Market Update

April 2023

Important Topic: Decision Making

Imagine that I randomly pick one card from a deck of cards, and without either of us looking at it, I offer you $1 if you correctly answer the following question:

Am I holding the 6 of Clubs?

Considering the odds are only 1/52 that I am, you decide to answer "No". You would be comfortable that you made the right decision with the odds of success heavily in your favour.

Now imagine that I was in fact holding the 6 of clubs. I had randomly selected that one card and so you did not win. We have all been here.

Was your decision wrong?

Your answer turned out to be wrong but your decision was still the right one. There was nothing wrong in your evaluation of the situation nor in your decision process.

Now imagine if the question was instead: Am I holding a club?

The best answer is still "No", but the likelihood of being wrong has greatly increased.

Too many people judge a decision by its outcome. In truth, we can only judge the decision by looking at what was known at the time and how that information was evaluated. In other words, given the same circumstances would the decision change? All decisions must be made on the information at hand. The quality of the decision making process can be assessed, graded and hopefully improved upon. But this is not tied to a particular outcome. The best answer does not necessarily turn out to be the correct one.

So it is with cards, so it is with most of life's decisions, and so it is with investing.

When we perform our due diligence on an investment, and specifically the investment manager who will be making the important decisions, the key is to understand how they gather information, what they gather, what process they have to evaluate the information and then how they then make their decisions.

Given so many unknowns, they certainly will not get them all right. In fact, there will likely be times, for a time, when markets will make it appear as if they made more poor decisions than good ones. But if the decision making is sound and they keep coming up with the best answers, then the odds will be in their favour, and they will be right much more often than wrong.

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April was yet another volatile month. You may have noticed that almost every month is quite volatile. This is quite normal. I hope everyone is getting used to it, or at least appreciating that there is little meaning in these short term gyrations.

The almost universal expectation of a recession seen at the beginning of the year, is now far from universal. In fact, we are starting to see some commentators claiming that they never believed it. They apparently just never shared that opinion loud enough to be hear! (a too common phenomena when one holds an uncommon view point).

Inflation has slowed. In fact, The Bank of Canada's Governor MacKlem believes that inflation can reach the 2% target without a deep recession or a significant rise in unemployment. The Bank of Canada is calling for 3% inflation this summer falling to 2% in 2024.

In addition, the financial health of consumers and businesses remains strong, the unemployed are finding jobs and those with jobs are getting raises, and we continue to see good spending data.

While economic data has showed some slowing, most companies are still proving profitable and many surprisingly so. Overall, 53% of the companies in the S&P 500 have reported actual results for Q1 2023 to date. Of these companies, 79% have reported actual EPS above estimates (the 10-year average is 73%). In aggregate, companies are reporting earnings that are 6.9% above estimates (the 10-year average is 6.4%). In other words, companies are beating the analyst estimates, which they usually do, but by more than they usually do. A recession is defined by negative growth yet companies are reporting positive growth.

There will be a recession, one day, we just do not know when it will be. As expectations that will happen in 2023 fade you will likely see an increases in recession expectations for 2024. Like a stopped watch, they will be right eventually, but there is little value in such predictions.

And so, the focus remains, and must remain, on the long term. One's focus should remain on investing in strong entities that have the opportunity and the potential and can weather the inevitable storms and still prove profitable. One should invest for the long term and ignore short term fluctuations. Mostly 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	0.90%	4.00%
Canadian Equity - S&P/TSX 60 Index - CAD	3.60%	7.70%
US Equity – S&P 500 - USD	1.70%	8.80%
International – MSCI EAFE Index - USD	2.90%	12.20%
Emerging Markets - MSCI Emerging Markets Index - CAD	– 0.80%	3.40%
Real Estate - Dow Jones® Global Real Estate Index - USD	1.60%	2.90%
S&P/TSX Preferred Share Index - CAD	– 0.10%	2.70%

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