Dorchester Advisors
Money worked harder

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Deep in the Valley
2022 Q3 Market Review

The financial markets remained lower in Q3. All the five asset classes* we follow were lower but with generally moderating declines compared with Q2 declines.

In our view, US Equities (SP500) remain in a Bear market as of 2022 Q3. 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). And the main economic worries during Q3 include: Inflation, Supply chains, Housing costs, Nature of employment, The Russian War, and more currently, the political problems in UK.

We think that supply chains and nature of employment (e.g. remote work) were triggered by the totally unanticipated Covid crisis in 2020. Higher Inflation, housing costs were likely triggered by Central Banks' response to Covid, and the Russian War. Of course very little in the matters of financial markets and the economy are as simple as this commentary suggests. And, rarely do shocks (positive or negative) play out in a clean linear manner. Instead there is an oscillating towards a new equilibrium. Very much like a hard ball dropped on a floor: it bounces several times before settling to rest (its new equilibrium). The trick is not to get too focused on the bounces (e.g. short-term volatility in financial markets) but to focus on the future. And we believe that the future remains optimistic.

We do not see a systematic or permanent impairment in our business eco system. Our 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.

Importantly, this implies there is value and where there is value prices rise to recognize it. Companies are working well 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 continue to be resolved and absorbed. Sure, this may impact short term profits – but that is hardly a new challenge to managements and business owners. Uncomfortable? Yes, but insurmountable? No.

Rather than try to forecast when things will get better (few can make these calls reliably and consistently) we are working on executing our bear market playbook. For example, in Q3 we reviewed and re-balanced client portfolios and used any excess cash to take advantage of the lower prices. In Q4 we plan to review client portfolios for any tax management opportunities. (after all, investments impact so many tax categories: Income tax, capital gains tax, Net investment tax, Different rates for type of dividends, and even tax free investments).

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.

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Past performance is not a guide to future performance.

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