Market Update

May 2023

Important Topic: Evaluating Decision Making

Knowing markets are volatile and daily price movements are almost always due to reasons that have little or nothing to do with a specific stock, how does one evaluate the following:

One invested $100 in an investment and three months later it is trading at $80.

1. Was the initial investment decision a good or bad one?

2. Do we now sell, hold, or buy more?

While many immediately answer these two questions based on their instincts or emotions, I would argue that one cannot answer either question given only this information.

To properly answer the first question, one must focus on the basis for the original decision and review all the information that was available at that time. As I wrote last month, the quality of a decision is not determined by the outcome but by the strength and support of the decision based on the information on hand at that time. It is very possible, perhaps even likely, that faced with the same information today you would make the same decision. In other words, it was a good decision and if repeated often enough and given time, one should theoretically experience many more positives than negatives. If, however, the original decision was based on hope, rumour, a friend' s "tip", headlines, faulty reasoning, misunderstanding, fear of missing out, or incorrect calculations then one must admit that the initial investment decision was a bad one. (This difficult but frank conclusion would be true even if the stock went up!).

To properly answer the second question (which is what we must do going forward) one would need to dive deeply into the old and any new information. One needs to look at the specific company, its financials, its competitiveness, its profitability, its cash flow and much more to determine the value of the investment. If originally such an analysis provided a value of $200 per share, which justified the original purpose, and the subsequent analysis again supports a $200 price target, then a fall to $80 would be a buying opportunity. If the new analysis produced a $80 or less valuation, one would likely sell.

We certainly appreciate and share in the fact that having an investment fall from $100 to $80 is trying and painful. Even with an analysis that determined a value of $200 per share, and a conviction in the strength of the valuation, one does not enjoy such a move. But one must always be prepared for such an occurrence when dealing with publicly traded investments.

Markets are famous for seeming to know one's point of discomfort and forcing prices just below that point. One's patience will likely be tested. One may even experience large amounts of stress with a few even coming close to panic. To play on the adage "man plans, God laughs", then allow me to suggest "man invests, markets laugh". However, this is a description of the short-term. Over the long term, prudent, researched and strongly supported investment decisions often pay off. Not all, but enough to make the entire process well worthwhile.

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While less volatile than recent months, May's markets posted negative returns.

May was dominated by discussions surrounding the US debt ceiling. The US government needed to increase the ceiling so they could borrow additional funds to meet their current obligations. You may recall such discussions from the past, given that the US Congress has acted 78 separate times since 1960 to permanently raise, temporary extend or revise the debt limit.

The lesson from the past debt ceiling impasses is that these events can disrupt markets for a while — sometimes even months — but they don't usually have a lasting impact on investors. When a debt ceiling agreement is reached (always have been), economic fundamentals and company profitability return to the focus. In other words, the crisis passes, and everyone goes back to focusing on what they were focusing on.

While the debt ceiling proves to be a repeated short-term crisis, there is a separate and more serious concern about the level of the US Government's (and the Canadian Government's) debt. While some are not at all concerned, others fear permanent damage to future generations.

The first group points to the fact that one should not look only at the amount of debt, but must also factor in the Government's considerable assets, their income, and their ability to increase their income if and when needed (increase taxes). These factors underly the high credit rating of the US Government (and the Canadian Government). As it can be argued that the amount of debt that can be carried could be higher, those on the far left believe that it should be, to try and address current problems.

The latter group points to the percentage of annual spending that is going to pay the interest on current debt. While this number fell considerably as rates fell, this amount has now increased significantly, returning to past years' levels and looks to possibly continue even higher. This group is not interested in raising taxes and would like

to see government spending in line with current government revenue. They fear interest payments becoming so large that a tax increase is necessary. They even look to use, lease, or sell current assets to generate additional income before increasing taxes.

The actual debt may never be repaid as any maturity is continually reborrowed. If the interest on the debt can be met, leaving the $30 trillion outstanding for a long period of time makes some sense. First, the value of $30 trillion falls each year as inflation erodes the value of money. Paying back $30 trillion in 100 years, given a rate of inflation of 3%, is the equivalent of paying $1.5 trillion in today's dollars. Second, as the US economy grows from a current GDP level of $23 trillion, $30 trillion becomes less and less significant.

The key is meeting the interest obligation while still doing everything that the Government does.

Separately, the expectation of a recession seen at the beginning of the year, is no longer a common view. How things have changed. Note that while the economy changes slowly, predictions change quite quickly and significantly. "Prediction is very difficult, especially about the future" – Niels Bohr.

And so, we believe the focus remains, and must remain, on the long term. We believe that one's investment focus should be on strong entities that have opportunity and potential and can weather the inevitable storms and still prove profitable. Invest for the long term and ignore short term fluctuations. Mostly we believe that one should focus on one's own life, plan, and goals. At the end of the day that is all that truly matters.

Looking forward we continue to see the short term as rather rocky but remain positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

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

- Meir & Adam

Index	Month	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	– 1.60%	2.30%
Canadian Equity - S&P/TSX 60 Index - CAD	– 5.30%	2.00%
US Equity – S&P 500 - USD	– 0.50%	9.20%
International – MSCI EAFE Index - USD	– 4.00%	7.70%
Emerging Markets - MSCI Emerging Markets Index - CAD	– 1.80%	1.50%
Real Estate - Dow Jones® Global Real Estate Index - USD	– 4.00%	– 1.20%
S&P/TSX Preferred Share Index - CAD	– 3.40%	– 0.80%

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