Market Commentary

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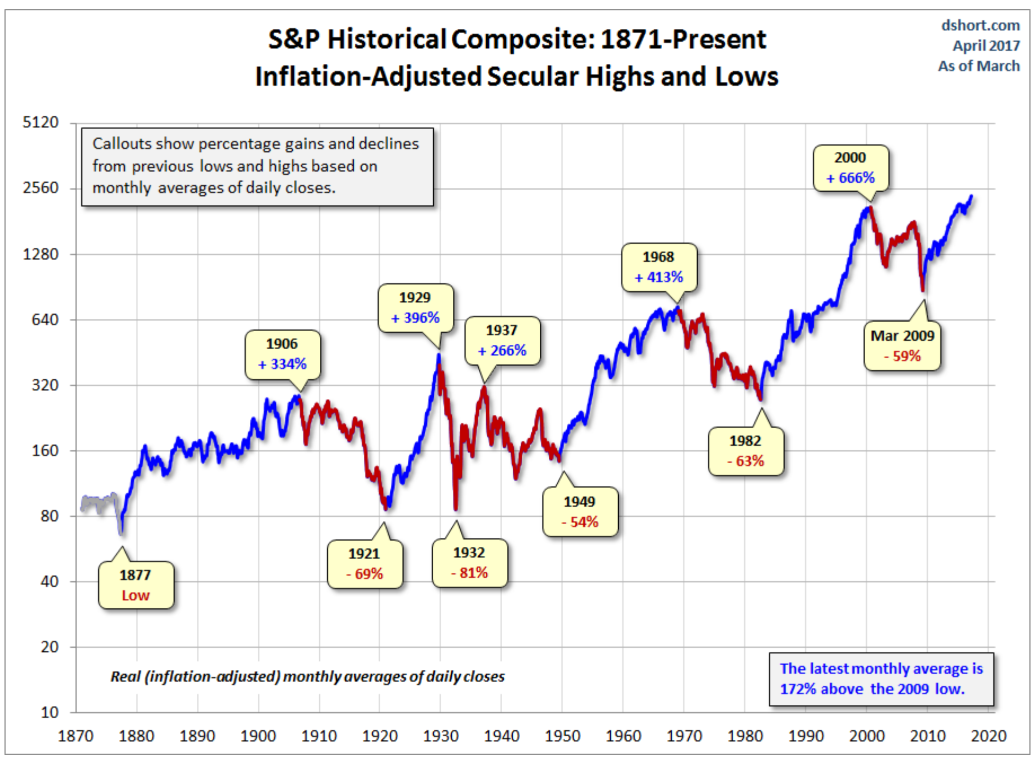
Climbing the "Wall of Worry"

It's very difficult to have a financial markets conversation these days without falling into a discussion on political influences on asset valuation. After all it is the most significant financial news topic and it is taking up significant air and paper space. It does spill over into portfolio discussions with clients and at cocktail parties in Canada, I'm sure it has replaced the weather as our most popular "small talk" topic.

Donald Trump is well into his second hundred days and we're experiencing the lowest volatility in equity markets in a decade. Bond prices fell initially in anticipation of higher interest rates but have recently recovered most of their losses. Precious metals climbed higher due to the uncertainty of the Donald Trump regime change, but have recently reversed to a modest gain since the November lows.

The moral of the story appears to me to be "invest on fundamentals not on your political convictions and by all means filter the messages delivered by all sources that require ratings to maintain their relevance, the two most significant being politicians and media.

My role as your portfolio manager includes assisting you in that filtering process. So in that regard let's review a chart produced by our investment strategy group at Raymond James. The premise is we are in a secular bull market for equities that has a number of years to run before it reaches its peak.



Source: Advisor Perspectives

These types of bull markets begin in a period of depressed valuations at a time when corporate and consumer confidence are at its lowest. March 2009 is noted on the chart as a time that suits that description.

The termination of this type of bull market occurs at a value significantly above the level of the prior market peak, as was the case in the 1949-1968 and 1982-2000 time frames.

Corrections occur during those long term bull markets but lows and highs tend to exceed the prior lows and highs on a long term uptrend.

It's also very important to view current fundamentals with an analytical perspective without emotional influence.

i. We have experienced significant earnings improvements on the S&P500 over the last three quarters.

ii. Capital spending budget increases confirms greater corporate confidence leading to higher economic activity and greater numbers of employed.

iii. A stimulative interest rate policy persists globally.

iv. Regulation in the banking industry has curbed excessive leverage moderating economic growth since 2009.

To illustrate, "every basic bull market must have a "wall of worry" on which to climb. A bull market goes up in the face of intermediate bad news based on current facts that are very upsetting to the statisticians who usually fight the move until it nears an intermediate top, when as the news turns better, they finally give up and turn bullish." The Derrick 16 September 1958

These worries may include political economic risks. The wall of worry is used to describe a bullish market trend occurring in the face of negative uncertainties.

Managing portfolios in the middle of a secular bull market, during a stimulative interest rate cycle requires asset selection that in my opinion,

1. Includes short duration adjustable rate fixed income products.
2. Value oriented common stocks with a history of earnings and dividend growth.
3. Inflation protection is a secondary priority due to slower than historically average growth rates.
4. Disciplined buying and selling of securities as valuations cycle between inexpensive and expensive relative to growth in earnings.
5. Resist the emotional effects of the "wall of worry" both politically and economically.

It's a good time to resist the "noise" in our environment to intimidate you into action. It reminds me of a Warren Buffet quote "there seems to be some perverse human characteristic that likes to make easy things difficult."

And a little humility helps,

"I do buy expensive suits; they just look cheap on me."

All the best, Graham Burns