NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

MOTT LIOKOSSIS WEALTH MANAGEMENT GROUP

May 2021 Commentary

In April we managed to grind out a slight gain of 0.16% in our hypothetical equity model, brining our year to date gain to 3.95%. Not spectacular but we're annualizing at about 12% a third of the way into the year. This, after digesting what looks to be a good amount of the correction we've been waiting for - more on that below.

Trading activity was below average with just one move, replacing Pioneer Natural Resources with Applied Materials. After writing about the possibility of a new secular (i.e. long term) bull market in resources, on the surface this past month looks more like the umpteenth resource fake-out, only to find us running back in the refuge of tech stocks, our happy hunting ground over the last few years. We shall see.

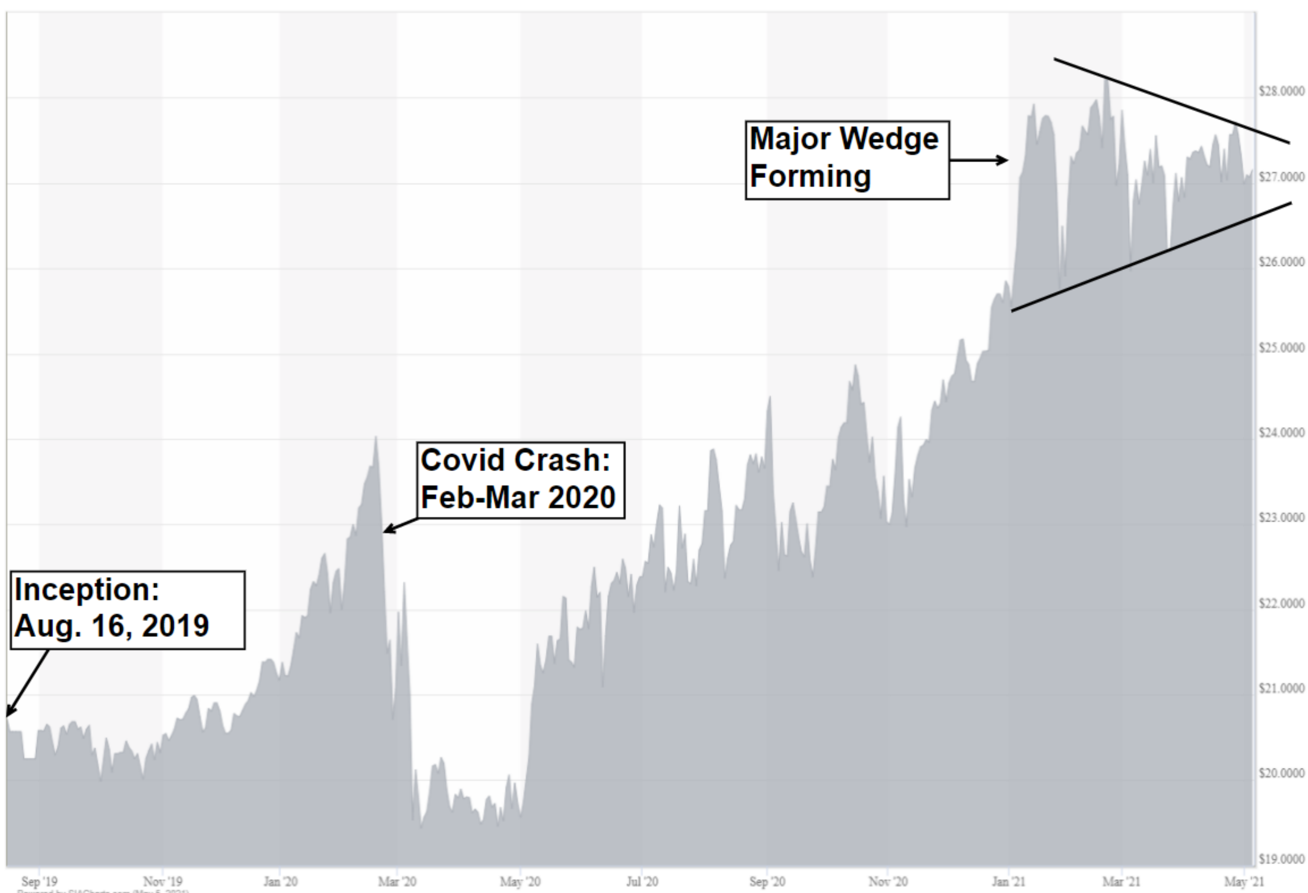
Market Update

If you're listening to the financial press breathlessly report on the recent series of new record highs in U.S. stock indices like the Dow Jones Industrial Average, take it with a grain of salt. To a U.S. investor, they are indeed new highs. From a Canadian's perspective, as the Dow gained about 4% from mid-March to the end of April, the US Dollar lost over 16% of it's value versus the Loonie. It moved from a recent peak of 1.47 (68.2 cents) to under 1.23 (81.4 cents). That's not a stock market move, that's a currency move, and those are not true record highs.

Following up on our recent theme of expecting some sort of correction after the incredible gains of 2019 & 2020, it seems we are well into it even though you might not be experiencing much pain in your portfolio so far.

There are two ways to correct and digest a major advance. The first and most common is by price. We get a swift kick where we lose 10-15% or more in the space of a few weeks or months and that is usually sufficient to allow us to start a new advance upward.

The second, less common way is by time. Instead of a stiff crash, you just go nowhere for a few weeks to a few months, like a python digesting a big meal. Looking at the chart below, that may be just what we are in. This graph is of our SIA ML Global Tactical Pool which we developed in conjunction with SIA Charts, introduced in August 2019 and which makes up about 40% of most of our clients' portfolios.



We are constantly asked what we think is going to happen in the stock market; do we think there is a crash coming, should we be selling in preparation? We always have an answer at the ready, but never without the caveat that our predictions are virtually assured to be wrong. At the very least, wrong in timing or degree even if we are otherwise mostly on the money. With that caution, we'll take a crack at the near term and risk embarrassment. Most interesting for us in the chart above is the triangle at the top right, a rare formation we have seen develop over the last four months or so. It's a big, fat wedge pattern. In the world of technical analysis this is a biggie.

The picture is simple enough for a lay person to see a clear pattern. Since roughly the start of the year, we have seen the price of the SIA ML Global Tactical Pool oscillate at least seven times inside this narrowing channel. It's been hitting lower highs and higher lows, resulting in a 'wedge' that, were it to continue, would theoretically resolve itself as a straight line – i.e. zero price fluctuation going forward. Straight lines do not exist in price charts so that isn't going to happen.

You can look at this chart and infer what happens when this wedge formation finally yields to something else, and also roughly when. This pattern cannot continue for more than another month or so before the price breaks out and does something different. As to which direction it goes, this is known as a 'continuation pattern'. When you see this after a strong run, the breakout is more likely to be to the upside - a continuation of the trend. The story it tells is one of underlying strength in stocks. There is enough demand even in a corrective phase to counteract the selling and keep things fairly level until buying demand takes over once again. As a predictive tool, this formation is strong enough that the odds of our take being correct are maybe 60%. That may not sound much like much of a departure from 50/50 but in the world of trading, that's about as good as it gets except for really extreme market scenarios.

Next month we'll see how that wedge has formed, if it has resolved, how it has resolved, and just how off base we were. Here's hoping April showers bring May flowers for us to enjoy while we wait!

May 2021 Portfolio Review

Mott Liokossis Hypothetical Model sector breakdown at the end of April 2021:

Cash	2.09%
Diversified Global Equity Portfolio	39.92%
Electronics & Semi-Conductors	12.43%
Diversified Canadian Equity Portfolio	11.79%
Specialty Retail	11.78%
Manufacturing	5.83%
Aerospace & Defense	5.75%
Internet	5.62%
Automotive	4.81%

SIACharts.com

Hypothetical Model Growth Portfolio Holdings at the end of April 2021:

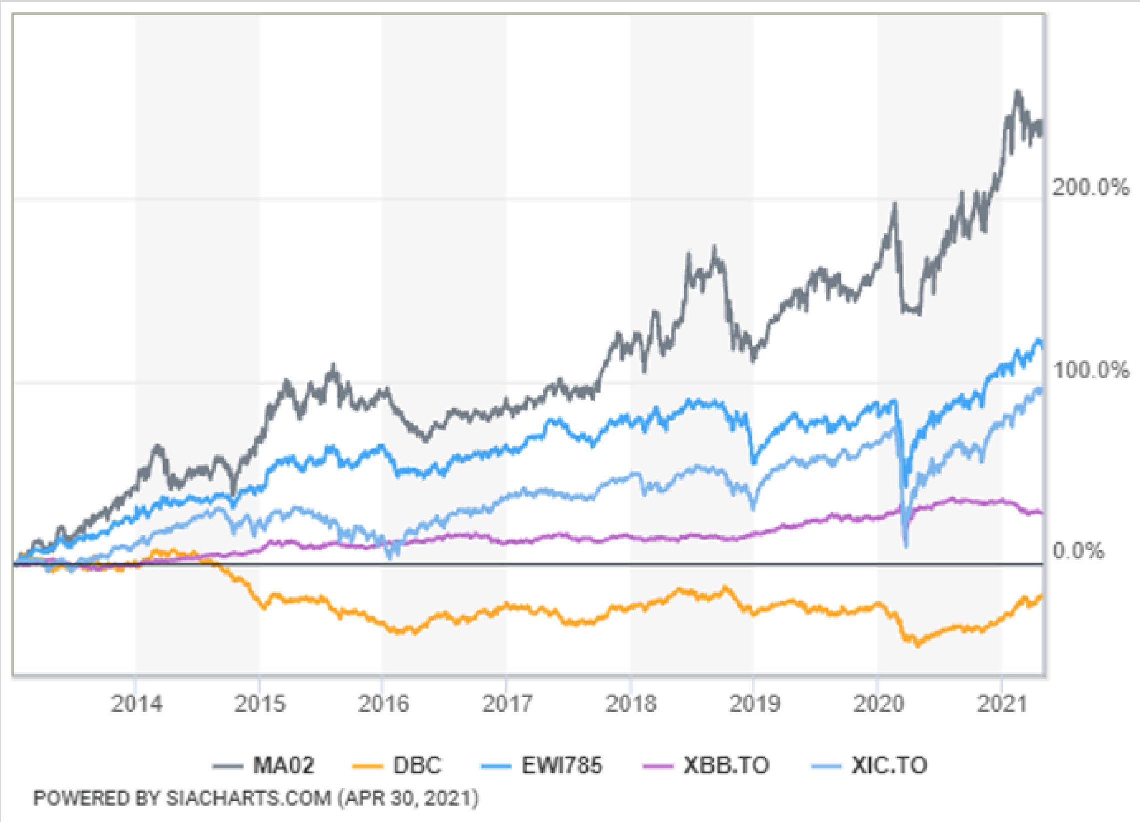
% Held	Security	Symbol	Sector	Price	Yield
2.09%	Cash				
5.75%	Airbus SE ADR	EADSY	Aerospace & Defence	$ 36.87	0.00%
5.37%	Applied Materials Inc.	AMAT	Electronics & Semi-Conductors	$ 163.06	0.54%
7.05%	ASML Holding NV	ASML	Electronics & Semi-Conductors	$ 796.32	0.18%
11.79%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 38.07	1.67%
5.83%	Deere & Co	DE	Manufacturing	$ 455.66	0.70%
6.12%	Dicks Sporting Goods	DKS	Specialty Retail	$ 101.47	1.28%
5.62%	Expedia Group Inc	EXPE	Internet	$ 216.53	0.00%
5.66%	Five Below Inc	FIVE	Specialty Retail	$ 247.30	0.00%
39.92%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 26.99	5.83%
4.81%	Tata Motors LTD	TTM	Automotive	$ 23.78	0.00%

SIACharts.com

	Monthly Returns													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Yearly Returns**	
2021	1.62%	5.68%	-3.36%	0.16%									**3.95%**	**YTD**
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.

SIACharts.com



Growth of $10,000	Jan. 04, 2013 - Apr. 30, 2021
Mott Liokossis Model (MA02)	$33,417
World Stock Equal Weight Index (EWI785)	$21,801
Canadian Stocks (XIC.TO)	$19,400
Canadian Bonds (XBB.TO)	$12,828
Commodities (DBC)	$8,227

SIACharts.com

Click here to access your online account and tax statements.

Click here to learn more about the team.

Click here to contact us.

Blair Mott, FCSI, CIM, FMA
Vice President & Portfolio Manager, Investment Advisor
519-646-2146
blair.mott@nbc.ca

Tony Liokossis, B.A., FCSI, CIM
Vice President & Portfolio Manager, Investment Advisor
519-646-5728
tony.liokossis@nbc.ca

Stephanie Lindsay, HBA
Investment Associate
519-646-2149
stephanie.lindsay@nbc.ca

Juliana Weese
Investment Associate
519-646-2152
juliana.weese@nbc.ca

Terms of use
Confidentiality
ABC's of security