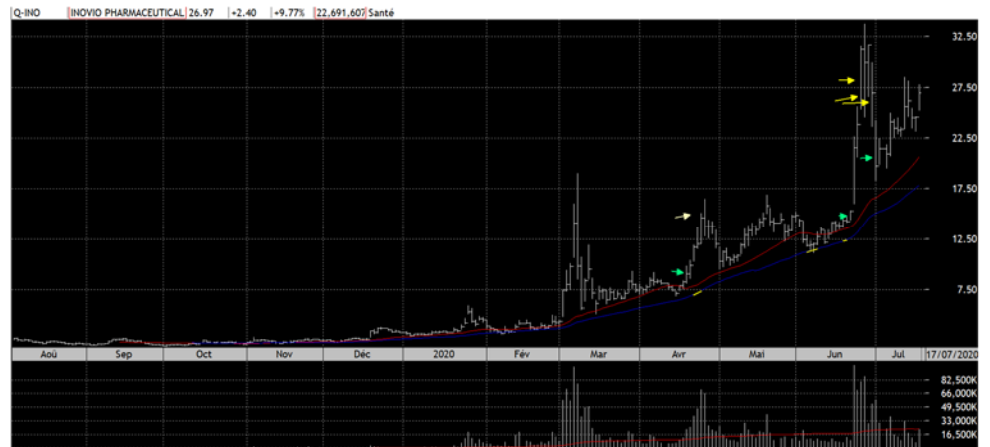
As of July 30, 2020, the return of the Rivemont Alpha Fund stood at 13 % since its launch last January 1, while markets posted negative returns for the same period.

In the second quarter, we focused on long positions chiefly in two industries: gold and biotechnology. As a side note, we also integrated the IBB Exchange-Traded Fund (iShares NASDAQ Biotechnology Index) into traditional strategies during the quarter to seize on the current enthusiasm for this sector.

The Alpha Fund, which profits from rising and falling markets, is, in our opinion, perfectly constituted to take advantage of the current exaggerations. We can

quickly build up or trim positions in order to profit from trends that are often short-lived, but strong, as the example below shows.

“The Rivemont Alpha Fund benefited from its concentration in the gold and biotechnology sectors.”



Inovio is a biotechnology firm currently working on a vaccine against COVID-19. We made our first purchase at around \$9.25 and sold the stock at \$15.75. We then repurchased the shares at \$15 and sold them at about \$27. Finally, we bought them once again at \$22.

The company is without question on an upward trend, as is the entire industry to which it belongs. This is a perfect example of what we are trying to do with this fund. Of course, we will follow the same logic if a particular industry starts on a downward trend. We currently have few short positions, but this could change quickly.

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Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Still underweight in bonds.	We recommend adding alternative investments to portfolios.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	U.S. equities still lead the pack.	Gold is certainly trending higher.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Long-term government bonds have little attraction.	We recommend the most defensive products and cash.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	U.S. assets are still just as essential to our portfolios.	We do not anticipate any abrupt currency movements.

Favorite Securities

You will find below a list of the individual securities with the largest weight in our "growth" portfolio. These stocks were selected based on their respective potential to outperform the stock market. You will find a short description of their activities, the annual dividend, if any, and the total return since their first inclusion in our portfolio.

As of July 29, 2020

1) Symbol: XGD

Name: **iShares S&P/TSX Gold ETF**

Description: Canadian gold producers.

Dividend Yield: 0.1%

Total Return: 75%

2) Symbol: DOCU

Name: **DocuSign**

Description: Electronic signature software.

Dividend Yield: 0.0%

Total Return: 274%

3) Symbol: AMZN

Name: **Amazon**

Description: Online retailer.

Dividend Yield: 0.0%

Total Return: 48%

4) Symbol: STN

Name: **Stantec**

Description: Construction engineering.

Dividend Yield: 1.4%

Total Return: -2%

5) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance.

Dividend Yield: 2.4%

Total Return: 53%

6) Symbol: RY

Name: **Royal Bank**

Description: Financial services.

Dividend Yield: 4.6%

Total Return: 24%

7) Symbol: IBB

Name: **iShares NASDAQ Biotechnology**

Description: Biotechnology companies.

Dividend Yield: 0.3%

Total Return: 0%

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Conclusion

The returns we are currently generating relative to benchmarks cannot continue indefinitely. While we are fully confident that our strategy is working and will continue to work, a 27.4% gross return over three months for the equity portion of the portfolios exceeds the range of expected results. Let us take advantage of this windfall while there is still time to do so, while showing restraint. The market will soon bring us back to reality, as it always does.

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT

The information presented is dated June 30, 2020 unless otherwise specified and is for information purposes only. The information comes from sources that we deem reliable, but its accuracy is not guaranteed. This is not financial, legal or tax advice. Rivemont Investments is not responsible for errors or omissions with respect to this information or for any loss or damage suffered as a result of reading it.

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