Farewell 2020

The common catch cry is that most are happy to bid farewell to calendar 2020 as a year and to look forward to 2021. This reaction is easily understood as 2020 brought us Covid-19 in March 2020, a Black Swan event from left field that sent the ten pins flying. There have been significant disruptions to lifestyles, with consequent impact on families and workplaces. The major burden has been borne by those who contracted the virus and suffered severe health effects and in some cases are deceased. At this time of year, we also think of all the doctors and health workers who put their lives on the line to help those around the world who were severely impacted.

In Australia, we were fortunate on the health front to close the international borders and quarantine those who tested positive. By separating the sick from the well, Australia was one of the most successful nations globally in minimising the spread.

From the financial viewpoint, client portfolios also received favourable treatment. Following a month long fall, the Australian share market bottomed on March 23 some 30% below the previous level. The good news is that the majority of portfolios have recovered now to be a little above the 1 July 2019 value i.e. portfolios have generally recovered all of the Covid fall. This is a great outcome.

Let us firstly look back at the pluses and minuses in managing portfolio returns during 2020.

2020 Positives	2020 Minuses
± Staying invested and holding ones positions once the Covid correction occurred allowed the portfolios to benefit from the subsequent nine month recovery which has largely restored portfolio value back to 1 July 2019. ± Those who were brave enough to buy further stocks during the Covid downturn have been well rewarded with such purchases adding to returns. ± Rotating stocks based on independent research and proactive discussions with advisors relying on the Burrell focus list, a list of initially more defensive stocks such as share registries and other companies whose earnings would be maintained during the pandemic proved a useful strategy. This resulted in a number of portfolios achieving market returns, recovering their value, and doing so with lower risk companies in the portfolio. ± Separating stocks into five categories was useful: value, cyclicals, growth at reasonable	- A number of client portfolios underperformed in the January/ February 2020 rally because the portfolios were overweight value stocks and underweight growth. In hindsight, those portfolios that held GARP and growth at realistic price stocks such as CSL, Carsales and OverTheWire achieved portfolio returns in the first two months of the 2020 calendar year closer to the index. Fast forward to the last few months of the 2020 year when growth stocks have underperformed, there is an opportunity emerging for older style portfolios to tilt towards growth by adding GARP and growth at realistic prices. - The Burrell focus list was initially comprised of stocks with defensive earnings. However, the growth stocks, particularly those benefitting from working-from-home (WFH) had also fallen and then became the beneficiary of dramatic market recoveries. This was particularly so for some of the USA stocks such as

prices (GARP), growth at realistic prices and other growth stocks. The last category should be viewed as speculative. ± Banks suffered dramatically during the March downturn falling by some 40% i.e. three of the majors fell from $25 to $15. Our firm took the view that this was an overcorrection and it was important to hold one's positions. Most clients were on board and have seen a steady recovery in bank stock prices, particularly in the last two months of the year. The strong stimulus packages from the Australian and State Governments together with significant monetary injection from the Reserve Bank of Australia (RBA) have all reduced the probability of business failure in 2020. Listed companies requiring funds to bolster their balance sheets were almost without exception able to raise funds on the market. This has reduced the probability of failure of listed companies. Cyclicals have recovered at different rates depending on how the economy and Covid has	Zoom. While a number of client portfolios had overseas exposure and these exposures were generally maintained, across the board portfolios were underweight growth stocks. Some rebalancing has occurred in a number of portfolios in the period since March and is ongoing. - Institutional investors initially took the view that the markets would bottom at the point that the rate of change of new Covid cases started to decrease. This is known as the double derivative of new Covid cases. This occurred in Australia on March 23, but surprisingly this was also the low point generally overseas. It is somewhat anomalous that the second wave of new cases outside Australia continues to grow, but overseas markets have not corrected to reflect the fact that Covid is not under control. Part of this is due to the coming of successful vaccines, but with 67,000 deaths in the USA in December, the myopic Americans were more focused on a Christmas rally than the hospital reality. The minus is

impacted on those companies. For example, petrol retailers suffered dramatic falls, only to largely recover as it became clear with borders closed and a reluctance to fly interstate, that driving holidays to domestic locations within one's state were a preferred holiday destination. Defensive stocks generally recovered earlier including those with share registry earnings, packaging, hardware retailing and home building including plumbing. Other cyclicals have shown less recovery including oil and gas stocks, banks, large telco's and finance.	that the increasing number of cases held back further investment overseas, when that would have added to portfolio returns.

Australia 2021

The major determinant of how Australian stocks will perform in 2021 is dependent on the Australian economy. With the exception of the China trade issues, the near eradication of Covid within Australia has seen useful progress in our economic recovery and clearer understanding of how life will return to a new normal. That new normal is a simpler life for many with more time at home, at the hardware store, in the garden, WFH, and reading, some shopping, more internet surfing and for those with reasonable incomes, spending has surprised on the upside.

It is an interesting mental game to understand what Australians are spending their money on. Pleasingly, the restaurant trade has bounced back strongly, as this was one of the most adversely impacted. The building industry is busy both on new homes supported by government programs and tradies have done well all through Covid. However, commercial building is weak. The Jobkeeper program is due to finish at the end of March. The Australian Government stimulus measures have allowed businesses to continue, supported in Queensland by the State Government protocol concerning rent relief for businesses. The transition from these income support measures to further fiscal stimulus will likely see additional infrastructure spending together with some ongoing targeted income support measures.

On the trade front, the China/Australia trade measures are doing irrefutable harm to China's reputation around the world. The wolf warrior diplomacy is a disaster for China. China will need to pivot at some point to a new paradigm. However, this is difficult as their culture is to treat those not aligned with the Chinese Communist Party (CCP) as being the minority 5% who are the baddies in Chinese culture. The human rights issues involving the Uighurs, the treatment of Chinese journalists, and the treatment of Hong Kong all add to the world seeing starkly that China is not the cuddly panda bear Barack Obama was hoping, but rather the Bamboo Curtain is hiding human rights abuses. Hopefully the Honourable Dan Tehan, Australia's new Trade Minister can separate these political issues from mutually beneficial trade. State Government trade delegations should also have a role in building new connections across the trade divide and restoring mutual beneficial trading relationships with China.

The Brexit trade agreement is a real positive for markets as free trade has led to a global increased standards of living.

The breaking of the drought in early 2020 together with beneficial follow up rains has seen a strong rebound in agricultural stocks. Agriculture and the weather was a theme pre-covid which your diarist had considered in previous blogs. The Covid pandemic has reinforced the value in a number of agricultural stocks and this remains a useful theme for 2021.

While we have seen good recoveries in portfolios, Burrell advisors are continuing to see investment opportunities as do the independent research analysts. Most research houses are seeing the market closing higher at the end of 2021. However, it is unlikely to be a straight line, with major geopolitical issues within the first four months of calendar 2021. These geopolitical issues are mostly international, with the exception of the China/Australia trade issues as noted above.

International 2021

This is a complex topic to be more fully considered in later blogs. However, the following points may be useful:

- The first two weeks of January 2021 see the Georgia Senate run-off elections for two Senators. The most probable outcome is that the Republicans will hold the two existing seats, denying the Democrats a clean sweep. The US market appears supportive of this outcome on the ground that a Democrat Congress and Democrat President will follow a centrist viewpoint. By the Democrats not having control of the US Senate, more extreme left wing policies from the Sanders/Warren senators will be denied.

- In the event that the electorate was to decide to support Biden in the Senate run-offs, markets may be more concerned.

- The mismanagement by the USA of Covid-19 means that the US is facing a critical emergency over the next few months, before vaccines are fully administered in the later part of the year. Your diarist has opined that the US may well face a 3-6 week shut down following the Biden inauguration in the third week of January. This may be a catalyst for the US market to correct. All that is being predicted here is that Biden will follow the Australian lead i.e. he will defer to the health professionals and the health professionals will interact with the US States. Already a number of States are at level 4 restrictions.
- The UK and Europe are also suffering badly from the resurgence of Covid and again there are level 4 restrictions in a number of European countries. The UK has announced a level 5 lockdown until mid-February.

There is a real probability that if there is to be a weakness in international markets, the shutdowns will reverse some of the Christmas 2020 rally in international markets. Burrell advisors are looking for buying opportunities during any corrections in the February/April 2021 period.

In both Australia and internationally, low interest rates became even lower in 2020 with central banks and fiscal stimulus from governments flooding the economies with liquidity. Against this backdrop of a record low risk free rate i.e. 10 year bond, equities in 2021 have an upward bias. This will result in FOMO (fear-of-missing-out) rallies, punctuated by reality checks from health and geopolitical events. Gold may be well supported, while infrastructure spending will replace some government income. Increased business failures are likely in Covid impacted businesses.

Happy New Year and All the Best for 2021,

Chris Burrell

Disclaimer & Disclosure: Burrell Stockbroking Pty Ltd and its associate's state that they and/or their families or companies or trusts may have an interest in the securities mentioned in this report and do receive commissions or fees from the sale or purchase of securities mentioned therein. Burrell Stockbroking and its associates also state that the comments are intended to provide information to our clients exclusively and reflects our view on the securities concerned and does not take account of the appropriateness of the recommendation for any particular client who should obtain specific professional advice from his or her Burrell Stockbroking Pty Ltd advisor on the suitability of the recommendation. Whilst we believe that the statements herein are based on accurate and reliable information, no warranty is given to its accuracy and completeness and Burrell Stockbroking Pty Ltd, its Directors and employees do not accept any liability for any loss arising as a result of a person acting thereon.

This document contains general securities advice only. In accordance with Section 949A of the Corporations Act, in preparing this document, Burrell Stockbroking did not take into account the investment objectives, financial situation and particular needs ('relevant personal circumstances') of any particular person. Accordingly, before acting on any advice contained in this document you should assess whether the advice is appropriate in the light of your own relevant personal circumstances or contact your Burrell Stockbroking advisor. If the advice relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product.

Burrell Stockbroking Pty Ltd (ABN 82 088 958 481), a Participant of the ASX Group and the NSX.