Opening Balance (November 1, 2019): $500,000

Ending Balance (October 31, 2020): $263,255

Performance Since Inception: -47.4%

This is the one-year anniversary of the DYME3Y Investment Club and it's not the anniversary letter that I thought I would be writing when we commenced twelve months ago.

From the beginning, our approach was based on discounted cash flow analysis. All of the members of the Investment Committee believe that this is the most reliable way to value any financial asset, and we're not going to give up on that.

When we started last November, we were nervous about valuations. More precisely, we felt that most of the securities we were looking at were fairly valued, and we thought that selling out-of-the-money puts was the soundest strategy. This turned out to be the worst possible strategy in the face of the market sell-off that occurred in the wake of COVID-19 and this put us immediately behind the 8-ball.

When the market rallied over the summer, we believed that there was far too much enthusiasm about what real economic growth would look like, and took a series of short positions… which turned out to be another mistake.

Growth has been the "flavour of the day" over the next six months. However, things tend to move in cycles and given our economic outlook, we think that value will be the winning strategy over the next two years, which is our investment horizon.

The reason why I delayed this commentary was because I and the Investment Committee wanted to consider the implications of the recent US Presidential election. As of Monday November 9th, it seems very likely that Joe Biden will be the next President of the United States and the Republican Party will retain control of the US Senate. This suggests gridlock over the next two years, which should be good for the markets. Trump's corporate tax cuts will not be rolled back, and there will be massive fiscal stimulus which should support share prices.

The recovery will be slow. Interest rates will remain at or around zero over the next two years. Ten-year bond yields in both Canada and the United States are currently under 1%. The bond market is telling us that "general" inflation will remain low and in this slow-growth, low interest rate environment, dividend yield will assume greater and greater importance… and this explains why we are positioning our portfolio in this manner.

Here are the positions that are currently open and the logic behind each:

- Long 25 January 2022 calls for AT&T (T), position entered at $5.70. AT&T closed Friday at $27.02. This would imply a break-even of $30.70. The dividend yield for AT & T is currently 7.7% which is ahistorically high. We believe that the dividend is safe and that AT & T should be priced to yield 5% which justifies a $42 price target

- Short 33 January 2021 puts for Alcoa (AA), requiring us to buy it at $18. The current market price is $12.90. We believe that the upside for Alcoa is much greater than downside risk at current levels which is why we choose to keep the position open

- Short 25 December 21 puts for Bank of America (BAC), requiring us to buy it at $21.00. The current market price is $23.70, and we believe that fair value is between $30 and $35

- Long 26 Bank of Nova Scotia January 2022 calls with a strike price of $50. We paid $6.24 CAD and believe that fair value for BNS is $80 per share. At $80 CAD, the dividend yield would be 4.5%

- Long 30 Citibank January 2023 calls with a strike price of $40. We paid $11.77 for each and they are now valued at $9.25. We believe that Citibank will hit a price of $65 - $75 over the next two years, and if and when it does, we would have doubled our money on this position. To generate some extra income from this position, we sold the January 2021 $60 calls, picking up $2,200

- We had purchased 10,000 CMRE last month, paying $4.89 per share. It is currently $5.85 and we sold 50 Dec. 7 and 50 Dec. 8 calls. We still believe that intrinsic value of CMRE lies somewhere in the $7 to $8 range

- We sold 15 Molson-Coors (TAP) January $30 puts. TAP is currently $36.46 after a strong earnings report and we feel that intrinsic value is $40 per share

- We sold 12 Nucor (NUE) January $40 puts. NUE is currently $48 per share and we feel that intrinsic value is somewhere in the $50 to $55 range

- We had previously sold 10 VTR puts with a $30 exercise price. VTR is currently $40 and we believe that intrinsic value is in the $40 to $45 range

- We are long 45 Walgreen's Boots Alliance (WBA) $30 calls that expire in January 2022. We have sold 45 $47.50 calls that will expire this January. WBA is currently $34.00 and we continue to believe that intrinsic value is in the $50 to $55 range