Market Update
September 22, 2023

By Cameron McLeod, BBA, CFA | Director, Portfolio Manager

Emotions play a large role in how we react to our investments, and it can sometimes be hard to see the forest for the trees. With that in mind, we wanted to take some time to share some of our team's thoughts on the market's behaviour.

Let's take a brief step back and revisit the past three years in equity markets. After rebounding strongly from the COVID-19 pandemic in 2020, 2021 was the year of low inflation and elevated asset prices. In 2022, as central banks raised rates at the fastest pace in decades, valuations contracted – pushing prices down. Thus far in 2023, market sentiment has flip-flopped from bearish to bullish – and back again – as central bankers and market participants digest lower but still historically high inflation, and a U.S. economy and labour market that have proved stronger than expected. Currently, the U.S. Federal Reserve is stuck between a rock and a hard place in that a premature reduction of their policy (interest) rate could in fact spur the inflation that central bankers have tried so hard to quell.

Here are a few important things to keep in mind as we move forward against this backdrop:

Markets are forward looking
This means that expectations surrounding **future** company earnings drive **current** stock prices. Owing to this phenomenon, market participants are just as data-dependent as central bankers. As investors and speculators try to anticipate future policy decisions, we have seen asset volatility pick up around the release of key data points such as inflation, economic growth, and measures of manufacturing and business activity.

Seasons come and go
As the summer unfortunately fades into the rear view, market participants are returning to their desks, and, consequently, trading volumes have returned to markets.

September is known to be a seasonally weak month for stock market returns. In Canada, September returns dating back to 1951 have averaged -1%, with the month yielding a negative monthly return more than 50% of the time. On the other hand, December offers the strongest historical monthly returns at nearly 2%, with returns positive in more than 80% of occurrences. Thus, the phenomenon of profit-taking in August/September and capital redeployment in advance of year end is well known amongst market participants – impacting investor psychology and often helping to reinforce existing seasonal trends.

Patience is a virtue
If there is one thing I can promise you about markets, it is that there **will** be ups and downs. I often compare the ups and downs in the stock market to turbulence while flying. None of us enjoys the turbulence, but we put up with it knowing that air travel is a much faster way of getting from point A to point B. In a similar vein, equity investors don't enjoy seeing their asset values fluctuate, but if they manage to stomach the inevitable ups and downs along the way, they end up benefiting over the longer term by achieving higher rates of return.

For many, investor behaviour and psychology often gets in the way of rational decision making, leading investors to lose patience and make emotional decisions surrounding their investments. We must think like the **owners of a business, not simply owners of a stock**. Our goal is not to make a quick buck renting a business; rather, we'd prefer to act like long-term partners in the company. The businesses we acquire happen to be listed on public markets, which lowers our cost of ownership and transaction costs and improves the liquidity of our investment. Aside from that, we think about the businesses we own the same way that the owner of a family-run enterprise would – and, importantly, our actions within the portfolio reflect that long-term view.

Would you sell your family business as soon as it ran into any temporary challenge, or would you shift your view to the longer term and a potential recovery? Overall, psychology and having a business-owner mentality are both important factors to consider when making investment decisions – two of the many factors that play into market expectations and, consequently, market returns.

We leave you with a quote from a legendary investor that reflects the above:

"The most important quality for an investor is temperament, and not intellect." – Warren Buffett

For more information, please contact:

Cameron McLeod, BBA, CFA
Director, Portfolio Manager
Phone: (604) 844-5461 | Toll-Free: (888) 886-3586 | cmcleod@odlumbrown.com