

**January 17, 2023**

The Stock Market never fails to amaze me in how quickly perception drives the direction of stocks. I listen to the talking heads on CNBC and BNN, the business news shows that run daily in the background as I work.

On any given day they will have experts that will be saying rates are done going up and rate cuts are coming. Then, later in the same day you will have experts come on and say, rates will be higher for longer. Does anyone really know? The answer is no.

What I do see (and this is not a judgement or libel against the younger generations) is that so many of the talking heads that say rates are done going up and will be coming down, were not even born when we had 20% interest rates in the U.S. and 21.75% in Canada in 1980.

I was a young man coming out of university during these times and I witnessed firsthand, personal and corporate bankruptcies, families struggling under debt, and the decline in price of overvalued stocks. It was a grim time to be starting out. We had serious global military actions unfolding elsewhere in the world. Two wars ran throughout the decade: the Soviet-Afghan war (1979-1989) and the Iran-Iraq War (1980-1988).

1982 saw the outbreak of the Falklands War and the Lebanon War, with civil wars and coups occurring in several countries throughout the decade.

Does this sound familiar? I sure think so. The philosopher George Santayana who originally wrote, "Those who cannot remember the past are condemned to repeat it.", is a statement I think of often as I look at the global equity markets.

If you look at the TSX stock exchange December 2022 to present, all you will see is a trading range where every 4-6 weeks it goes from the low end to the high end back to the low end etc. Then in the middle of September of last year it went from the top of the trading range to a substantial and fast low that reversed all its gains for the year and went negative. Then it rebounded and in November, jumped up 10% higher and has topped out below the highs of the one-year trading range!

What this tells me is that the TSX is totally behaving in a manic volatile pinball fashion, bouncing every few weeks based on sentiment. Why? Because that is what markets do when they don't know what to do and behave with knee-jerk reactions to news headlines.

How do we work with this environment? We seek out established businesses that have reliable earnings and are not prone to dramatic moves one way or another until we see the true direction of the economy and may assess actual value of the companies we wish to hold.

I have had some people say to me, "I see the market has gone higher, but we seem to be sideways". I understand how this is perceived. Unless you are invested in a specific stock index like the S&P500 or the TSX60 or the NASDAQ, you are unable to compare your investment portfolio to "the market".

Let me tell you something about the S&P500 Stock Index in the U.S. If you stripped out Apple (AAPL), Alphabet (GOOGL, GOOG), Microsoft (MSFT), Amazon (AMZN), Meta (META), Tesla (TSLA), and Nvidia (NVDA) - make up 29% of the S&P 500's market capitalization, the performance of the Index is almost flat for the year.

I have sold out of these names because they have gained so much value that I just don't trust them to stay in the stratosphere and expect some if not all to come crashing down if they cannot achieve the expected value that the "market" has assigned them. When I look at a company to invest in, I ask myself would I pay that much for future and unguaranteed earnings? If the answer is no, then if I hold it, I sell and if I don't hold it, I don't buy.

For example- when you buy the shares of Apple you are buying at this price the future earnings for the next 32 years; GOOGL, the next 26 years; Microsoft the next 36 years; Amazon the next 76 years; Meta the next 29 years and Tesla the next 78 years!! If you have been with me a long time you will have seen these companies bought and sold at a great profit in many cases over time. Well, it's simple to me. I have a hard time justifying risking your hard-earned money on that which I believe is too risky and over valued to buy... at this time. That may change.

Until we see inflation clearly falling and interest rates stable, we continue to seek out that which is not overvalued and is maintaining success at what they do. It's not all gloom and doom, but we must be prudent that we don't run off a cliff chasing pie in the sky valuations.

If you have any concerns do not hesitate to contact me at 613-491-3344.

Sincerely,

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