

June 2022 Financial Planning Email Update

When faced with problems and adversity my mother always said, "This too shall pass."

Over the past several months, the investment markets have been repricing to adjust to a new economic environment based on several significant factors. The current price of all stock markets is based on a forward-expected forecast of all components over the next 6 to 9 months.

Hot levels of inflation, attempting to be extinguished by all central banks utilizing raising interest rates and reducing money supply (quantitative easing) has led the list of notable issues this year. This has been closely followed by the Russia-Ukraine conflict, the lockdown of the economy in China slowing the global supply chain, a trend towards deglobalization, as well as the pricing in of an economic slowdown / recession in early 2023. What has materialized is a correction in both bond and stock markets simultaneously which rarely occurs. Normally when stocks are out of favour those funds flow to bonds and visa versa.

This in a backdrop of full employment to the extent of labour shortages, an economy and consumer which is quite strong (at pre Covid levels) and pandemic surplus savings recently announced in Canada of 300 billion dollars and in the U.S. of 2.5 trillion dollars. Wherever these funds are directed will have a favourable future. Will it be purchasing goods or services or will it be invested? These answers are unknown at this time.

On May 17, 2022 I attended a portfolio manager discussion with Fidelity Investments Canada. Andrew Marchere, Chief Investment Officer of Fidelity Investments Canada suggested this is a period of renormalization and that the market is behaving in a very typical pattern based on the past 100 years. The market is acting in a rational way now. The new renormalization refers to a movement from a very generous monetary policy with ultra low interest rates to raising interest rates and reduced monetary policy. The last 14 years was the most accommodative monetary policy in history. This has caused a lot of volatility and discounted most of the stock prices which has created momentous investment opportunities.

Fidelity is a very large investment management company with a focus on global research and excellent money managers. Fidelity has hundreds of analysts that research thousands of businesses ongoing. In today's market disparities among companies are large which creates great opportunities for active money managers to invest in high quality businesses with recurring cash flow while paying low valuations.

Steve MacMillan, a Fidelity Portfolio Manager added how exciting the investment opportunities are today. Steve focuses on the U.S. with its isolated geography from Europe and Asia, it's top universities, the U.S. has generated the most nobel laureates, with the most technology companies, and the best performing market over the last 50 years.

Don Newman, another Fidelity Portfolio Manager built on what investment qualities they are looking for now. That is good balance sheets (with low debt), sustainable business models, an ever increasing positive dividend track record with growing earnings and the stock which is priced favourably. He is very excited that all of these conditions are available now.

Lastly we heard from Dan Dupont, another excellent Fidelity Portfolio Manager who has always had a focus on downside protection and has referred to himself as aggressively patient.

Today he sees great buying opportunities in low leveraged quality companies being purchased at low stock prices. There are also abundant opportunities in cash arbitrage when a company announces it will be sold, there is a spread in the current price versus the closing price due to speculation before closing which may be 4 to 7 months later.

Dan uses his 'value' edge to find companies that are extremely over valued and will short the stock.

He believes the market is pivoting to value but has a great deal of respect for the concept of momentum investing in that he allows the momentum to exhaust itself before selling short.

Also in May I attended an update with Oscar Belaiche Senior Vice President and Portfolio Manager for the Dynamic Equity Income Fund. Oscar began by reiterating that investing risk declines over time and that maintaining his

investment process is critical. The investment goals are to invest in quality businesses, to protect capital and to generate income to provide an ongoing yield, what he refers to as getting paid to wait.

Dynamic has an extensive research team allowing him to search, as he refers to, a mile wide and a mile deep. This allows him to form a viewpoint. Macro economic research is completed on country's, commodities, currency, interest rates and sectors. Oscar's opinion is that interest rates will continue to be raised until inflation peaks. In this current environment it is important to invest in what is referred to as anti-fragile companies.

Oscar presented five future potential scenarios:

1. Slowflation / Stagflation- we are in this event right now.
2. Recession – 30% chance that growth goes negative in the next year.
3. Soft landing – growth slows down and government doesn't over tighten has a 20% chance.
4. Roaring 20's Inflationary Boom – this took place in 2021 but only has a 5% chance moving forward.
5. Goldilocks – high growth with low inflation has no chance at all.

In discussing the stock market he suggested he could make a case that we are near the end of the correction. As he said, could it get any worse – absolutely... could it get any better – absolutely.

Oscar's focus can be expressed in these statements/quotes:

In a bear market he who loses the least wins.

On investment selection: Currently on the Nasdaq, the US market index which focus's on technology companies there are over 50% of the companies which are over 50% down.

And referring to holding quality companies in a bear market he quoted Warren Buffet "When the tide goes out we can see who is wearing a bathing suit."

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,
Gary



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