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A View From Here - October 2022

"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has." - **Jack Bogle Founder & CEO of The Vanguard Group**

Revaluing a New Reality

Throughout my career, there have been many selloffs and the one we are witnessing in 2022 has been particularly painful, but when we come through the other side, our account values have always come out stronger. Part of the reason for this is that we believe in our valuation work and are persistent in the acquisition of good quality companies at increasingly attractive prices. As such, the best way forward is to make adjustments that augment our portfolio given today's information for what we ultimately know is tomorrow's recovery.

The challenge is that we don't know when recovery comes, but when it does as it always has, we would be upset in hindsight, that we did not take action when prices were attractive. Our track record of success over many years has been established by not making comfortable commitments at all times. In reality, investing and comfort rarely go hand in hand. We would all like a smooth ride forward but investing is fraught with bouts of disappointment of what you could have done when the markets were higher.

In the current environment of rising interest rates come better returns on the safest of investments. Bonds and GICs are now competing with dividend paying shares by offering attractive yields of 4.5% for two to five years. Compare that to rates as low as 0.25% for the same investments just a year ago. This has the potential to revalue a lot of yield-based investments that investors have flocked to over the past decade. As such, our holdings in Real Estate Investment Trusts (REITs) are less attractive, and a call to action is necessary.

Retesting the Lows

Markets appear to be at a major crossroad if you consider charts and technical analysis. The school of thought is that we started a secular (long-term) bull market in the aftermath of the financial crisis in 2009 and during that time, buying the sell-offs were opportunities and now many think those who do so are getting reckoned with.

The crossroad is that if we break down from here, we may enter a secular bear market, which we experienced between the years of 2000 and 2009.

If you recall, this was a particularly fruitful time for our investments, so I don’t necessarily fear this circumstance. On average, secular or long-term bull markets tend to last around 14 years, and secular bear markets last around 7 years. A market is referred to as a bull because a bull attacks pushing upwards, whereas bears attacks by clawing down its prey. I am not convinced that we have entered into a long-term bear market at this time, but perhaps a cyclical or shorter term one.

Many so-called experts believe that we are indeed at the onset of a great reckoning, which has brought down many shares of previous market darlings. From this perspective, the school of thought is that it is the commodity based businesses such as oil that will lead investors to the promised land.

Either way, we are value investors who know our holdings well and believe in their ability to provide us with future returns that hopefully match our past.

Surprise, Not Consensus

One of the realities about investing is to expect the unexpected. Right now most investors are factoring in a global recession and potential for a world-wide military conflict, housing and economic crisis and whatever could be conjured up as negative.

Headlines and media outlets are selling more ads by providing this narrative and even some of the world’s best known investors (Ray Dalio) and CEOs (Jamie Dimon) are sounding off alarm bells. However, the reality is that no one knows the future and at present, companies are still putting up impressive earnings and economic activity remains robust.

If my experience is any indication, I’d cynically bet that a recession comes when we least expect it. The increase of interest rates which kicked off this market drop, has been well telegraphed and with the sheer amount of negative vibes out there, I wouldn’t be surprised if everything went in the opposite direction of the current narrative.

Time will tell.

Thanks for taking a look, and as always,

All Good Things

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