Manulife Securities

ROYDS REPORT

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TOPICS IN THIS NEWSLETTER

Recent Markets

Even though there are some signs of strength in the economy like strong employment, and 80% of companies, as of Apr 29 2022, reporting better than expected earnings, the market is still trading on fear in the face of Inflation, rising interest rates, the Ukraine invasion, Covid lockdowns in China and Covid in general. Some say the fear of these factors depressing the stock market is a self-fulfilling prophecy. Others say that as inflation and Covid subside and the war in Ukraine is resolved, whenever that is, the market will return to trading more on fundamentals than emotion. Still others say that "Investors are concerned that with these multiple rate hikes, the Fed is going to cause a recession rather than a soft landing." Too often in the past the Bank of Canada and the Federal Reserve in the US have raised interest rates too fast or too much and have actually caused a recession, rather than just cooled down an overheating economy. The central banks know this and have resisted increasing interest rates as long as they could, so they wouldn't send a fragile economy into a tailspin. Now in the face of high inflation, the central banks say they must act to curtail inflation before it spirals out of control. Those of us who lived through the late 1980s will remember what that was like, and central banks have vowed never again. Only time will tell if the central banks raise interest rates the right amount to curb inflation without stifling the economy to the point of a recession. It's a tightrope. If the economy does go into a recession, just remember that recessions end, and markets continue on to new highs. Remember that you need to hold your investments for the long-term, if you want the long-term returns the stock market can give you. It looks grim now with the S&P 500 and Nasdaq stock indices down from their highs over 14% and almost 24.5% respectively, as of close of business May 5, 2022, or is it really just an opportunity that only comes around every few years? Read the next paragraph to hear what the smart money is doing. Source: Globe & Mail, May 2, 2022

It's important to remember that you've experienced this before, if you've been in the market any time at all. Here is a chart of the more significant market drops for the main US Index, the S&P 500, since the

late 1960s. Check out how many big drops you've lived through, only to see markets rise to new highs afterwards. These were buying opportunities for the those with cash available to invest.

Peak	Trough	% Decline	# of Days
11/29/1968	5/26/1970	-36.1%	543
4/28/1971	11/23/1971	-13.9%	209
1/11/1973	10/3/1974	-48.2%	630
11/7/1974	12/6/1974	-13.6%	29
7/15/1975	9/16/1975	-14.1%	63
9/21/1976	3/6/1978	-19.4%	531
9/12/1978	11/14/1978	-13.6%	63
10/5/1979	11/7/1979	-10.2%	33
2/13/1980	3/27/1980	-17.1%	43
11/28/1980	8/12/1982	-27.1%	622
10/10/1983	7/24/1984	-14.4%	288
8/25/1987	12/4/1987	-33.5%	101
1/2/1990	1/30/1990	-10.2%	28
7/16/1990	10/11/1990	-19.9%	87
10/7/1997	10/27/1997	-10.8%	20
7/17/1998	8/31/1998	-19.3%	45
7/16/1999	10/15/1999	-12.1%	91
3/24/2000	10/9/2002	-49.1%	929
11/27/2002	3/11/2003	-14.7%	104
10/9/2007	3/9/2009	-56.8%	517
4/23/2010	7/2/2010	-16.0%	70
4/29/2011	10/3/2011	-19.4%	157
11/3/2015	2/11/2016	-13.3%	100
1/26/2018	2/8/2018	-10.2%	13
9/20/2018	12/24/2018	-19.8%	95
2/19/2020	3/23/2020	-33.9%	33
1/3/2022	???	-13.4%	???

Data: Bloomberg

Source: https://awealthofcommonsense.com/2022/05/why-does-the-stock-market-go-up-over-the-long-term/

Daily drops have been scary this year (as they were in 2020), because the market can go down 2 or 3 or 5% in a single day, but then they can go up that much too. That's one of the reasons we don't want to risk getting out of a down market. If we don't get back in before a couple of those quick up days, we will have missed out on a lot of the recovery. It's best just not to time the market, but to hold on for the long-term. If you have short or medium term needs, money for that should be in low or low to medium volatility funds, which aren't generally fully invested in the stock market. Those funds shouldn't experience nearly as much volatility (nor earn the same long-term returns though).

Learn From the Best

If you want to learn how to golf, you're not going to try to copy my swing. You'll want to copy Tiger Woods' swing or the swing of one of his peers. If you want to make money investing, learn from the best (or at least one of the best) there has ever been. That would be the Oracle of Omaha, Warren Buffett, formerly the richest man in the world (until people like Bill Gates, Jeff Bezos and Mark Zuckerberg built empires as business owners that eclipsed Buffett and before Buffett gave so many billions away to charity). Sometimes he goes out of favour and people declare he's washed up and old fashioned. That happened in the late 1990s when he wasn't in all the emerging high tech stocks, but

then Buffett looked brilliant again when those stocks crashed and burned in 2001/2. Then he lagged again in 2007 and people criticized him for holding so much cash and not keeping up with the market. When the Great Recession or Great Financial Crisis of 2002-2009 happened, Buffett bought up a ton of strong, growing businesses at or near the bottom of the market, which had fallen in price because the market was fearful of everything. Then through much of 2021, he was again dismissed as having missed the boat. Cathie Wood was the market's new darling. She had fantastic returns after the initial COVID market drop. Until late last year her ETFs 5 year returns were almost quadruple that of the market, and far above those of Buffett's Berkshire Hathaway stock. From about November 2021 to now however, Wood's ETF has dropped 70%. Buffett is up over 10% in the last 6 months (at the time of writing this). Buffett's strategy is our favourite GARP, Growth At a Reasonable Price, where he looks for companies with competitive advantages that are growing, run by honest, competent management and are selling for less than their future profits are worth. (Source: Bloomberg Article on Apr 29, 2022)

So what can we learn today from Mr. Buffett, Uncle Warren as we like to joke. At his annual shareholder meeting on Apr 30, 2022, he announced that he has been buying companies while the market is fearful of inflation, Covid shutdowns, and the Ukrainian Invasion, to the tune of $41 Billion (net investment). Buffett isn't letting the short-term noise in the news scare him away from buying quality companies that are finally selling at prices he likes and at which he thinks he can make lots of money in the future. Maybe we should stop thinking about the world's immediate problems and the market's fear and concentrate on buying into great businesses too, through managers who copy Buffett's GARP style. After all, great companies make money over the long-term as they always have.
(Source: Bloomberg Article on May 2, 2022)

A Little Good News

Easing Inflationary Pressures - Long-term US Federal Reserve Chairman, Alan Greenspan, used to eagerly watch Trucking and Shipping data for insight on how the economy was doing and whether there were inflationary trends afoot, with strongly increasing demand. The cost of sea and land shipping were down 16% and 37% in the month of March. This signals decreased demand and therefore decreased consumer spending which lessens inflationary pressures.
(Source: Greg Valliere, Chief U.S. Policy Strategist AGF Investments Apr 18, 2022)

Good News for Some, Bad News for Others

Housing prices softening – Remax's Golfi Team Apr 2022 Real Estate report showed the one month change in average sale prices for homes from Feb to Mar in much of the GTA. Hamilton prices for MLS Residential sales were down 2%, Burlington down 7% and Toronto down 1%. The Kitchener Waterloo Association of Realtors reported that the price for detached homes in their region had fallen $200,000 over the last 2 months. The president of the associations said, "We noticed this shift after the Bank of Canada's recent rate increase reinforcing that it has been cheap money empowering too many buyers to chase after too few listings driving the market rather than anything else." (Source: GlobalNew.ca May 4 2022)

Further interest rate increases could have much greater impact. Of course, this is only good new for those looking to buy, not for current owners who have been thrilled with their new-found wealth from rising house prices. People want housing to be affordable for their kids and grandkids, but they don't want their own property value to go back down to the more reasonable price of a few years ago, which could make it affordable for someone younger. The problem is, we can't have it both ways.

Some Bad News

A new study by S&P Global of future productivity in 135 countries, written about in the Apr 28, 2022 Globe & Mail, predicts that global GDP (Gross Domestic Product) could be reduced by 4% annually by 2050 due to climate change. "Bangladesh, India, Pakistan and Sri Lanka's exposure to wildfires, floods, major storms and water shortages mean South Asia has 10 per cent to 18 per cent of GDP at risk…Central Asia, the Middle East and North Africa and sub-Saharan Africa regions all face sizable losses too. East Asia and Pacific countries face similar levels of exposure as sub-Saharan Africa, but mainly because of storms and floods, rather than heat waves and drought … For most countries, exposure to and costs from climate change are already increasing. Over the past 10 years, storms, wildfires and floods alone have caused losses of around 0.3 per cent of GDP per year globally, according to insurance firm Swiss Re. The World Meteorological Organization (WMO) also calculates that, on average, a weather-,climate-, or water-related disaster has occurred somewhere in the world every day for the past 50 years, causing 115 daily deaths and more than US $202-milion in daily losses. "

So where we invest geographically and the size of profits that are possible in light of increasing costs due to climate change could be greatly impacted by climate change in the future. We'll need to keep our focus on quality companies in whatever growth areas there are, in order to get the best returns we can.

Double Whammy of the Pandemic & Ukraine Changes the Course of Global Development

"One of the larger trends that we do think will be impactful coming out of the pandemic and the Ukraine situation will be de-globaliziation; the desire for energy independence and more control over supply chains at home in order to avoid constraints on growth in the future."

(Source: Commentary from T. Rowe through TD Asset Management Apr 20, 2202)

Unconscious Bias

Elaine doesn't go around telling everyone that her grandson is the brightest, most beautiful child of his generation (although he most certainly is, LOL), because it's common knowledge that every grandparent thinks that their grandchild is exceptional, and grandparents have no objectivity about the matter. But how many other biases are we, or mankind in general, unaware of in our own thinking? By being aware of our biases, we can temper our behaviour to be more rational and less biased.

There are two human thinking tendencies that kick in when markets are down that could lead us to take irrational action. Manulife Investment Management recently did a study on investor bias called "2021 value of behaviourally informed financial advice study" and found the following two thinking tendencies that we need to watch out for when markets are down, so they don't lead us to behaviour that would hurt us in the long run.

- "Representativeness: The tendency to believe that current conditions will continue indefinitely. As humans, we tend to focus too much on current conditions without considering how they might change in the future. In investment decision-making, this bias manifests in the belief that current market conditions will continue well into the future, without consideration of risks that might lead to vastly different returns." In English that means that when markets are rising, we become overly confident that markets will continue to rise, and when markets fall, we fail to see that the economic situation could improve going forward.
- "Loss aversion: People's excessive sensitivity to the risk of losses. The emotional discomfort of losing money far exceeds the pleasure of winning an equal amount. This leads people to ignore the possibility of gains and to focus too much on the possibility of losses. Excessive loss aversion may lead to overallocation to low-risk, low-return investments with a corresponding long-run failure to achieve sufficient returns and achieve financial goals." This means that we get super happy when markets go up 15%, but then we get super

> duper unhappy when markets drop 15%, even if we still made a good profit over the whole time period. The loss hurts more than the gain delighted, and the fear of a loss can keep us from trying for the gain, even if the gain is more statistically likely to happen.

In terms of today's situation, people may think that markets will never recover (even though they recovered from WWII, the Vietnam War, the Iranian Crisis, the Afghanistan War, the Great Recession etc) and may lead to people being terribly upset that their accounts are down from their highs, even if their accounts have still made good money over the longer term. By being aware of our biases, we can take a step back and look more objectively at the bigger picture of performance and remind ourselves of the cyclicality of market cycles. Markets have never gone either up or down forever and aren't ever likely to.

Bitcoin

Research done by the Bank of Canada (the government's central bank) into Bitcoin owners confirmed the expected about who owns Bitcoin, but revealed some scary things about Bitcoin ownership:

- -owners tend to be "young, educated men with high household income and low financial literacy" and "are, on average, more knowledgeable about the technology than non-owners"
- "Canadians who are financially literate are more likely to be aware of Bitcoin but less likely to own it"
- "about half of past and current owners in 2019 stated [that] they had been affected by events such as price crashes, losing access to funds, scams or data breaches … 14% of Bitcoin owners stated they lost access to their personal crypto wallets; 6% said that an exchange holding their assets had been hacked; and 5% reported their personal data had been compromised. In terms of crypto fraud, the research said that 12% had participated in an initial coin offering that ended up being a scam, and 7% had their funds stolen by an exchange."

Source: Apr 19 2022 article in Advisor.ca by James Langdon

So aside from market risk and the risk of the underlying investments, there seems to be a lot of other risks for Bitcoin owners and many not be financially literate enough to assess the risks.

Bear markets come when they're not expected, and no one knows how long they'll last. The secret to not letting them hurt you is to outwait them. To help you do that, remember that you hold quality companies in your funds, companies that are growing and profitable. Eventually markets will recover.

Despite the Covid variants, we remain open for in-office meetings in the boardroom, that has a Plexiglas barrier down the middle of it. Of course, we are still doing Zoom and phone meetings. If you'd like a review meeting and we haven't reached out to you already to schedule one, just give us a call to set one up.

Stay Safe

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