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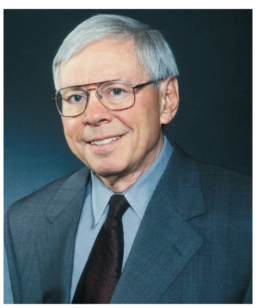
ARK FLOPS BUT GROWTH PORTFOLIO GAINS



By Gordon Pape, Editor and Publisher

Sometimes timing works for you. Other times it doesn't.

An example of the latter was the addition of ARK Innovation ETF (NYSE: ARKK) to our Growth Portfolio in February. Until then, this high-profile, disruptive technology fund had been posting incredible returns under the direction of Catherine Wood. It was up almost 170% in 2020 and was showing no signs of slowing down.

That all changed in a hurry shortly after we added it to the portfolio. Several of the high-tech stocks in the portfolio were dumped as investors took profits, dragging ARK down with them. The shares briefly dropped below US$100 in May before starting a modest rally.

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I said at the time we added the fund that this was high-risk/high-reward territory. Right now, the risk part of that equation is dominating. We're down 20% on this investment in just six months.

The good news is that the rest of the Growth Portfolio is doing well and despite ARK's big loss we still managed to post a double-digit gain in the latest period.

We created the IWB Growth Portfolio in August 2012 with an initial value of $10,000. After nine years, we're showing an average annual compound growth rate of 27.5%.

That's far better than we expected when the portfolio was created (we were looking for about 12%). The main reason for our success is that we're 100% exposed to the stock market, with a focus on momentum plays. That's been the right place to be in recent years, but this portfolio should only be followed by readers with higher risk tolerance.

Here are the securities that make up the current portfolio, with an update on how they have performed since our last review in February. Prices are as of the close on Aug. 26.

IWB GROWTH PORTFOLIO

ARK Innovation ETF (NYSE: ARKK). Already discussed. We are seeing signs that the worst may be over as the unit price is edging higher.

Alimentation Couche-Tard (TSX: ATD.B, OTC: ANCUF). After going through a rough period when the French government derailed a $20 billion bid by Couche-Tard to take over grocery giant Carrefour, the stock has rallied strongly. It's up $11.94 or just over 30% since the last review.

WSP Global Inc. (TSX: WSP, OTC: WSPOF). This international engineering and technology firm is one of the companies that could benefit from a US infrastructure stimulus plan. The stock is up $47.48 (40.8%) since the last review. We received two dividends totaling $0.75 per share. See full update elsewhere in this issue.

Shopify (TSX, NYSE: SHOP). We're used to seeing triple digit jumps in Shopify's share price so a mere gain of $76.34 (3.9%) in the latest period looks pretty slim. Still, we'll take it. The stock is up almost 2,430% since it was added to the portfolio.

Amazon.com (NDQ: AMZN). Amazon shares have gone through a lot of ups and downs since our last review. The net result is that we're almost exactly dead even from where we were then. You'll find a detailed update elsewhere in this issue.

Apple Inc. (NDQ: AAPL). After a period of consolidation following a 4-1 share split, the stock was on the move again in the latest period, gaining $17.12 or 13.1%. We received two dividends of US$0.22 each.

Costco (NDQ: COST). We added Costco to the portfolio one year ago at this time. The timing was excellent. The shares were up 27.5% in the latest six-month period plus we received two dividends totaling US$1.58 per share.

United Parcel Service (NYSE: UPS). This is the world's largest package delivery company and is on the leading edge of new delivery technologies, especially in the healthcare sector. We added it to the portfolio in September 2019 at US$118.85. After stalling last winter, the shares were on the move again in the latest period, gaining $31.26 (19.4%). We received two quarterly dividends of US$1.02 each.

Cash. We received interest of $13.31on our cash holdings at Motive Financial.

Here is how the portfolio stood at the end of the day on Aug. 26. Commissions are not considered. The U.S. and Canadian dollars are treated as being at par but obviously gains (or losses) on the American securities are increased due to the exchange rate differential.

IWB Growth Portfolio (a/o Aug. 26/21)

Symbol	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Divi-dends Retained	Gain/ Loss %
ARKK	10.2	75	$151.93	$11,394.75	$119.16	$8,937.00	$153.30	-20.2
ATD.B	8.1	140	$8.32	$1,164.10	$50.92	$7,128.80	$202.67	+529.8
WSP	16.8	90	$27.00	$2,430.29	$163.74	$14,736.60	$196.61	+515.5
SHOP-T	21.9	10	$78.71	$787.10	$1,920.43	$19,204.30	0	+2,339.9
AMZN	7.6	2	$2,042,76	$4,085.52	$3,316.00	$6,632.00	0	+62.3
AAPL	13.5	80	$30.43	$2,434.07	$147.54	$11,803.20	$337.64	+398.8
COST	10.2	20	$344.27	$6,885.40	$449.31	$8,986.20	$259.60	+34.3
UPS	11.0	50	$118.45	$5,922.50	$192.36	$9,618.00	$352.00	+68.3
Cash	0.7			$629.71		$643.02		
Total	100.0			$35,733.44		$87,689.12	$1,501.82	+149.60
Inception				$10,000.00				+791.90

Comments: Despite ARK's disappointing performance and Amazon's breakeven, everything else in the portfolio was ahead, with the biggest gains from Costco, WSP Global, and Alimentation Couche-Tard. Overall, the portfolio gained 11.8% during the six months.

The total gain over nine years, based on inception value, stands at 791.9%. That's an average annual compound growth rate of 27.52%. We continue to run well ahead of our target.

Changes: The immediate reaction is to dump ARK. But Catherine Wood has compiled an impressive track record and the concept of disruptive technology fits well with the portfolio, so we'll retain our position for now.

All the rest of our holdings remain the same.

Our total cash is $2,144.84. We will keep the money at Motive Financial, which now pays 1.25% on its Savvy Savings Account.

I will review the portfolio again in February.

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ROBOTS THREATEN JOBS? THEN OWN THE ROBOTS!

By Shawn Allen, Contributing Editor

How should investors position themselves as automation and robotics threaten many jobs, particularly in manufacturing? Employees who are not investors may have few options. But for investors, the logical response is to invest in the companies that are benefiting from automation and robotics.

Automation has been eliminating jobs since at least the time of the Industrial Revolution. Luckily, new and far better jobs have historically taken their place.

Society overall has benefited enormously from automation. But some groups have suffered. Older workers in labour intensive industries don't always find new jobs.

In classical economics dating back to the Industrial Revolution, the three factors of production are land, labour, and capital. Land also includes the natural resources of the earth. Capital in this case refers to such things as factories, tools, buildings, vehicles, and machinery. In today's world capital would also include software and communications networks as well as accumulated knowledge and education. Capital is basically all the man-made things and investments that facilitate the production of goods and services other than land, natural resources, and human labour.

Correspondingly, we can divide the output or earnings of the economy into the wages of land, the wages of labour and the wages of capital. Each of the three contributes to the output of the economy and each is entitled to its wages or share of that output.

Clearly, it is capital investments that have led to the enormous and continuing increases in per capita economic production and therefore human living standards over the decades since the Industrial Revolution. After all, the land and natural resources have not increased and neither has the physical capacity of humans to work. Correspondingly, the owners of the capital stock of the world have been rewarded with an ever-increasing share of the growing wealth created by the economy.

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Robots —continued from page 5...

Luckily for all those that rely on labour for their income, the value of their labour has also increased due to capital investments. A human working with a jack hammer or with an excavator is naturally worth more than the same human working with a pick and shovel.

But automation has led to greater wealth disparity. Many decry the advantages that "capitalists" have over the working population. Actually, both the workers and the owners of capital have greatly benefited. I'll leave it to politicians and activists to argue whether our system is fair.

But given the world we live in, it's clear to me that a logical response for individuals is to become investors and own a share of the capital stock of the world. Most people can participate in the economy as both a worker and an investor (owner of capital) over their lives.

As investors we indirectly own and earn returns or "wages" from land and capital. The alternative path of relying solely on our labour income is increasingly unwise.

Investors can own a share of the overall economy with a diversified portfolio. And to the extent that robots and automation are seen as a growing threat to their jobs, it certainly makes sense for investors to own some of those.

An example of a manufacturing company that uses robots and continues to automate production is Linamar, which I update and recommend below.

Contributing editor Shawn Allen has been providing stock picks on his website at www.investorsfriend.com for over two decades. He is based in Edmonton.

Linamar Corporation TSX: LNR, OTC: LIMAF

Originally recommended Nov. 27, 2017 (#21742) at C$68.36 US$53.66. Closed Friday at C$70.88, US$56.28.

BUY

Background: Linamar is a Canadian-headquartered global auto parts manufacturer with 26,000 employees and operations in 17 countries. In addition to vehicle parts, which account for about 80% of its revenues, its other products include aerial work platforms, telehandlers, booms, and certain agricultural equipment.

Annual revenues are over $7 billion. In 2020, sales were 48% in Canada, 29% in Europe, 13% in the US and Mexico together, and 10% to Asia/Pacific.

Performance: Linamar's stock price has been volatile over the years. The pandemic exacerbated that volatility. It began 2020 at $49.13 and then fell as low as $24.57 in March. It subsequently recovered very sharply and ended the year up 37% at $67.42. In 2021 the stock is up a modest 5.1% year to date.

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Recent developments: Responding to the pandemic in 2020, the dividend was temporarily reduced by half, to just six cents a share for two quarters. But it was then fully restored to twelve cents with the third quarter earnings release. Subsequently the dividend was increased to sixteen cents as announced in the first quarter 2021 earnings release. Management has been very successful in generating free cash flow and paying down debt rapidly despite lower revenues.

Recent earnings growth: In 2020 adjusted earnings per share were down 32%, despite a substantial benefit from government wage subsidies. But earnings growth has resumed very sharply in the last quarter of 2020 and in the first half of 2021.

Dividend: Linamar pays a very small quarterly dividend of $0.16 per share ($0.64 per year) for a yield of 0.9%.

Valuation: Analyzed at $69.13. The price to book value ratio at 1.0 is quite attractive and is still reasonably attractive at 1.47 times after deducting purchased goodwill. The dividend yield is minimal at 0.9% despite a recent increase. The dividend represents only 8% of trailing year earnings, indicating that the company has substantial capacity to increase the dividend. The trailing p/e ratio is quite attractive at 8.5. The analyst forward p/e is also attractive at 8.3. The trailing return on equity is reasonably good at 12.4%. Based on current earnings and assuming even modest growth, it appears that the intrinsic value is above the current share price, possibly well above. Overall, the valuation is attractive.

Postmortem: This stock is very little changed since I recommended it nearly four years ago. So, what happened? Looking back at the original recommendation I see that the price to book value ratio was then 1.5 and p/e ratio was 8.5. The stock looked cheap. Earnings per share failed to grow in this period but the accumulated retained earnings have pushed the book value up by about one-third. The stock remains cheap in relation to earnings and has gotten cheaper in relation to book value.

Outlook: The outlook is strong. Linamar has credible plans for growth, including the transition to electric vehicles. While micro-chip shortages are limiting auto production, this will be only a temporary situation. Linamar has recently reduced its debt level quite dramatically. That leaves it very well positioned to make a large acquisition, to sharply increase the (small) dividend, or to do a large share buy-back operation. Any of those three could be a catalyst to drive the share price higher.

Action now: Buy.

WSP Global TSX: WSP, OTC: WSPOF

SELL HALF

Originally recommended by Tom Slee on July 8/12 (#21224) at C$22.40, US$22.18. Closed Friday at C$163.54, US$129.62.

Background: WSP Global Inc. is a Canadian headquartered company that provides engineering and related professional consulting services globally. Only 14% of revenues are from Canada. WSP is an extremely aggressive growth-by-acquisition company. The employee count has grown massively from just 1,600 in 2006 to 54,000 at this time. The share count has increased from 11 million in 2006 to 117 million today.

Performance: The stock has been an excellent performer. Despite the pandemic, it rose 36% in 2020. It's up a further 35% in 2021 to date. It's up 630% since the original recommendation in 2012.

Recent developments: In April, WSP closed its acquisition of Golder, adding 7,000 staff to its existing 47,000. It also announced three smaller acquisitions this year that will add a total of 365 staff. In June, it issued 6.7 million shares at a price of $86. This increased the share count by about 6.2% and was done to strengthen the balance sheet. Prior to this, the latest share issuance was in September of 2015.

Recent earnings growth: After a relatively modest decline in earnings per share in 2020, very strong growth resumed in the first half of 2021 with adjusted earnings up 33%.

Dividend: The shares pay a quarterly dividend of $0.375 ($1.50 per year). The dividend yield is 0.9%. The dividend has remained unchanged since 2014 or earlier and there is no expectation that it will increase soon.

Valuation: Analyzed at a price of $164.16. The price to book value ratio is not attractive at 4.4. The dividend yield is quite modest at 0.9%. The trailing year p/e ratio at 40 is unattractively high in isolation. The p/e ratio based on analyst forward earnings expectations is also somewhat unattractively high at 30. The return on equity is reasonably good but not great at 11%. Average annual earnings per share growth in the past five years has been relatively strong at 9%. Overall, these value ratios indicate that the stock is quite richly valued at this time.

Outlook: WSP is projecting EBITDA growth of 21-26% in 2021 versus 2020.

Action now: Sell half. WSP has a great history but may be over-valued at this time.

Stantec Inc. TSX, NYSE: STN

HOLD

Originally recommended by Tom Slee on Aug. 28/06 (#2632) at C$10.24 US$9.23 (split-adjusted). Closed Friday at C$60.01, US$47.58.

Background: Stantec is a large Edmonton-headquartered consulting firm offering engineering, architecture, and related professional services. It now has 22,000 employees operating out of 350 office locations on six continents. In 2020, 53% of its revenues were from the US, 29% from Canada, and 18% from other international operations which are primarily in the UK, Australia, and New Zealand.

Performance: The recent performance has been strong with a 12% gain in 2020 and 45% in 2021 to date.

Recent earnings: Adjusted earnings per share were up 12% in the first half of 2021 and were up 10% for the year in 2020. That performance was achieved largely through cost-cutting as revenues declined modestly with the pandemic.

Recent developments: Stantec has made six relatively small acquisitions in the past year, adding about 700 employees.

Dividend: The dividend was increased by 6% for 2021 to $0.165 per quarter ($0.66 a year). The shares yield 1.1% at the current price. Stantec has a history of increasing its dividend on an annual basis.

Valuation: Based on my analysis price of $59.59, the trailing adjusted earnings p/e ratio is somewhat expensive at 25.4 and 22.2 based on analyst projected earnings. The price to book value ratio is 3.5, and the dividend yield is a modest 1.1%. Stantec retains most of its earnings and currently has an adjusted earnings payout ratio of 28%. The return on equity, based on adjusted earnings, is 13.3%, which is good although lower than its historic levels of about 18%. These ratios, in isolation, would support a recommendation of hold.

Outlook: The immediate outlook is that Stantec is projecting little or no growth in the last half of 2021 in part due to the higher Canadian dollar, which will be a drag on earnings. Growth will likely resume in 2022 as government infrastructure spending ramps up.

Action now: Continue to hold.

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Amazon.com (NDQ: AMZN)

Originally recommended on Jan. 16/17 (#21703) at $817.14. Closed Friday at $3,349.63. (All figures in U.S. dollars.)

BUY

Background: Amazon is the largest on-line retailer in the world, but the company is also involved in many other businesses including cloud storage, video streaming, film production, voice-activated software (Alexa), and more.

Performance: The stock hit a high of $3,773.88 in early July but has dropped sharply since, hit by a major sell-off.

Recent developments: Amazon keeps growing and is now the world's largest retailer outside China.

Second quarter results saw an increase of 27% in net sales to $113.1 billion, compared with $88.9 billion in the second quarter of 2020. That looks like a good jump at first glance, but analysts were expecting even more, with the consensus being $115 billion. Guidance for the third quarter was $106-$112 billion, below consensus of $119 billion.

Net income came in ahead of estimates, however. Amazon reported earnings of $7.8 billion in the quarter ($15.12 per diluted share), compared with $5.2 billion ($10.30 per share) in the same quarter of 2020. Analysts were looking for earnings per share of $12.28. Those numbers don't seem bad enough to warrant such a major sell-off but any weakness in a tech stock these days is enough to trigger a wave of profit-taking.

"Amazon hit an air pocket in near-term demand," Monness Crespi Hardt analyst Brian White said in a note to clients. "However, we believe the company is uniquely positioned to exit this crisis as one of the biggest beneficiaries of accelerated digital transformation. We are lowering our estimates but maintaining our 12-month price of $4,500."

Dividend: The stock does not pay a dividend, even though the company is sitting on about $90 billion in cash and marketable securities.

Outlook: The sales forecast suggests growth momentum is slowing, which may dampen demand for a time and keep the share price at around the current level for a few weeks. But it will eventually move up again although a $4,500 price tag in the next 12 months is a bit of a stretch.

Action now: Buy.

RICHARD CROFT'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

BMO S&P/TSX Equal Weight Banks Index ETF

HOLD

TSX: ZEB *Originally recommended on Sept. 17/18 (21833) at $30.05. Closed Friday at $36.70.*

Background: ZEB provides targeted exposure to Canadian financial companies with the objective of capital growth and dividends by holding securities represented within the S&P/TSX Capped Financials Index. It does not sell covered calls against the shares.

Performance: Canadian banks have started to make up for lost ground caused by tight loan margins. Trading revenue, surging assets for money management divisions, manageable loan losses, and administration fees have bolstered balance sheets and income statements. There is more to come when regulators give the banks a green light to increase dividends and engage in stock buybacks. In the interim, you receive a monthly dividend of $0.10 per unit for a yield of 3.3%.

Recent developments: BMO Asset Management announced it is reducing the annual management fees on BMO Equal Weight Banks Index ETF on or about Sept. 1. The new fee will be 0.25% compared to 0.55% previously.

"Since our first launch in 2009, the BMO ETF team has continuously looked for opportunities for investors to benefit from the growth of our products. With ZEB, we are recognizing the success of the largest Canadian bank ETF, built with an easy-to-understand equal weight strategy. Canadian banks are a core holding in investors' portfolios and deliver both dividend yield and market growth, where we saw record net subscriptions in July 2021," said Mark Raes, Head of Product, BMO Global Asset Management Canada.

Action now: Hold.

BMO Covered Call Canadian Banks ETF
TSX: ZWB *Originally recommended on Jan. 15/18 (#21803) at $19.76. Closed Friday at $20.89.*

HOLD

Background: ZWB provides exposure to the big six Canadian banks with the objective of generating monthly income from dividends and the sale of covered calls against part of the portfolio.

Performance: Since the objective of this ETF is to provide the unitholder with tax advantaged monthly income through the distribution of dividends and premium from the sale of covered calls (options are taxed as capital gains), investors should focus on the monthly income rather than any gain or loss on value of the ETF. In this case, the monthly dividends were increased from $0.085 per unit to $0.10 per unit. Expect additional dividend income to flow once the regulators allow banks to return capital to shareholders, which is expected before the end of 2021.

Action now: Hold

? YOUR QUESTIONS
GreenPower Motor Co.

Q - GreenPower (TSX-V: GPV) recently came out with earnings that appeared to be decent. Can you comment on the company's outlook and the weakness in the stock, as it has been significant? - Reg J.

A - We have looked at GreenPower in the past and relatively recently. Revenues had grown from roughly $3.5 million in fiscal 2018 to $13.5 in its fiscal 2020 but slumped in this last year, which is understandable given the lockdowns and spending decreases for its end markets. Growth picked up in the last quarter, but the company is still only producing roughly $2.6 million in quarterly revenues and posted a $2.2 million loss. The balance sheet is good with a net cash position and working capital of $31 million.

The current outlook is positive, and management has stated they are on track to achieving their goal of attaining positive quarterly cash flow by the end of this calendar year. This is a good sign, but there has been no specific guidance and a small amount of positive cash flow does not necessarily justify a $350 million market cap for the business. This is likely why the share price has been more than cut in half in 2021.

We monitor it and like the promise of the space the company occupies, but without positive cash flow, it does not meet our minimum criteria for investment at present. – Ryan Irvine, KeyStone Financial

GAVIN GRAHAM'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Johnson & Johnson NYSE: JNJ

SELL HALF

Originally recommended by Glenn Rogers on June 22/20 (#22024) at $143.83. Closed Friday at $172.93. (All figures in US dollars).

Background: Johnson & Johnson is one of the largest healthcare and consumer product companies in the world, employing 136,500 people. Revenues of between $88-90 billion are expected for 2021. Its three divisions comprise Consumer, Pharmaceutical, and Medical Devices.

Performance: The stock is up about 10% so far this year.

Financials: In the six months to June 30, Consumer revenues rose 5.3% to $7.3 billion, Pharmaceuticals (including its single dose COVID-19 vaccine) rose 13.3% to $24.8 billion. Medical Devices were up 32.7% to $13.6 billion, making a total increase of 16.9% to $46.7 billion.

Sales are divided virtually evenly with $23 billion in the US and $22.6 billion international. Net earnings grew 32.4% to $12.5 billion ($4.67 per share). Sales in Consumer sales were driven by skincare products such as Neutrogena and Aveeno, in Pharmaceuticals by Stelara for inflammatory diseases and Darzalex for multiple myeloma, offset by falls in Remicade for arthritis. Medical devices benefited from postponed procedures due to COVID-19.

Recent developments: J&J failed in its attempt to strike down the $2 billion award to plaintiffs claiming asbestos in its Baby Powder caused ovarian cancer. There are rumours that it may spin off its liabilities into a separate company, which would then file for bankruptcy, a tactic employed by other companies such as Georgia Pacific.

Its longstanding CEO, Alex Gorsky, is stepping down after nine years, to be replaced by long time J&J veteran Joaquin Duato, at present responsible for supervising its supply chain. Under Gorsky, J&J carried out its largest ever merger, buying Swiss biopharmaceutical company Actelion for $30 billion in 2018. Research & Development increased 60% under Mr. Gorsky's tenure, to $12 billion this year.

Dividend: The dividend was increased 3.7% to $1.06 quarterly in the last twelve months. The stock yields 2.5%.

Action now: J&J remains attractive with a 26 p/e ratio. Sell half to lock in a gain of 20.2%. Retain the rest of your shares for exposure to attractive areas such as healthcare and consumer products that benefit from demographic trends.

Intact Financial Corp. TSX: IFC, OTC: IFCZF

Originally recommended by Tom Slee on Feb. 6/12 (#21205) at C$59.60. Closed Friday at C$173.30, US$137.30.

SELL HALF

Background: Intact is the largest Property/Casualty (P/C) insurer in Canada, with almost 20% market share after the acquisition of the Canadian operations of UK insurer RSA, a deal which closed this month. Intact consistently outperforms the industry in terms of profitability and CEO Chares Brindamour aims to outperform the industry Return on Equity (RoE) by 5% annually over time.

Performance: Intact's stock has moved steadily higher this year and recently hit an all-time record of $178.28.

Financials: In the six months to June 30, Intact increased its direct premiums written by 17% to $6.8 billion, helped by the addition of RSA's Canadian business from June 1, which increased its premium base 70%. Net income tripled to $1.1 billion ($3.58 per share) and the combined ratio (costs as a percentage of premiums) was 87.8%, a 4.1% improvement form the first half of 2020. Book value per share, probably the best indicator of progress for insurers, was up 44% to $77.67 per share.

Recent developments: Apart from RSA's Canadian assets, Intact also purchased the UK and Irish operations, splitting RSA's assets with Scandinavian insurer Tryg, which purchased the Norwegian and Swedish assets. Intact and Tryg's Danish joint venture sold RSA's Danish business in June to Alm Brand for $2.52 billion, of which Intact will receive half. The proceeds will be used to repay debt and general corporate purposes when the deal closes in mid-2022.

Dividend: The stock pays a quarterly dividend of $0.83 ($3.32 per year) to yield 1.9%. Intact's dividend remains constrained by the Office of the Superintendent of Financial Institutions. It should increase once restrictions are lifted.

Action now: Intact has almost tripled since the original recommendation almost a decade ago. Investors should Sell Half to lock in the exceptional profits, reflecting Intact's steady growth by successful acquisitions and the transformative nature of the RSA deal. It's worth retaining a position as the cost savings from the merger of the Canadian operations of RSA and the ability of Intact management to raise the UK's lower profitability should ensure further growth.