The Internet Wealth Builder

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BUILDING WEALTH
The Internet Wealth Builder

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SETBACK FOR RRSP PORTFOLIO

By Gordon Pape, Editor and Publisher

We last reviewed our model RRSP Portfolio in mid-February, when the world was a very different place and the coronavirus was a distant problem in China. Much has changed since then, so let's take a fresh look at this portfolio and see what the impact has been.

This portfolio was launched eight and a half years ago, in February 2012. It has two main objectives: to preserve capital and to earn a higher rate of return than you could get from a GIC. The original value was $25,031.92. About 30% of the portfolio is in bonds and cash. The balance is in growth-oriented assets that offer exposure to the Canadian, U.S., and international equity markets. The portfolio contains a mix of ETFs, stocks, and limited partnerships so readers who wish to replicate it must have a self-directed RRSP with a brokerage firm.

These are the securities currently in the portfolio with comments on how they have performed since the last review. Results are as of the afternoon of Aug. 14.

PIMCO Monthly Income ETF (TSX: PMIF). This global bond fund has been a disappointment. It dropped as low as $16.35 in March and, while it has recovered somewhat, it is trading below our book value. We received distributions of just over $0.31 per unit for the period.

iShares Canadian Universe Bond Index ETF (TSX: XBB). This ETF tracks the performance of the total Canadian bond universe including government and corporate issues. It has performed well, with the unit value up $1.14 since the last review. We received distributions of $0.431 per unit.

iShares Canadian Corporate Bond Index ETF (TSX: XCB). This fund invests exclusively in corporate issues. It was added to the portfolio in February 2019. It continues to perform well, with a gain of $0.59 since the last review. Monthly distributions are $0.052 per unit, for a total of $0.312 for the period.

iShares U.S. High Yield Bond Index ETF (CAD-Hedged) (TSX: XHY). This fund tracks the performance of the U.S. high-yield bond market. It was added to the portfolio in February 2019 and generated a total return of 8% in its first twelve months. However, the pandemic has hit high-yield bonds hard because of default concerns. This fund has become too risky for an RRSP, so we will sell it.

iShares Convertible Bond Index ETF (TSX: CVD). This fund invests in bonds that can be converted into common stocks under certain

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RRSP portfolio – continued from page 1…

conditions. It offers a play on the stock market while providing cash flow. As everyone knows, the stock market took a beating in late March, driving these units down to $13.12. They still haven't fully recovered.

iShares Core U.S. Aggregate Bond ETF (NYSE: AGG). This ETF aims to replicate the returns of the total U.S. bond market. It was added one year ago to give us more exposure to American bonds. The total one-year return is a respectable 6.9%.

CI First Asset Canadian REIT ETF (TSX: RIT). No sector was harder hit by the pandemic than REITs. This ETF is down $4.51 per unit (22.4%) since the last review. Distributions have remained steady at $0.0675 per month but that's a drop in the bucket compared to the capital loss. Fortunately, 2019 was a good year for this fund so our overall loss to date is minimal.

iShares Edge MSCI Minimum Volatility USA Index ETF (CAD-Hedged) (TSX: XMS). XMS invests in low-beta U.S. stocks such as Coca-Cola, Visa, McDonalds, and Verizon. Low beta means they are less sensitive to broad market movements and, in theory, less risky. But none of our low beta funds could stand up to the March market plunge. This one lost $2.90 per unit, virtually wiping out the gains of the previous 12 months.

BMO Low Volatility Canadian Equity ETF (TSX: ZLB). This ETF invests in a portfolio of large-cap Canadian stocks that have a low beta history. As with XMS and ZLD, it took a big hit in March, falling as low as $24.20.

BMO Low Volatility International Equity Hedged to Canadian Dollar ETF (TSX: ZLD). This ETF focuses on international stocks and is hedged to Canadian dollars, so the currency risk is removed. The story is the same; it was trashed in March, dropping as low as $18.71.

Brookfield Renewable Energy Partners LP (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership owns a range of renewable power installations (mainly hydroelectric but also some wind and solar). At the end of July, investors received one share in a new company, Brookfield Renewable Corporation (TSX, NYSE: BEPC) for every four units of the BEP. We owned 100 units, so we received 25 shares of BEPC. It's currently trading at a significant premium to the parent partnership. We have adjusted the cost base and added BEPC to the portfolio.

Brookfield Infrastructure Partners LP (TSX: BIP.UN, NYSE: BIP). This limited partnership invests in infrastructure projects around the world. As with BEP, it has also spun off a Canadian-based corporation, known as Brookfield Infrastructure Corporation (TSX, NYSE: BIPC). We received one share of the new company for every nine partnership units. It too is trading at a premium to the parent. We have made the cost base adjustments and added BIPC to the portfolio.

BCE Inc. (TSX, NYSE: BCE). We added BCE to the portfolio in February. It turned out to be bad timing, but this is a quality company and the shares will recover. Meantime, we're collecting a healthy dividend.

Interest. We invested $2,052.59 in a Renaissance high interest savings account paying 1.6%. We received $16.42 for the period.

Continued on page 3…

IWB RRSP Portfolio (a/o Aug. 14/20)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/ Loss %
PMIF	7.9	210	$19.85	$4,168.00	$19.55	$4,105.50	$157.30	+ 2.3
XBB	5.8	90	$32.35	$2,911.11	$33.61	$3,024.90	$163.98	+ 9.5
XCB	4.4	100	$21.04	$2,104.00	$22.71	$2,271.00	$94.80	+12.4
XHY	3.5	100	$18.96	$1,896.00	$18.19	$1,819.00	$154.50	+ 4.1
CVD	3.4	100	$18.16	$1,816.00	$17.40	$1,740.00	$124.00	+ 2.6
AGG	4.5	20	$113.32	$2,266.40	$118.32	$2,366.40	$56.34	+ 6.9
RIT	4.5	150	$17.30	$2,595.00	$15.55	$2,332.50	$189.00	- 2.8
XMS	16.0	300	$28.19	$8,457.00	$27.80	$8,340.00	$138.42	+ 0.3
ZLB	9.4	150	$31.43	$4,714.50	$32.57	$4,885.50	$198.00	+ 7.8
ZLD	4.3	100	$24.04	$2,404.00	$22.59	$2,259.00	$88.00	- 2.4
BEP.UN	11.1	100	$29.39	$2,939.06	$57.72	$5,772.00	$278.71	+105.9
BEPC	3.0	25	$29.39	$734.79	$62.27	$1,556.75	0	+111.9
BIP.UN	13.5	120	$26.00	$3,119.68	$58.75	$7,050.00	$850.91	+153.3
BIPC	1.7	13	$25.30	$328.90	$66.59	$865.67	$6.31	+165.1
BCE	6.5	60	$65.07	$3,904.20	$56.76	$3,405.60	$99.96	-10.2
Cash	0.5			$270.55		$286.97		
Totals	100.0			$44,629.19		$52,080.79	$2,600.23	+22.5
Inception				$25,031.92				+118.4

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RRSP portfolio – continued from page 2…

Comments: The pandemic hit this portfolio hard. Several of the bond funds did not perform to expectations and the low-volatility funds did not provide as much protection as I anticipated.

The end result was a loss of 6.1% over the six-month period. That's not terrible considering the market volatility and the fact the last review was at a time of near-record highs. That said, I never like to have to report a loss.

Fortunately, the gains we achieved over the previous eight years have resulted in a total return of 118.4% since the portfolio was launched. That's an average annual return of 9.63%, still well above target.

Changes: There are two ETFs that are now at much higher risk than normal. They are the iShares U.S. High Yield Bond Index ETF (CAD-Hedged) and the CI First Asset Canadian REIT ETF. We will sell both for a total amount of $4,495, included retained earnings.

Also, we will reduce our position in XMS by half, selling 150 units for a total of $4,170. That gives us a total of $8,665 to reinvest.

We have no technology exposure in the portfolio, so we will add 400 units of the Harvest Tech Achievers Growth and Income ETF (TSX: HTA) at a price of $12.40. Total cost is $4,960. This fund invests in an equally weighted portfolio of 20 large cap tech companies such as Apple, Cisco, Facebook, and Adobe. The managers write covered call options to generate income. As of July 31, the fund was showing a one-year gain of 21.47%.

As well, we will boost our position in XBB, buying 110 units for a cost of $3,697.10. We now own 200 units.

That leaves $7.90, which will be added to our cash holdings.

We'll make one more move by using the retained earnings in BIP.UN to purchase 12 shares of the new BIPC, bringing our position to 25 shares. The cost will be $799.08, which will leave BIP.UN with retained earnings of $51.83.

The new cash balance (including retained income) is $1,752.52. We will invest this in an Alterna Bank High Interest Savings Account, which is RRSP eligible. The current rate is 1.4%.

Here is the revised portfolio. I'll review it again in February.

IWB RRSP Portfolio (revised Aug. 14/20)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
PMIF	7.7	210	$19.85	$4,168.00	$19.55	$4,105.50	$157.30
XBB	12.6	200	$33.04	$6,608.21	$33.61	$6,722.00	$163.98
XCB	4.3	100	$21.04	$2,104.00	$22.71	$2,271.00	$94.80
CVD	3.3	100	$18.16	$1,816.00	$17.40	$1,740.00	$124.00
AGG	4.5	20	$113.32	$2,266.40	$118.32	$2,366.40	$56.34
HTA	9.3	400	$12.40	$4,960.00	$12.40	$4,960.00	$0
XMS	7.8	150	$28.19	$4,228.50	$27.80	$4,170.00	$138.42
ZLB	9.2	150	$31.43	$4,714.50	$32.57	$4,885.50	$198.00
ZLD	4.3	100	$24.04	$2,404.00	$22.59	$2,259.00	$88.00
BEP.UN	10.8	100	$29.39	$2,939.06	$57.72	$5,772.00	$278.71
BEPC	2.9	25	$29.39	$734.79	$62.27	$1,556.75	0
BIP.UN	13.2	120	$26.00	$3,119.68	$58.75	$7,050.00	$51.83
BIPC	3.1	25	$45.12	$1,127.98	$66.59	$1,664.75	$6.31
BCE	6.4	60	$65.07	$3,904.20	$56.76	$3,405.60	$99.96
Cash	0.6			$294.87		$294.87	
Totals	100.0			$45,390.19		$53,223.37	$1,457.65
Inception				$25,031.92			

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THE UNDISCOVERED COUNTRY

By William R. Henry, Ph.D.

COVID-19 has demonstrated its power to overflow intensive care units and overburden healthcare professionals. The number of patients in hospitals today suffering from COVID-19 is nearly as great as it was back in April. The first wave of the virus continues to achieve ever higher peaks of infection and death over time. The rate of change for each of these measurements is increasing instead of going down.

Simply put, the United States re-opened its economy too early. The number of lockdowns is decreasing however reopening has not meant recovery from the disease or the economy.

A safe economic recovery depends on getting the virus under control. Many Americans have failed to take the proper safety precautions, which would have reduced the spread of the virus, thereby controlling it. Southern and western states are the hardest hit in the U.S. Heavily populated Florida, Texas, Arizona, and California are in chaos. New England and the Mid-Atlantic states are in the best shape at the present time.

Incomprehensively, many U.S. citizens – adults, ages 18 through 50, teenagers, and even the very young up to adolescence-- have chosen not to wear face masks or to frequently wash their hands. Many do not abide by shelter-in-place and do not practice social distancing.

A thoroughgoing regime of testing and contact tracing (to especially account for those individuals who are asymptomatic) has not been established in the U.S. except in New York and New Jersey. The safety precautions of self-isolation and self-quarantining appear not to have entered the minds of a supposedly intelligent and caring people.

July 2021 in all likelihood is the earliest an effective vaccine can be made available to the general public, according to medical professionals. But there is no guarantee that one will be produced. Medical science has a very poor record of developing effective vaccines.

More has been learned about the coronavirus. For example, the disease has some bizarre symptoms: the high prevalence of extreme blood clotting and of heart attacks, inflammation of the heart, kidney damage, young people dying of strokes, encephalitis (the swelling of the brain), and COVID toes, painful red or purple digits. All these symptoms impair blood circulation. The coronavirus is able to infect the endothelial cells that line the inside of blood vessels. Initially thought to be a respiratory disease similar to pneumonia, COVID-19 appears like a vascular infection instead of a purely respiratory one.

The long-term effect of COVID-19 on human beings is unknown. Will COVID-19 affect the health prospects of a recovered young person when he/she reaches age 50 or older? Alternatively, will he/she experience cardiovascular complications or disease at a much later stage in the life cycle because of COVID-19? Approximately 40% of deaths from COVID-19 are related to cardiovascular complications.

The Undiscovered Country

All this uncertainty means the future is The Undiscovered Country. It is largely unknown and is barely perceptible from where we are today.

We ask: Will COVID-19 cause us to get used to death occurring all around us? Will our way of life and the way we look at things change? Will cities continue as important economic hubs? Will the location of the workplace transfer to homes in the suburbs or will it return to city offices? Which industries and business sectors will reduce in size, or fail, and which will come into existence as representatives of a new and changing world?

Unceasing change characterizes the actual world we live in and also will characterize the undiscovered country. A rigidity of conditions cannot persist for long. COVID-19 is but one element of many changes now occurring. Racism, the biggest social problem plaguing the U.S., has raised its ugly head once again. Alcoholism and other drug dependency, the second largest social problem, bedevil the social fabric and make for an unsatisfactory state of affairs.

The current economic situation facing the United States is dynamic. There are two factors at work – the health crisis and the purging process of the market. They have caused an unprecedented downturn in economic activity.

With the recent spike in new cases of coronavirus infections and deaths, the engineering of a new boom in the business cycle has stalled. Economic recovery is like an unmoving hurricane, spinning around and going nowhere. The forces of new liquidity are pushing to make

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Undiscovered country – continued from page 4…

it go forward, but more infection, death, and new lockdowns are pushing it to retrace. This creates an economy in a stasis, all the while waiting on public health officials to achieve control over the spread of the virus.

It is the stasis that has made the short-run economic and financial effects of engineering the new boom somewhat illusive and unclear. As of mid-July, over 17 million workers were unemployed. This number will be likely go higher because the spread of the virus is out of control. The longer it takes to control the spread of COVID-19, the longer it will take to engineer a new boom in the business cycle and to subsequently achieve a full economic recovery.

The time frame

Because of the failure to control the spread of COVID-19, it probably will take the remainder of 2020 and likely all or most of 2021 to engineer a new boom in the business cycle and then proceed on to full recovery. The calendar years 2022 and 2023 should be prosperous ones for the economy. However, dark clouds of uncertainty remain about the role the coronavirus will play in our short-term future.

It is a curious fact that, like the coronavirus, money too is an element of change, giving us not only changing prices but the recurrence of the business cycle. Money will continue to be an important social institution in the undiscovered country.

Additionally, money has a driving force of its own and it is never neutral. The driving force of money, though, pales against the explosive power of COVID-19.

New money and credit introduce economic instability into an economy through bad investments, price inflation, and the bust of the business cycle. Including the Coronavirus Pandemic Bust, all three 21st century downturns in business activity have been extremely severe. The very existence of the money and capital markets came into question in the 2007-2009 liquidity crisis known as the Great Recession. Capital consumption has occurred on a massive scale in each of the three downturns.

First showing themselves in the Coronavirus Pandemic Bust, bad investments were made in the 10-year boom period prior to mid-February 2020. The virus reduced many supra marginal and marginally profitable firms to a sub-marginally profitable status.

Additionally, in the 10-year period, many U.S. corporations participated in a debt-issuing binge of staggering proportions. Today, as a consequence, many – perhaps the overwhelming majority – of U.S. corporations are illiquid and possibly insolvent. In response, the Federal Reserve has undertaken extensive lender-of-last resort activities to keep these corporations afloat. Today the Fed is even more engaged in rescue activities of this type than it was in April of this year.

Too much debt perhaps will cause another financial crisis and therefore is a potential source of severe economic instability. The threat of a new financial crisis is very real but at the time of writing appears unlikely to occur.

Clearly the social division of labor is not as large and as filiated as in mid-February of 2020. We are poorer because of this. Incomes continue to significantly decrease. Short- and long-term interest rates are at historic lows. However, low rates have not helped thus far in the engineering of a new boom in the business cycle, although housing starts and new and used car sales are beginning to pick up somewhat.

Capital accumulation remains at a virtual standstill. A large number of corporate dividends are likely to be cut in full or in part in the near term. The number and amount of investment-grade bonds downgraded to junk status (fallen angels) continues to increase every day.

The easy monetary policies of central banks remain in force. The rate of annual price inflation in two to three years may jump to 3.3% from the previous estimate of 3.1% because of new money creation. With a U.S. election scheduled in November the Federal Reserve will create at least two trillion more dollars over the next six months. Also, the recent significant appreciations against the U.S. dollar of the Swiss franc, the Japanese yen, and the euro may be interpreted as anticipating a greater price inflation in the United States. Many bad investments have yet to be purged from the market because of the easy monetary policy actions of the Federal Reserve.

The stock markets

Given the present state of affairs in the United Sates, it would not surprise me to see a 10% pull-back occur in equity markets in the very short run. Once the correction is over it will be time to "bottom-fish" again for essentially promising long-term investments.

Right now, the FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google, now known as Alphabet) are dominating the market. The capital appreciation of these stocks has been truly mindboggling.

Some people are looking to medical/pharmaceutical stocks to lead the next wave. However, pharmaceutical research has encountered the obstacle of rapidly increasing costs and declining benefits over the past decade. The number of approved major drugs has decreased as well.

The future may belong to value stocks, which have been out of favor for a very long time (approximately 10 years).

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BUYING VALUE STOCKS

An investor in value stocks is looking for undervalued equities to buy. Too little analyst coverage for the most part explains the undervaluation of these stocks. Various screening criteria help to define the meaning of the term undervaluation. These include a forward p/e ratio of less than 15; when applicable, a price to book ratio of two or less; a minimum dividend of 3%; an above average annual dividend growth rate; and a statistic indicative of the indebtedness of a firm (e.g., total indebtedness to enterprise value, or to equity value, of 60% or less).

According to theory, a value investor does not have to diligently look after a complete value portfolio day-in, day-out. Until recently, the boom of the business cycle lasted four years on average and the bust of the cycle approximately 13 months so if an investor jumped in at the beginning of a boom, he/she would not have to diligently monitor daily performance for four years.

In practice, however, cracks start to appear in value stocks within the third year after purchase, so the value portfolio manager should thoroughly re-evaluate a given value stock by objectively analyzing it one and three-quarter years from purchase.

This leads us to an investing hazard known as a value trap. All the screening criteria are met by a particular stock, but the stock does not go anywhere. It does not appreciate. Instead, it remains in the value trap waiting for the turn-around, which never seems to come. In this situation, cut your losses and move on.

Historically, value stocks have outperformed growth stocks. Equally important, in an equity correction, value stocks decrease less than non-value stocks. In significant downturns, non-value equities decrease approximately 60% on average while value stocks decrease slightly less than 40%. Value investors refer to this phenomenon as low downside volatility.

Because of the turbulent markets and the sharp drop in the earnings of many companies, it can be hard to find stocks that meet all of my criteria.

Investors may wish to take a look at the following stocks, which meet most of my key points. The figures are from Yahoo! Finance, as of Aug. 12.

Verizon Communications (NYSE: VZ)

This is a U.S. telecom giant that was originally recommended in the IWB in January 2016. The trailing 12-month p/e is 12.72 while price to book (p/b) is 3.86. The yield is 4.2%. The debt/equity ratio is 0.96.

Pfizer Inc. (NYSE: PFE)

This pharmaceutical company was recommended in April. The p/e ratio is 15.23 while p/b is 3.26. The debt/equity ratio is 1.42 and the yield is 3.3%.

Citigroup (NYSE: C)

Citigroup is one of the major banks in the U.S. It has a very low p/e of 9.05, a p/b of 0.64, a debt/equity ratio of 1.46, and a yield of 3.8%.

CIBC (TSX, NYSE: CM)

Canadian banks are generally considered to be among the safest in the world, but all of them have taken price hits due to the pandemic's impact on the economy. CIBC's p/e is 10.29 and the p/b is 1.12. The yield is a very attractive 5.7%. The stock is a recommendation of our companion newsletter, The Income Investor.

A key part of the value investing process is to identify catalysts which are likely to cause the appreciation of a stock. In other words, develop a good story as to why you, as an investor, would want to own the stock for capital appreciation. In doing so, keep in mind this caveat: Never fall in love with a stock.

Dr. Henry is an adjunct professor in the Zicklin School of Business at Baruch College in New York, teaching both undergraduate and graduate level courses in economics and finance. Previously, he was Chief Economist of the Treasury of the Commonwealth of Pennsylvania. Dr. Henry was the first to systematize U.S. monetary thought into one or more complete theories of money and credit.

The information on COVID-19 as a vascular disease comes from a 12-page article published online in Medium Daily Digest, Friday, May 29, 2020, entitled **Coronavirus May Be A Blood Vessel Disease, Which Explains Everything**. ***The author of the article is Dana G. Smith, a senior writer at Medium covering health, science and the science of wellness.***

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GLENN ROGERS LIKES ROKU

Contributing editor Glenn Rogers is here this week with a stock pick that's perfect for the times. Glenn has worked with private equity and venture groups on a variety of projects leading to successful exits for investors.

Previously he held senior executive positions in both Canada and the U.S. and is a successful investor himself. He lives with his family in southern California.

Glenn Rogers writes:

If you're like me, you spent a good portion of the last few months killing time in front of the television while the coronavirus rages on. This has been bad for the waistline and may be bad for the brain cells, but it has been great for TV streaming services.

Consumers are rapidly cutting the cable and satellite cords and turning to streaming. This month I want to feature one of them: Roku Inc. (NDQ: ROKU).

Roku has been in the U.S. for some time but only launched in Canada two years ago. It has captured a significant amount of the non-cable and satellite streaming market in the U.S. How significant? The company has 49% of the streaming device market.

Roku started making desktop boxes for Netflix and was spun out by Netflix back in 2007. Since then it has morphed from a device maker to a platform company that hosts all the other streaming services with the exception of NBC's Peacock. Much of its revenue now comes from advertising although the device sales are still strong at 27% and profitable.

Beyond desktop devices, the Roku operating system is embedded in a large number of television sets. In fact, one out of four television sets sold in Canada has a Roku system built in.

The company also offers services in Mexico, Brazil, and recently launched in Europe. Some analysts have been critical that the company has been too slow to expand internationally but it seems to be aggressively doing so now.

Recently, Roku reported strong second-quarter results, showing exceptional account growth. The company generated the largest net increase in active accounts outside its traditionally strong fourth-quarter holiday period. Its partners also saw huge growth for services.

Since we were deep in the heart of the pandemic during the quarter, many people upgraded their television systems, which has benefited Roku. Total revenue grew by 42% year-over-year to $356.1 million (figures in U.S. dollars). Platform revenue increased by 46% to $244.8 million. Gross profits grew 29% year-over-year to $248.8 million.

The company added 3.2 million incremental active accounts in the second quarter, reaching 43 million active users. Streaming hours increased by 2.3 billion over the quarter to 14.6 billion hours. Average revenue per user was up 18% year-over-year. Player sales in Canada and in the U.K. more than doubled.

One area that was softer than expected was advertising revenue, as companies were reeling from shutdowns and consumer contraction. But Roku is well positioned to see an increase in that revenue on its much larger platform as the economy recovers.

In fact, advertising still continues to grow, and video ad impressions increased by roughly 50% year-over-year in the quarter. First-time ad clients were up 40% and. advertising retention of new clients was over 92%.

This is a volatile stock but a well-run, high growth business. Any dip is to be bought.

Action now: Buy with a target of $180. The shares closed Friday at $146.85. Roku does not pay a dividend.

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GLENN ROGERS'S UPDATES

Shopify (TSX, NDQ: SHOP)

Originally recommended on Feb. 22/16 (#21608) at C$28.34, US$20.57. Closed Friday at C$1,308.36, US$987.90.

Background: Shopify is a cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. Merchants use the software to design, set up, and manage their stores across multiple sales channels, including web, mobile, social media, marketplaces, brick-and-mortar locations, and pop-up stores. Shopify currently powers over 800,000 businesses in approximately 175 countries. The company is based in Ottawa.

Performance: This has been one of the great stock picks of all time. We originally recommended it back in 2016 when it was trading at $28.34 and updated it again last February when is trading at $636.89. Friday it closed on Friday in Toronto at $1,308.36 for total gain of over 4,500% since 2016.

Recent developments: Even before COVID-19 this was a great play on e-commerce, but its growth accelerated dramatically over the last several months. The company reported earnings on July 29 and they blew by all expectations.

Year-over-year revenue was up 97% to $714.3 million (the company reports in U.S. dollars). Adjusted net income was $129.4 million ($1.05 per diluted share), compared with $10.7 million ($0.10 per share) for the second quarter of 2019. At quarter-end, Shopify had $4 billion in cash, cash equivalents and marketable securities, compared with $2.46 billion on Dec. 31, 2019.

The pandemic had a remarkable impact on the company's business, with a 71% increase in new stores on its platform.

"The world is changing fast," said Tobi Lütke, Shopify's CEO. "With the rapid shift to online commerce, massive disruption to conventional employment, and growing conviction that opportunity needs to be more evenly distributed, entrepreneurship has never been more important. With all of these changes, our core principles remain the same: everything we ship is designed to lower barriers to entrepreneurship and reduce friction wherever we can."

Dividend: The stock does not pay a dividend.

Outlook: Good, although a repeat of the spectacular second quarter is unlikely. By any metric the stock is expensive, but then so is Amazon.

Recently I sold a little Shopify and bought into the IPO of its smaller rival, Bigcommerce Holdings Inc. (NDQ: BIGC) and I will likely hold on to that for a while. But Shopify is the next Amazon and any dips are to be bought.

Action now: Hold. Buy the dips.

Chegg Inc. (NYSE: CHGG)

Originally recommended by Glenn Rogers on Aug. 12/19 (#21929) at $43.68. Closed Friday at $77.14. (All figures in U.S. dollars.)

Background: Chegg offers a range of study, writing, math, and tutorial services to high school and college students in the U.S.

Performance: This is another great COVID-19 stock that has done very well during the pandemic since it's focused on online and distance learning. We originally recommended it when it was trading at $43.88 last August and updated it again in March \when it was trading at $36.26. On Friday it closed at $77.14 for a very nice gain of 75.8% since the original recommendation.

Recent developments: The company reported quarterly results recently. Earnings per share were up nearly 61% year-over-year, which handily beat the estimates. Revenue was up by 63%, hitting $153 million. The company is cash flow positive.

Chegg expects revenue to be over $600 million by the end of the year. And since many schools in the U.S. are not opening for in-classroom instruction, at least through this fall, there's no reason the company can't continue to grow.

Dividend: The stock does not pay a dividend.

Outlook: Chegg has begun expanding internationally and I believe there is a likelihood that the company will either acquire another player or be acquired by a bigger competitor.

The stock has pulled back from its recent highs, giving you an opportunity to add to your position.

Action now: Buy with a target of $90.

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