The Wrap Up

No One Told You when to Run; You Missed the Starting Gun

Equity markets have cooled over the last couple of weeks, due in part to some softer quarterly earnings or weaker forecasts for the quarters ahead. As the markets take a breath, we wanted to re-examine the health of this rally and address our 'cautious' stance which we have held since the beginning of the second quarter this year.

One of the reasons that equity investors are urged to stay invested at all times is the inability to predict when the market is at the top and when it is at the bottom. Perhaps the most successful investor in history, Warren Buffett, has often said that, over the long run, there exists greater risk in trying to limit the damage of an equity market downturn than there is in weathering the storm and patiently waiting for equities to rebound. Anecdotally, I had witnessed this reality at the start of my career: after the cratering of markets in 2008, many investors threw in the towel in 2009. The roller coaster of ups and downs, the reality of watching their life savings drop 35% and the emotional strain it brought on those investors was enough to convince them to pull their money out of the market and realize whatever loss they had incurred.

I do not envy what psychological difficulties those investors must have endured, however and with hindsight at our disposition, we know that these investors made a big mistake. The most unloved bull market in history was also amongst one of the longest and highest returning ones and for those who were on the sidelines when it began, not only must it have been difficult to cope with the missed returns; it must have been a nightmare trying to figure out when to get back into markets. I've seen it and heard it many times before: during the next pullback, I'll reinvest. That thought process seems logical enough until you realize that the next pullback was years away and the opportunity lost was greater than the savings incurred from selling in the first place.

Let's connect

David Colasurdo, CFA, Fin. Pl.
Portfolio Manager and Investment Advisor
Tel: 514-286-3563
david.colasurdo@nbpcd.com

Leon Sabbaghian Fin. Pl., MBA
Investment Advisor & Financial Planner
Bureau: 450-978-2531
Cell: 514 -557-8055
leon.sabbaghian@nbpcd.com

Myles Strong
Client Service Associate
Tel: 514-282-5996
myles.strong@nbpcd.com

Disciplined investing keeps you invested at all times, however, it does not oblige you to be bullish at all times. After the strong start to the year, we thought that equity markets had rebounded sufficiently from the lows achieved in 2022 and that, beyond those price points, the markets were not properly accounting for macroeconomic uncertainty. Did we suddenly sell everything and wait to be proven right? Obviously not, and thankfully so, as equity markets continued to climb to the levels we are at today.

What we did begin to do, however, was proactively trim our outperformers. Protecting profits is an example of investment discipline, especially when one of your long term holds has gone up too quickly in the short term. The money that we generated from sales or received from deposits were no longer chasing the top performers, and instead, were being reinvested into high yielding income notes and covered call strategies or we began buying our long term holds that were underperforming. Over the last 3 months, oil and gas has outperformed (ever so slightly) the semiconductor index; shifting from one to the other would have de-risked the portfolio without impacting the return. I know that some might look back at us trimming our Nvidia position at 340 or 380 and be upset because it's trading at 420 today. If that's the case and to be blunt, I have to say that you're missing the point.

Investing is about managing risk as much as its about achieving a return. Returns are not guaranteed and in the moment, unknowable, which is why discipline is a valuable tool to rely on. As stated earlier, we do not know when the market will drop; we know when it is expensive, when the outlook is negative, when sentiment is weak but no one can predict the day that equities will drop. There's a saying that is often (wrongly) attributed to famed economist John Maynard Keynes that goes 'markets can remain irrational longer than you can stay solvent' and regardless of who said, we believe it. Just because we believe a company to be expensive does not mean that it will suddenly crater. What it does mean is that the risk you are taking to achieve a certain return has risen and it may be better to look for a 'less risky' idea that has a similar potential for return. Furthermore, if your long term hold has suddenly become expensive, it does not mean that you have to immediately dump all your shares, after all, Wall Street tends to use three terms to describe equities: 'buy', 'sell' and 'hold'.

Not all of our mandates are 100% equity focused, in fact, most of our clients are balanced investors which means we hold 50 to 70% of their portfolios in equities. That range is what allows us to be tactical and adjust our risk levels. For clients that are not seeking the highest absolute return (alternatively seeking an efficient risk/return relationship), we can comfortably trim our expensive equity outperformers and reinvest in more conservative fixed income instruments. At this moment, the equity risk premium (the excess rate of return that equities offer against the risk free rate) has narrowed considerably; the risk free rate has gone up due to higher interest rate levels while the return potential for the stock market has not. If we believe that we can achieve a 6% return with a 99% confidence level or that we can achieve a 9% return with a 60% confidence level, most investors will encourage us to aim for the 6% return.

Earlier in the year, the index performance was greatly impacted by a handful of heavily weighted outperformers; recently other segments of the market have begun to pick up. When other segments of the market have begun to pick up. When other sectors of the market begin to perform well and catch up to the outliers, it adds depth to the market rally. The improvement in market breath coupled with the improvement in economists' sentiment (with many no longer forecasting a recession this year) reassures us for the short term but does not change our cautious outlook. Rest assured, we will continue to participate in this rally and we will continue to hold our expensive long term ideas, however, we will also continue to prioritize protecting profits, boosting yields and managing the overall risk of clients' portfolios.

Healthy Distraction

This past Tuesday and representing LD Wealth Management, we were invited to be guest lecturers in a Portfolio Management class at John Molson School of Business. What a refreshing experience it was to discuss and exchange ideas with undergraduate finance students! We had dozens of questions covering a multitude of subjects: our different career paths, the importance of undergraduate education, post graduate education options, the benefits of early work experience, personal values and attributes that bring unique advantages in the wealth management world, the importance of women in business, etc. It was fun and reassuring to know there is interest from the younger generation to pursue careers paths in wealth management and portfolio management, especially during a time where a large amount of wealth is transitioning from one generation to another.

We would like to thank the students for their engagement! We wish you continued success!

We would like to thank Concordia for having us and we look forward to future collaborations.

We encourage all graduates to give back by getting involved with their alma mater.

We encourage all our readers to message us without hesitation if you have questions regarding any of the topics discussed