Dorchester Advisors
Money worked harder

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2022 Q4 Market Review

The financial markets gained in Q4, but remained lower for 2022. In Q4 all the five asset classes* we follow were higher but not by enough to recover the year's losses.

Looking back, the main economic and financial worries of 2022 were: Supply chain disruption (largely due to Covid and the Ukraine war), and rising Inflation. The rising inflation manifested itself in rising prices of goods and services, and rising wages; and in financial markets, rising interest rates. Last year these were "shocks", causing uncertainty and hence lower financial market levels. In early 2023 all these are known issues and I believe we have the knowledge and institutions to work through them. Moreover, we do not see a systematic or permanent impairment in our business eco system as a result of these shocks. But, rarely do shocks (positive or negative) play out in a clean linear manner; instead there is an oscillating movement towards a new equilibrium.

This implies being vigilant as investors. For example, in the Equity markets we noted some interesting discrepancies. The discrepancy in the performance of the three widely followed indices is high. The Dow was down 8.8%, the SP500 was down 19.4% and the Nasdaq was down 33.1%; MSCA World ex-USA was down 16.6%. These types of discrepancies also showed up in other indices (e.g. Russell) and even in strategies (e.g. Growth v/s Value). And, this widespread divergent performance was quite pronounced in 2022 compared to other years.

To us it reinforces two investment principles we believe in: One, be evidence based investors i.e. dig deep into data to understand the sub-currents. Two, diversification is important for preserving portfolios.

In Q4 we reviewed client portfolios for any tax management opportunities and acted on them. (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).

In 2023, 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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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.