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A Bear Market – Not a BARE market
2022 Q2 Market Review

The financial markets were lower in Q2. All the five asset classes* we follow were lower and by double digits (except Commodities which were only modestly lower).

In our view, US Equities (SP500) are in a Bear market as of mid-year 2022. A bear market is when a market index (e.g. SP500) declines by 20% or more from its most recent peak (which was at the end of 2021). The way Media portrays it, Bear markets seem to suggest that our economy is in shambles and the stalwart companies that comprise the index are hapless and it is the end of our retirement nest egg. (I exaggerate, but not by much).

But while we are in a bear market, our fundamental analysis and indeed common sense suggest that the companies that comprise US Equity markets are not currently or even in the foreseeable future in disarray. Ditto the other main asset types. There are weak sectors and companies that have been hurt by economic conditions; but there are also strong sectors and companies that are thriving. And this is hardly unusual.

We think that the important asset classes and the markets they represent are certainly weaker than they were only a few months ago but they are by no means down and out. They are not without value and they are not "Bare" (using the connotation that "shelves are bare, the warehouses are bare, that we no longer have anything of value left"). So while we are in a Bear market, we are not in a Bare market (pun intended).

Importantly, this implies there is value and where there is value prices rise to recognize it. Companies are working fine for the most part but with the normal challenges du jour (supply chains, worker shortages, work at home, inflation etc.). We believe that their managements will figure out solutions and that Covid and Russia induced shocks will be resolved and absorbed. Sure, this will impact short term profits – but that is hardly a new challenge to managements and business owners. Uncomfortable? Yes, but insurmountable? No.

And inflation? Yes it is currently high (But recall, we have navigated double digit inflation before). And while many market observers fear the worst, the financial markets are signaling that inflation over the coming 5 or even 10 years will likely be around 3% on average (Spreads between Treasury Bonds and Treasury Tips). I tend to side with the markets – after all its participants (and they number in the thousands) are voting with cold hard cash, and not just anecdotal narratives to create a sound bites.

For our clients, we reviewed and re-balanced their portfolios in Q2. And, where we had cash, we took advantage of the lower prices. We plan to keep clients diversified across the 5 main asset classes, be prudent with any risks we take, and to remain cost-conscious. We think this remains a sound investment approach.

*Our Asset classes: Cash, Fixed income, Equities, Real Estate and Commodities.

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Our evidence–based Investment Philosophy

We seek to double clients' wealth every 10-12 years and to do it without exposing portfolios to the risk of a permanent loss of capital. Our objective is to preserve the money you invest with us and to maintain its value over time. Of course, performance cannot be guaranteed, and past performance is not indicative of future results.

Our portfolios are sensibly diversified across the five main asset classes, and with markets becoming increasingly global, we seek opportunities regardless of where they are located.

We strive to manage investments prudently, using the value-style oriented approach of buying high quality investments when they are available at attractive (inexpensive) prices.

We select investments to get better total returns fully recognizing that risk management, cash requirements, tax considerations, social investing demand, etc. may reduce returns of portfolios.

We use both active and indexed portfolio management techniques depending on market conditions. When markets offer opportunities, or as we uncover compelling ideas, active portfolio management is useful. At other times our default position is to use evidence-based indexed investments.

We believe that market conditions are important, especially when clients add to or withdraw capital. At these times, we pay attention to market trends based on the relative attractiveness of major asset classes and our expectations about their future performance. But normally, we do not attempt to time the market; research suggests it is futile.

We use fundamental techniques, quantitative approaches, and behavioral finance to guide us when we buy and sell securities and strive to take the least amount of risk that is consistent with a client's objectives – as distinct from shooting for the highest returns.