Market Update

September 2021

An Important Note: Volatility vs Loss

In theory there is no difference between theory and practice, while in practice there is – Benjamin Brewster, 1882

Though the race may not always to the swift, nor the battle to the strong, the odds are vastly in their favour – William Westall, 1900

Investing is not easy. One can do all the research in the world, study all the theory and then find the best opportunities (best odds) and invest cautiously, but still end up with a loss. That is reality.

But there are two types of losses, temporary and permanent.

The first is typically caused by market volatility and this is simply where a price rises and falls. One may invest at $10 and find that it is worth only $8 the following year (for a variety of reasons), but then worth $12 the next. The loss after the first year is deemed temporary and reflects the market's momentary perception of the investment. Volatility can be discomforting, but if one has invested in a company with fundamentals that remain solid, and can hold the investment over a longer horizon, the eventual success can reveal itself over time.

The second is a permanent loss and is usually incurred when a company experiences irreparable damage, even bankruptcy. In this circumstance one's loss is real, painful and permanent.

We work very hard to find investments where the odds are in our favour, though they can be, at times, volatile. When such investments fall we ask for patience. Such volatility is also why we diversify. We feel much more comfortable having uncorrelated investments so that some are going up when some are going down.

We also work very hard to exclude investments for which we perceive any possibility of a permanent loss. It is for this reason that we have written against investing in many of the latest fads. We believe the possibility of loss is very real and considerable. "If everyone woke up tomorrow and decided that they no longer wanted X, what would X, or the company producing X, be worth?" is an excellent test (substitute X with Gold, Bitcoin, NFTs ...). "If the company fails to execute a specific strategy, what would the company be worth" is another (substitute companies betting on a single drug, single technology, brand new industry or one making a huge acquisition).

Excitement may lie more in the later (the more speculative investments), but attractive long-term prudent returns lie more in the former.

Market Update – September 2021

September was a negative month – for most of the indexes we track, which are stated below. The first negative month of the year.

As there always has to be a reason (whether it is true or makes sense or not), the current dip has been blamed on Evergrande (in China), inflation fears and the simple fact that it was September. Let's take a moment to go through each.

Evergrande is the world's most indebted real estate developer and it has a series of payments coming up (BNN Bloomberg). The fear is that the company may not be able to make the payments and that the Chinese government may allow it to fail, sending a message to all other Chinese companies. The broader Evergrande Group owns businesses ranging from wealth management, electric cars and food and drink manufacturing. It even owns the country's biggest soccer team. Last year Beijing brought in new rules to control the amount real estate developers could borrow. Evergrande had to deleverage quickly and so had to sell properties at major discounts. If they do default, there would be repercussions for their investors, companies who do business with them, companies that lent them money and possibly for the Chinese financial system. Whether they default, and if so, to what extent, is still unclear.

It is still possible (some would argue, likely) that the Chinese Government would step in to bail them out as their new rules and their comments have made their message very clear.

Inflation has reared its head after being subdued for a very long time. The debate rages as to whether the higher inflation (still moderate by historical standards) is here to stay or will pass. It is possible that once the pent up demand (many consumers wish to spend money they have saved over the last year) has been met, we will return to lower inflation rates.

September is viewed by many as a traditionally negative month. The summer has ended, schools have begun and work becomes more of a focus. All three contribute to stress and disappointment and this finds its way into the thoughts and feeling of investors. Historically, in September the S&P 500 Index has returned **on average** -1.0% (1928-2020). However, the returns have ranged from +3.2% to -4.6% and there is no way to anticipate (time) which September will be positive and which negative. But the psychology comes into play. I find it interesting that October's average is +0.4%, as most people believe October to be the worst month. (Yardeni Research).

These days I am being asked often if I think September's slide is part of a larger downturn. I do not. Downturns do not occur simply because we have had a significant upturn. We had a recession in 2020 and historically speaking, it is extremely rare to have two recessions within two years. Indications of broad-based concern (such as increases in gold price and volatility) are not present. Rising rates typically cause concern but usually result in bonds being sold and stocks being bought. Lastly, most companies I monitor have cash and appear confident. In addition, the current market and economic environment remain strong. Earnings and sales continue to impress. Central banks appear committed to keeping key interest rates low into 2023. Consumers appear to be increasing their spending, and job growth is strong. Admittedly we still do not have a crystal ball, but at this time we are comfortable being invested and investing new funds. We just can never expect prices to move smoothly.

Therefore the focus remains on managing risk and maintaining the risk level that meets one's long term goals. As such, as markets appreciate, we reduce our exposure not because we believe markets have peaked (we do not, and we do not know) but because such an appreciation increases the risk of the portfolio and we wish to rebalance back down to the targeted long-term risk level.

And so, as always, our conclusion remains that same: focus on the longer-term. Invest for the long term. Ignore short term fluctuations. Focus on your life, your plan, your goals. At the end of the day that is all that truly matters.

We are cautiously positive in the short term, and positive in the medium and long term. We continue to hold our positions and invest cautiously.

Have a great month and let us know if there is anything we can do for you,

- Meir

Index	Quarter	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	0.30%	-4.00%
Canadian Equity - S&P/TSX 60 Index - CAD	0.70%	19.40%
US Equity – S&P 500 - USD	2.30%	17.80%
International – MSCI EAFE Index - USD	-1.20%	8.30%
Emerging Markets - MSCI Emerging Markets Index - CAD	-7.40%	0.10%
Real Estate - Dow Jones® Global Real Estate Index - USD	-0.70%	19.60%
S&P/TSX Preferred Share Index - CAD	1.30%	16.60%

Meir J. Rotenberg, MBA, CFA®
Vice President & Investment Advisor
TD Wealth Private Investment Advice
meir.rotenberg@td.com

Adam D. Shona, B.Comm
Associate Investment Advisor
T: 416 512 7645
adam.shona@td.com

Nelson Gordon
Client Service Associate
T: 416 512 6813
nelson.gordon@td.com

TD Wealth Private Investment Advice
5140 Yonge Street, Suite 1600
North York, Ontario M2N 6L7
Tel: 416 512 6689
Fax: 416 512 6224
Cell: 416 602 1614
Toll: 800 382 4964

TD Wealth

[1] Bonds FTSE Canada Universe Bond Index - CAD
Canadian Equity - S&P/TSX 60 Index - CAD
US Equity – S&P 500 - USD
International – MSCI EAFE Index - USD
Emerging Markets - MSCI Emerging Markets Index - CAD
Real Estate - Dow Jones® Global Real Estate Index - USD
S&P/TSX Preferred Share Index - CAD

BC22-85