DIXON MITCHELL
INVESTMENT COUNSEL

DM MONTHLY REPORT
October 2021

PORTFOLIO ACTIVITY

In September, we sold Cognizant Technologies from DM Foreign Equity and used this capital to boost weights in existing names.

FEATURE STOCK
Alphabet Inc. (GOOGL)

Amongst companies that have thrived through the pandemic, GOOGL is near the top. As the shift to digital business, consumer, and advertising activity underwent a forced acceleration, several of GOOGL's properties were well-positioned to benefit. In its last earnings report, the company posted a 69% gain in advertising revenue over the same period last year, while YouTube logged an 83% rise in its top line. In fact, on its earnings call, GOOGL said that Connected TV (or content streaming through apps) is "the fastest-growing consumer surface that we have." YouTube Shorts, the company's new TikTok competitor, surpassed 15 billion daily views in the summer, up from 6.5 billion in March and its Ultimate Gaming Championship (UCG) now reaches more of the coveted 18-34 year old demographic than any US TV network. With respect to management, we've been pleased with the capital discipline brought by relatively new CFO Ruth Porat, which has freed up enough capital to repurchase $31bn of stock in 2020 and announce another $50bn buyback program last spring. So far this year, the stock has returned more than 75%, outpacing the broad market by a wide margin.

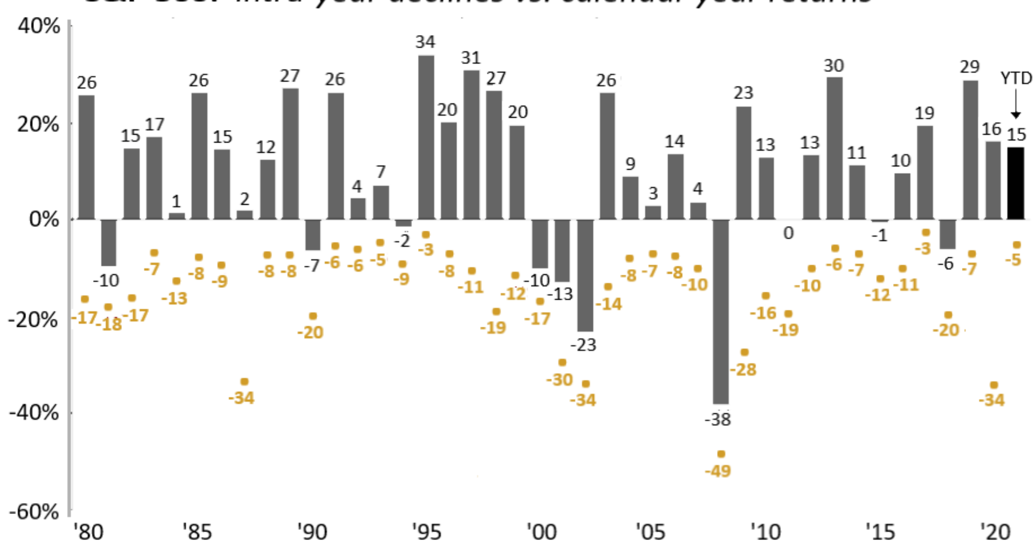
STOCKS WOBBLE, INVESTORS PONDER WHAT'S NEXT

After an extended run of virtually uninterrupted appreciation, the S&P 500 suffered a 5% decline in September, accompanied by a surge in daily volatility. Though it's impossible to say with certainty what causes each variation in the market's path, it seems likely that investors are presently grappling with both the idea that recent inflation might not be as 'transitory' as some had predicted, as well as the likelihood that soon-to-be-released third quarter earnings will show smaller gains than they did three months ago. To put recent and prospective market moves into context, we've replicated a graph that appeared in a recent JP Morgan publication in which the chart's grey bars show the annual price change for the S&P from 1980 to the end of Q3-2021 and the gold dots denote the maximum drawdown experienced in each of those years. A quick perusal of this data set reveals several interesting points, including:

- It's fairly common for the market to suffer a double-digit intra-year decline, even during periods which turned out to be very profitable;
- Aside from the sudden downdraft at the beginning of covid, we haven't experienced a 10% correction since 2018 (these have tended to happen about every two years);
- Outside of the dot-com and sub-prime market crises, losses in down years were actually quite muted;
- Most importantly, locking in large market drops over this period would have been ruinous to a long-term investment plan, as most declines were recouped relatively quickly, often within the same year.

Whether the current market pause will set the stage for another leg up or mark the start of a deeper slide will only be known after the fact. Regardless, modern history suggests that the best course will be to stick with a well-constructed plan and ride out the interruption.

S&P 500: *intra-year declines vs. calendar year returns**



* Price data only, dividends not included

Data source: *Bloomberg*