



You can count the market risk on one hand!

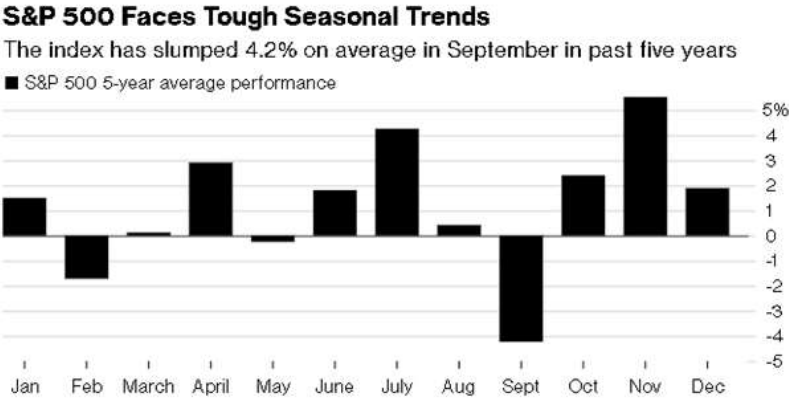
November 2024 – MPA Client Update

With the **U.S. Election on Tuesday November 5th**, followed by the **U.S. Federal Reserve meetings** on Wednesday and Thursday, it is bound to be a week for record market news and reaction.

I likely don't need to point out that the U.S. election results will be contested (at least in peoples' minds) no matter the outcome, and I fully expect this to contribute to uncertainty in the weeks that follow.

Since both market weakness and volatility has been absent recently, I am prepared to see a market decline for part of November coupled with volatility in all assets. The magnitude will depend on the outcome, be it a small "hic-up" or a more prolonged decline, we will soon find out. You are positioned well either way.

Typically, we see a market dip **in September** that would have tempered the markets' froth heading into November. In the past 5 years the decline in September has averaged over 4% (*and seasonally is the weakest month*), however, this year the U.S. Markets gained 2% following a 0.50% Federal Reserve rate cut. The market in the past week has given back some of the run up since August, but it still leaves room for another drop, before we head into what I believe will be a strong 2025.



Source: Bloomberg

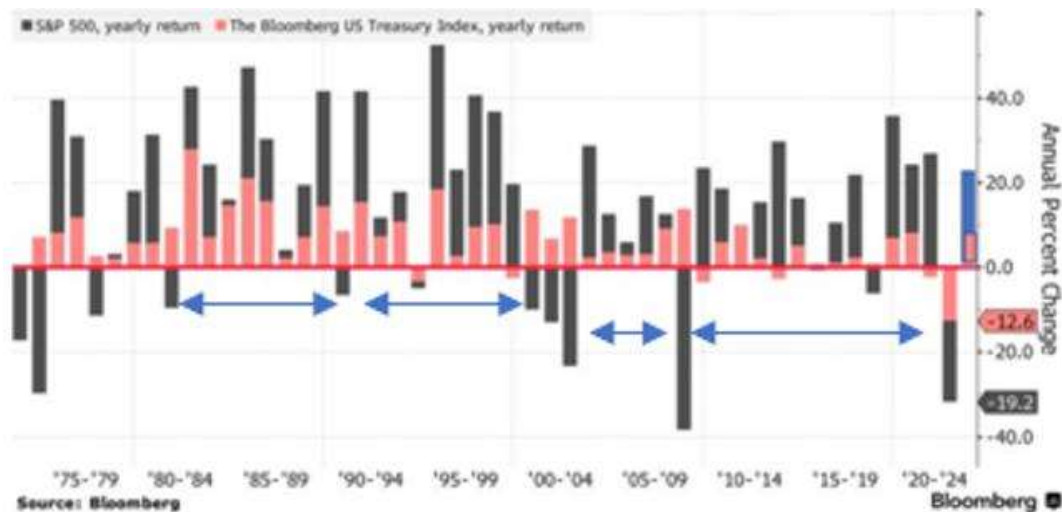
An emotionally charged response to the Election results, that triggers a market sell-off could influence what the Federal Reserve does on Thursday as well. The FED shouldn't act to support markets, but that hasn't stopped them before. We have **instability in the Middle East** and the **Ukraine/Russia conflict** that could flare up again after this week. The outcome of the election will likely influence the chances of escalation in these two areas of the world into year-end. It's a delicate time and investors should be ready for anything!

Revisiting a Bear Market Decline: How did we do?

The 2022 Stock Market decline is a full two years in the rearview mirror, yet it lingers in many investors memories as if it was yesterday.

That concern has kept the market “**climbing the wall of worry**”. In general, when investors are concerned about the potential for a large market drop, they are jumpy and easily derailed from their long-term investment focus. This type of market sentiment correlates with sporadic monthly periods that produce sharp 5%+ declines, only to rebound in dramatic fashion. Investors sell because “here comes the big sell-off”, and then scramble back into the market when they realized they have been head-faked. This has happened in October 2023, and twice this year alone in April and late July/Early August 2024.

The reality is that large market sell-offs of 10%+ happen rarely and are spread out over time. The chart below illustrates this going back to the mid 1970's. Therefore, as we enter the election week on the back of a very strong year for markets in the U.S., it's likely that we are in for another potential short (possibly sharp) correction. If so, that's okay and provides opportunity for investment.

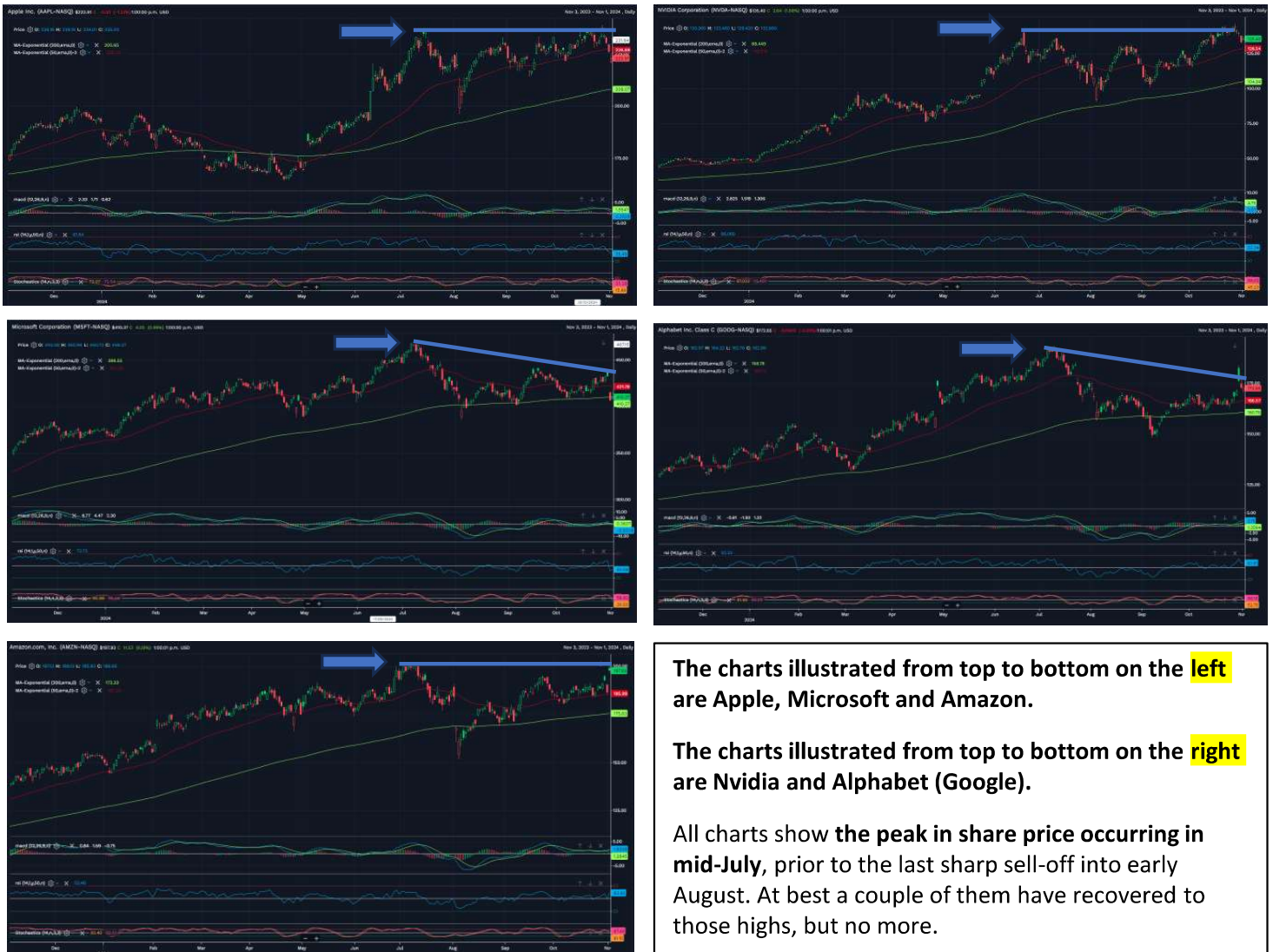


So where is the risk in this market? You can count it on one hand!

I continually point to the significantly concentrated focus on the **Magnificent Seven**, the Mega-Cap Technology and AI companies. **Apple, Nvidia, Microsoft, Alphabet (aka Google) and Amazon, make up 29% of the entire market index!** That's 5 companies (out of 500) or 1% of the companies that control just shy of 1/3rd of market value and direction! **The outcome of the market is literally dependant on companies that you can count on one hand!**

Recently Microsoft and Apple disappointed with earnings and their shares declined. Alphabet was strong post earnings but gave back the share price gains. Nvidia has gone vertical in price the past several years but hasn't been able to get above prices reached in mid-July. Amazon has been similar.

The market leaders have stalled ahead of the election and peaked back in July 2024.



The charts above illustrate stalling leadership. Market direction and sentiment will be driven by this list of companies. Should the election results cause concern, or the FED doesn't cut rates as expected, these charts are set up for price declines into year end.

Meanwhile, **your portfolio only has 3% invested in this group**. More specifically there is currently **only a 1% allocation each to Nvidia, Microsoft and Alphabet**, with profits taken in Nvidia last week and potential for Microsoft to be removed from the portfolio should it break below current levels. **The MPA portfolio is underweight Technology for now**, and therefore you are protected against market sentiment that turns negative and drives the Mega-Tech companies down. If this doesn't happen it is easy to gain exposure and add back to some of these companies in short order.

In a scenario where we see these main companies break-down, the massive shift of money out of them could spread across other areas of the market and assets, where we could see the portfolio rise (or should hold up better than the S&P 500). **We are prepared for such an event should it occur.**

The last 2 years of MPA performance vs the “markets”:

I would like to end with an illustration of the performance and downside protection of your portfolio.

Should we see a shock to markets this next while, please let the following charts provide a reminder of how your portfolio doesn't decline the way “the market” does. As I mention often, your portfolio is not “the market”, and rather invested quite differently.

The chart below shows what **\$100K invested** in the **MPA Balanced Portfolio** (*most clients are in this model portfolio*) did during the 2022 market decline and the recovery that followed to the end of October (*compared to the U.S. and Canadian Stock Markets and the Magnificent 7*):

- **The Gold Line is the Magnificent 7 worth \$168,980, however as a group they plummeted to \$53,600 during the 2022 decline.**
- The Light Blue line is the S&P 500 worth \$119,700, with a low of \$75,230 in Sept 2022
- The Grey Line is the Toronto Stock Exchange worth \$113,820, with a low of \$86,910 in Sept 2022
- The Dark Blue line is the Balanced MPA Portfolio worth \$122,390 with a low of \$88,900 in June 2022

Historical Performance (per \$100,000)

Jan 1, 2022 - Oct 31, 2024



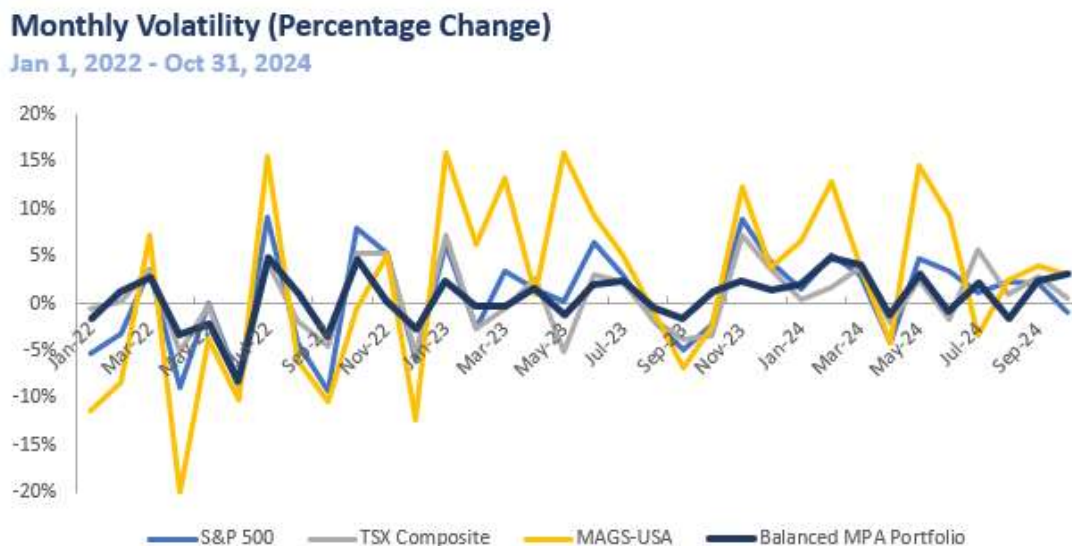
The **Balanced MPA Portfolio** that I manage for you fell significantly less than the U.S. market in 2022 and preserved capital (*to be fair this should be expected when not 100% invested in stocks, however, during 2022 All-Govt Bond Index in general actually performed worse than the Toronto Stock Exchange!*).

In the recovery since 2022, **the MPA Portfolio is also trading above the levels of the S&P 500 or the Toronto Stock Exchange**. The Magnificent 7 would be significantly higher than the portfolio, yet the drop in 2022 would have caused most investors to panic sell.

The chart does a good job of showing the downside protection through the worst market period since 2008-2009 mortgage crisis, along with strong returns in up markets. **We are getting returns equal to being 100% invested in stocks, with much less risk and exposure to the stock market.**

The following chart illustrates the **MPA Balanced Portfolio in terms of monthly percentage change**.

This is important as most people look at the bottom of the front page of their statement and look at “**this month**” and “**last month**” values. My job is to keep these two numbers growing over time, but more importantly not show large swings between months. Especially not declines!



The chart shows the Dark Blue Line (the Balanced MPA Portfolio) with the narrowest range of change month over month. This is what you want to see. **The Gold Line is the Magnificent 7 and it clearly shows the massive monthly price swings you would experience if having a highly concentrated index of only the Magnificent 7.** You wouldn't sleep at night.

As we head into the U.S. Election it is anyone's guess at what direction the market will take us.

Based on the set-up into this week, I don't see reasons to be making large bets on the handful of stocks leading the way higher as 1/3rd of every dollar invested in the U.S. market is captured by these few companies.

If the “big-money” pulls out of harms' way, then I expect to see nervousness and potentially short-term investor fear. This **provides an opportunity** for me to reposition your cash into a variety of companies that are going on sale!

There are many attractive companies in the market, and with either Presidential Candidate there is a strategy of where to invest and what to also avoid. **I have a portfolio strategy for a Trump win as well as a strategy for a Kamala win, and they look very different.**

I believe we have at least another calendar year of strong returns ahead of us in 2025, but the transition into next year will most definitely be interesting!

Take care, and please call if you have any questions.

Ryan, Jocelyn and Brittany

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