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NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

MOTT LIOKOSSIS
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July 2022 Commentary

June was the six month in a row without significant interruption of this ongoing bear market in stocks. Our modest stock holdings worked against us while our US Dollar exposure helped a bit. Net, we were down 1.38% in our hypothetical equity model[1]. This compares well with the global stock market which took a significant hit, losing 6.54% for the month. Year-to-date our model is +2.15% vs. -18.68% for the benchmark global index[2]. As with any trend, at some point we should expect at least a temporary reversal of this pattern.

Market Update

[1] If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio.

Our *Hypothetical Equity Model* closely approximates the actual performance of your equities before fees. It gives us context, allowing for various types of analyses & comparisons.

[2] Global stock market is represented by *EWI785 World Stock Equal Weight Index*[t], Courtesy of SIA Charts

Our team is thick in the middle of rotating summer vacations so this letter is arriving a bit later than we would have liked. Last month we compared the first phase of this equity bear market with the crash of 2008/9 using the S&P500 index as a proxy for stocks. This month, we compare our progress month over month, May to June. We note one very interesting development to keep an eye on. Immediately below is the exact graph from last month (to May 31, 2022):

Below we reproduce this graph, adding on June's data. We can clearly see another significant leg down which reached a new low for the year. Of interest is the horizontal line of support and resistance.

From January to late March, the A and B waves down touched this support no less than four times. Each time stocks bounced off the line and recovered some losses without ever fully recovering.

Around late April/ early May the C wave attempted a repeat of this action. It reached support, waffled up and down around this line until finally breaking through decisively to reach a new low in mid-May. By the end of May, it had rebounded right back up that that line. It spent about a week just under the line, trying and failing to break through, at which point it capitulated, setting the new low for June.

The horizontal line which earlier in the year was support for stock prices has now become a ceiling of resistance. It is now a key indicator, a fork just a short distance down the road. We expect stock prices to recover enough to reach this line and test it. Then what?

Option A – if resistance holds, expect another big decline in the stock market. This is the most profitable outcome for us as we sit on significant cash and wait.

Option B - if we break through, then perhaps the market is out of the woods and the worst is behind us. In this case, the huge performance gap we're enjoying over the market thus far in 2022 will be dramatically reduced by the time we start buying stocks again.

What About the Fundamentals?

That's the technical picture so far. It pays no mind to the fundamentals that are driving this market. Is there some catalyst for a stock recovery? We don't see it but that doesn't mean it isn't there. Last year in the early phase of this bear market in stocks, we sold tech, bought energy, and raised cash. This reflected advancing inflation pressures. We've long since sold the last of our energy stocks.

Every month we include several comparison benchmarks at the bottom of this letter. Among them is *DBC*, the *Invesco Commodity Index Tracking Fund*. As you'd expect, it tracks a basket of commodities. We haven't talked about it much over the last few years because it was a disaster, with a decade of negative performance. Suddenly in 2022, it exploded and gained almost 47% by early June. However, since then it has given up about 40% of those gains.

What gives? Everything we see on the inflation front indicates a persistent advance with no solution in sight. So why are commodities suddenly rolling over? The obvious answer is we are either already in, or about to enter, a nasty recession. Of course, the obvious answer isn't necessarily the correct one. However, we wrote about this subject early in the pandemic. You cannot shut down economies without lasting, disastrous consequences. Our fear is that we were correct.

So, best guess is we roll into recession and as the numbers come in to confirm that, the market follows suit. On the chart, maybe this will be our test and failure at the resistance line. Who knows, but it won't be long before we reach that fork in the road. Weeks perhaps, probably not more than months.

July 2022 Portfolio Review

Mott Liokossis Hypothetical Model sector breakdown at the end of June 2022:

Cash	51.21%
Diversified Global Equity Portfolio	37.15%
Diversified Canadian Equity Portfolio	11.64%

SIACharts.com

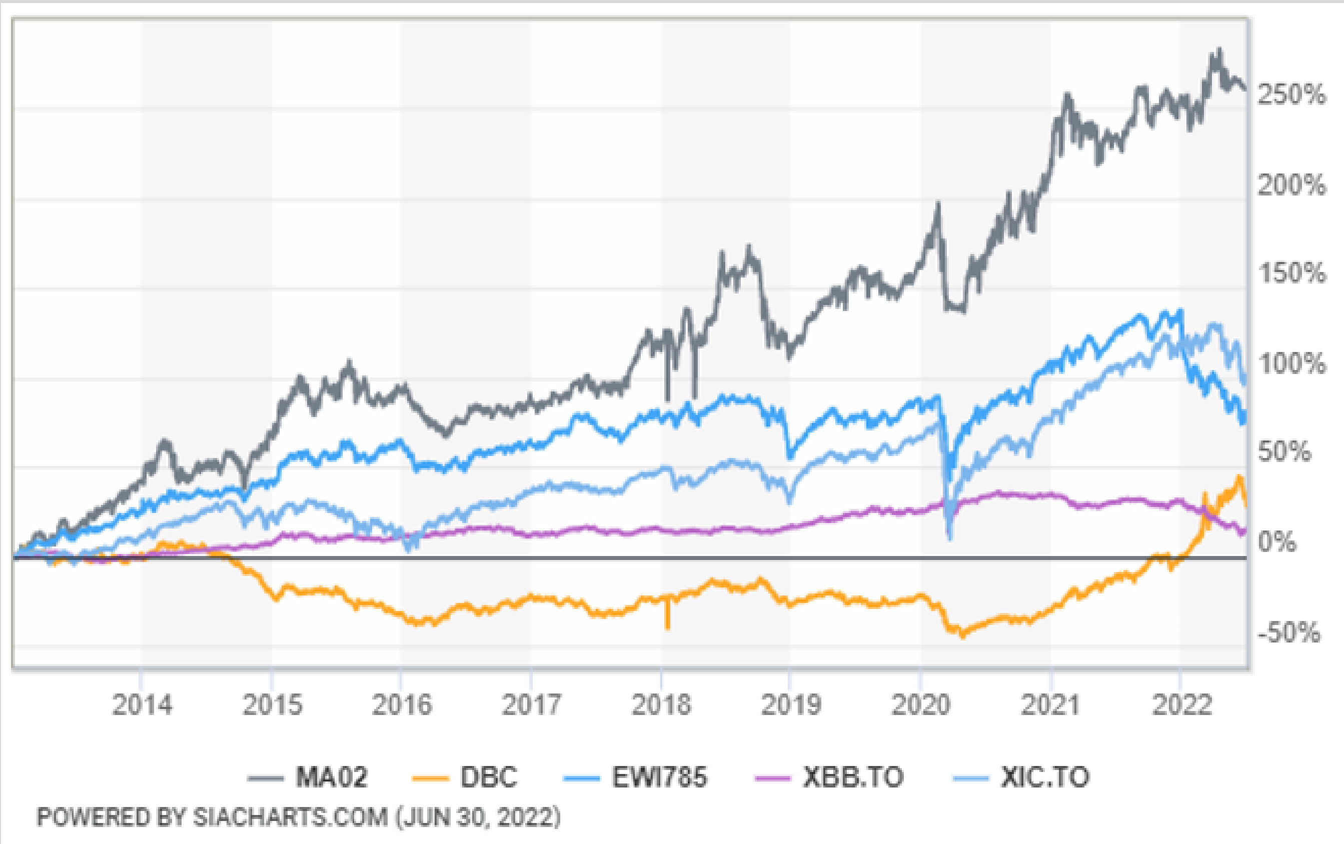
Hypothetical Model Growth Portfolio Holdings at the end of June 2022:

% Held	Security	Symbol	Sector	Price	Yield
51.21%	Cash				
37.15%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 24.84	9.16%
11.64%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 40.61	0.94%

SIACharts.com

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	
Monthly Returns														
2022	-2.76%	2.22%	6.38%	-2.67%	0.65%	-1.38%							**2.15%**	**YTD**
2021	1.62%	5.68%	-3.36%	0.16%	-0.85%	0.93%	0.28%	7.23%	-4.67%	1.70%	0.60%	0.51%	**9.93%**	
2020	4.33%	-3.90%	-8.54%	-0.42%	9.70%	2.13%	5.75%	4.27%	-2.33%	-1.79%	7.32%	6.07%	**22.93%**	
2019	1.36%	5.01%	3.75%	3.46%	-1.58%	2.58%	0.97%	1.13%	-3.33%	-0.78%	3.76%	2.09%	**19.73%**	
2018	2.84%	0.81%	-0.31%	-0.79%	5.53%	8.19%	-0.60%	8.18%	-2.65%	-14.70%	-0.14%	-2.73%	**1.60%**	
2017	-1.26%	3.11%	0.49%	3.26%	1.45%	-3.95%	0.50%	2.31%	3.43%	7.33%	2.38%	-3.57%	**16.08%**	
2016	-3.29%	-2.97%	-3.70%	-3.30%	5.04%	1.01%	3.03%	-0.56%	1.02%	-1.70%	1.56%	0.82%	**-3.36%**	
2015	9.73%	2.78%	3.71%	-8.98%	10.69%	-4.34%	7.93%	-5.39%	-3.05%	0.23%	-0.08%	1.84%	**13.89%**	
2014	6.39%	6.38%	-5.18%	-4.67%	1.52%	1.94%	-1.25%	5.18%	-2.40%	0.44%	5.70%	3.57%	**18.08%**	
2013	6.00%	4.20%	3.95%	-2.83%	9.64%	-3.67%	4.06%	3.65%	3.29%	3.42%	4.68%	2.66%	**45.96%**	

Monthly & Annual Returns for the Mott Liokossis Hypothetical Model Growth Portfolio.
Performance reflects actual trades executed in our maximum growth model and does not include fees or expenses.
We use this hypothetical model as the basis for our clients' portfolios.



Growth of $10,000 Jan. 04, 2013 - June 30, 2022	
Mott Liokossis Model (MA02)	$36,098
World Stock Equal Weight Index (EWI785)	$17,529
Canadian Stocks (XIC.TO)	$19,771
Canadian Bonds (XBB.TO)	$11,522
Commodities (DBC)	$12,822

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