

Coburn Wealth Management
BMO Nesbitt Burns

Oh! Canada July 2024 - Client Update

I hope that everyone had a great Canada Day weekend!



We are already halfway through the year, and for many it likely doesn't feel like Canada Day! A cool and rainy spring (at least in Alberta) has hung around long enough and I am ready for Summer.

I typically like to send out a client note around holidays or a special time of year. Being the rain hasn't gone away and I am hanging-out indoors, I felt it was a good time to connect and share some thoughts on where I think we are in **"the markets"**, how **history doesn't repeat but it sure rhymes**, and why I am very **positive about the next 5 years as a Canadian!** Let's get started.

"The Markets"

What are "the Markets"? It's such a simple and almost slang term for an otherwise massive, integrated group of numerous global platforms that host, measure and facilitate the transactions of various investments around the world. Trillions of dollars of capital changes hands non-stop!

In general, however, when people ask; "how are the markets?", they aren't asking technically about the influences and details that are important to global financial conditions. No, **when we ask about "the Markets", it's really a way to ask if money is going to be made or lost in the near term**. Most people don't care about the underlying technicalities when they look at their investment app to check out how their portfolios doing. They want to know if they should expect to make more money this year, or if there are signs that the easy money has been made already. I believe there is still "easy money" to be made **if you can remember back 20+ year ago!**

History doesn't repeat but it sure does rhyme!

Approximately 20 years ago, the market had just completed a sizzling rally coming out of the 2002 market bottom in both the U.S. and Canada following the "Dot-Com Bubble" or "Tech Crash". Both the S&P 500 and the Toronto Stock Index had rallied 26% in 2003.

The market leader in 2003 was a former **Lucent Technologies unit Avaya**, who was up 428% for the year. As a **Forbes article in January 2004** put it, "The company, which provided voice and data communication service, rode the wave of investor enthusiasm for Internet-based telephony... and Communications chipmaker **PMC-Sierra** and optical fibre and equipment provider **Corning** also soared on the improved outlook for data networking." That year information technology stocks led the advance, up 47% combined as a group. It seemed the Tech crunch was temporary...or was it?

This seems very similar to today, doesn't it?

2022 was a disaster for U.S. markets, specifically technology. The S&P 500 was down 20%, and the Nasdaq was down 33%. Many of the companies we currently call the "**Magnificent Seven**" (or Mag 7) were down 50% in 2022. Their nickname didn't come from their Magnificent decline that's for sure, but rather their resilient rise from the ashes and dominant market leadership in Tech through 2023.

Here we are halfway through 2024, coming off a strong market similar to 2003. Technology companies rebounding and leading the recovery off the dramatic 2022 market bottom. Only this time, rather than enthusiasm for internet-based telephone and optical fibre equipment, **the enthusiasm is for Artificial Intelligence (AI) and Graphics Processing Units (GPUs)**. **Nvidia** is dominating that market like Lucent's Avaya did in 2004. With all that hype back then, **I wonder what happened next?** Let's have a look...

	S&P 500	Toronto Stock Exchange (TSX)
2003	26.38%	26.70%
2004	8.99%	14.50%
2005	3.00%	24.10%
2006	13.62%	17.30%
2007	3.53%	9.80%
Cumulative Return:	52.55%	92.40%

The returns for the U.S. Market measured by the S&P 500 started to slow into the later part of 2004, meanwhile the Toronto Market continued at a strong pace. As sentiment shifted from Technology companies towards Materials and Resources, **Canada started to shine!** By the time 2005 was over, it was clear that investors had moved on from Technology...at least as an investment theme. **CNN Money wrote an article December 30th, 2005** where they stated; "**to find the best performing stocks for 2005, we had to dig deep just to find 10 that aren't somehow tied to energy.**" **Six of the top 10 companies were all in the Energy Sector that year**, with very few technology companies attracting investor interest. **Toronto's market almost doubled the return of the S&P 500 during the 5 years** after the 2002 market bottom, with years 2005-2007 making up most of the outperforming gains.

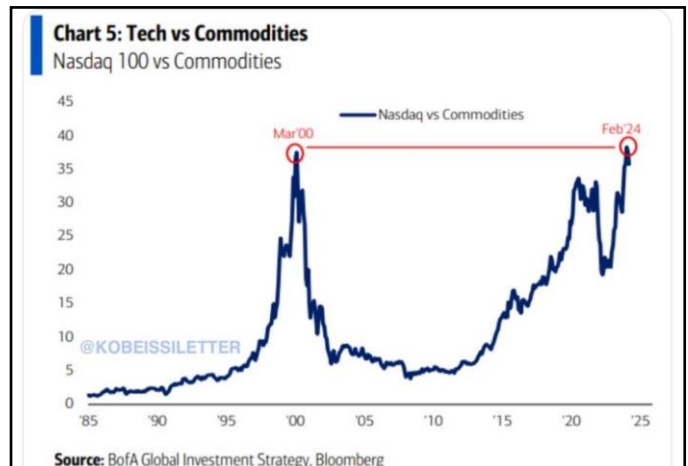
Having fun with “**history doesn’t repeat but is sure does rhyme**” theme, here are some fun facts going back 20 years ago:

- After a solid 2004, in 2005 Apple stock was up 131% with the launch of the **iPod**. Music sales were down, but **Apple’s iTunes** site accounted for the majority of music downloads and made solid gains for the company! Not all “technology” was thrown aside by investors.
- In 2004, the most listened to Artist was **Usher**, and was the most successful act of 2004. He had 4 singles to top the Billboard Hot 100 that year. Interestingly in 2024 he played the Super Bowl halftime show and is on a North American Tour.
- And in 2005 the #1 artist was rapper “**50 Cent**”.... Hopefully not foreshadowing what inflation in Canada will do to our dollar in 2025! HA HA.... Oh! Canada..... 😊

Getting back to Canada and the relevant similarities today vs 20 years ago, I point to a few charts below that I think outline the successful setup for additional positive returns for investors if we position for a similar experience to that of 20 years ago... the shift away from Technology stock dominance and towards sectors that **Canada is a leader in – Commodities**



The chart to the left compares the rise of Cisco in the Dot-Com Tech bubble to the current rise in Nvidia shares. Hmm, it could be dicey into the next few years! The chart below shows the value and performance comparison of Tech vs Commodities...we are back to 2000 levels.



Essentially, if history repeats itself as most things do seem to move in cycles (i.e. fashion or weather such as El Nino happening again and last seen in 2015-2016, and before that in 1997-1998), the best thing we can do as investors is begin to shy away from the shiny technology stocks and rebalance towards commodities and other sectors that lead between 2004 – 2007. **For my clients, this is exactly what has been happening during 2024.** In the chart above, the decline from 2000-2008 was when money shifted from Technology towards Commodities.

The Next 5 Years as a Canadian (Investor):

I would like to end my update on a Patriotic note. I spend my days throughout the year meeting with 125 families in my practice as a Portfolio Manager and Senior Wealth Advisor. The range of topics of conversation are always broad, and many times very intriguing. While I love “the markets”, (whatever those are 😊), I sincerely enjoy the conversations I have with each one of my clients. This has a big impact on how I look after your money as my client.

Earlier I described what “the Market” is or what most people mean when asking “how are the markets doing?” To be honest, in a lot of ways **I gauge how the markets are likely to be doing by the cumulative conversations I am having with my clients** (and reading the same from online sources). It’s topics like interest rates going up sharply, or the cost of everything seeming to almost double in the past few years, and yes sometimes Justin Trudeau! I have learned over time there are areas of discussion to not wade too deep in (i.e. covid or politics) but must recognize that these are major events that have shaped the circumstances we find ourselves in today. It’s contributed to the broad sentiment we experience now and will in the future as Canadians.

Sentiment is what shapes the markets path, and how we feel as a collective group of citizens (or investors) drives the direction of the markets. Sometimes subtle shifts in sentiment turn out to later create very noticeable trends that can be capitalized on if paying attention and being patient.

Currently, **confidence in Canadian Government is low** and our 72-Cent Loonie (while oil prices are north of \$80) is a screaming sign that nobody is loving Canada right now! Typically, when oil prices have been this stable and strong our currency would be in the mid-80 cent range. We would experience purchasing power with our stronger dollar that has usually helped to keep cost of living under control, but not this time, and people have noticed.

Why I am hopeful, is that it’s **always darkest before dawn** as they say. The political policies of the past several years, compounded by the side-effect (inflation) to the economy from Covid and endless debt-based spending outside of our borders, has woken up most people.

As we move towards 2025 and then onto 2030, we have **an investment cycle that is positioned in our favour as Canadians**. It is interesting that this cycle begins again, 20+ years later, at what looks to be a time of potential political leadership change for Canada. If the current trends continue, we are likely to move from a policy that shuns Canadas’ richest assets and turns to favour the development and enrichment from them. I could see this change in trend open the door to foreign investment looking back to Canada as a decades forgotten opportunity, and with it bring a recovery from what have been several difficult years.

Calgary just tied for 5th “most liveable city” with Geneva on the Economist Intelligence Unit (EIU) Global Liveability Index. **Vancouver tied for 7th**. I feel a subtle shift is afoot right now, and the cycle in time lining up in favour for Canada. It may get a bit worse before the trajectory pivots, but we could very well have Calgary as a top 3 “liveable city” in the world in a few years in my opinion, and a Canadian Stock market that outperforms the U.S. in the coming few years!

All the best this Summer!

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