November 2021 Commentary

October delivered a surprising bounce – up 1.70% in our hypothetical equity model. That puts us at 8.72% for the year so far.

For our many newer readers, our reference to a 'hypothetical equity model' bears explaining. Because we manage several broad mandates and every client's portfolio is slightly different and customized, we track a 'hypothetical' model on paper to represent our results. This model contains exactly the same investments for our clients with 100% equity (i.e. no bonds). They are bought and sold at the same time for the same price. The only difference is the model is a gross return that does not include fees.

It closely approximates what you would experience in the equity component of your portfolio before fees. It gives us context, allowing for various types of analyses & comparisons.

Market Update

Last month we cautioned that a tough third quarter earnings season might result in some carnage in stocks. With that prediction in hand, plus $3.75, you could have bought a cappuccino at the local coffee shop where the price of a cappuccino is $3.75. Do the math & you can figure out what our crystal ball is worth. So where are we now?

When we included a chart of our private fund - the *SIA ML Global Tactical Pool* – in May, we never intended to still be referring to it in our letter today, with an unresolved pattern still in play. You don't have to be a market expert to look at the chart below, see the blue line, and understand what it means. We keep bouncing off a broad area of support, now for the seventh time and counting. Something is brewing and the energy is building. We'll leave it at that and check in again next month.

Politics and Markets

We wonder if it is obvious to long time readers that our letter has had a different feel over the last half year or so, compared to before. Of late we've been more about portfolio nuts and bolts, less narrative and insight. There is a reason for this. Every topic we want to address is ensnared, intertwined with the incredibly divisive politics of the day. It's impossible to write about markets in isolation. Big changes that will affect our money are being driven by ideology, not normal market functioning. Families are being split apart over politics like never before. It makes our task a delicate one. Do we sanitize things and pretend what is happening isn't happening, for fear of appearing biased? Our mission with this letter has always been to give a perspective that you won't see in glossy corporate publications. We find those nauseating in their blandness. We'd rather fold up our little soap box than continue like that.

So let's find our courage and wade in. With this month's letter, we want to frame the problem. Next month in part 2, we'll tell you what the solution is according to the people in charge. As you read on over these two parts, don't judge us by the absurdities on display. Don't make the mistake of assessing what other people are capable of by your own standards of morality and ethics. Many of the key people running the show are not so constrained. They are willing to do things you would never dream of in pursuit of their agenda. You have to understand this before you can believe that what they are attempting is real.

60,000 Foot View Part 1 (part 2 next month)

Helmet and flak jacket on, here we go. Socialism is dead as a doornail. This is not an ideological position or desire on our part. It's math. In the western world we live in what are, to various degrees, social democracies. A capitalism base overlaid with a good dose of central planning and social(-ist) programs that didn't exist 100 years ago. Whether you (or we) think that is a good approach or not doesn't matter. What we've built is unsustainable *mathematically*. Wherever you look in the world, pensions and government entitlement programs are seriously underfunded and in the process of collapsing. What is underfunded? A sidebar:

> 'Underfunded' means you don't have enough money in the pot to deliver what you've promised. Imagine we prepare a financial plan for a new client with a $1 million portfolio as their only source of retirement income. Assume a 5% return and a spending goal of $100,000 per year. The portfolio does not generate enough return so we have to dip into capital. Once you do that, it starts a decline and that decline accelerates as time goes on. It is utterly predictable within reasonable margins of error.
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> Our math is not strictly accurate but we've kept it simple for the illustration. During the first year of retirement, the portfolio makes $50,000 but the client spends $100,000 so we finish the year at $950,000. The next year we earn $47,500 because the portfolio is smaller, we spend $102,000 after inflation and so we end the year around $895,000. The following year we finish at $836,000, then $772,000, then $702,000 and so on. It is an accelerating decline; the drop each year is bigger because we earn less and spend more. This is what is happening to pensions and government programs around the world. The safety net, social programs, are simply not sustainable in their present form.

If this were an actual client of ours, we'd sit down with them and explain that at this rate, with normal market volatility, they have little over a decade before they are out of money. A solution would be to retire later, spend less or some combination of the two.

When it is not a client but a government, there are two key differences.

Firstly, governments cannot spend less. Is anyone curbing their spending anywhere on Earth? A little over a decade ago we did a seminar series talking about debt. The U.S. national debt was racing towards $17 trillion. At the time it seemed alarming, today it seems quaint. We are now closing in on $29 trillion. With a population of 330 million, that is an astonishing $87,000 per U.S. citizen, more than twice the savings of the average US *household*.

Canada is catching up fast. With Covid spending, we have now amassed almost $1.2 trillion in just federal debt; $31,000 per person. For context, during pandemic 2020 when spending was restrained because we all sat at home, the average Canadian family's yearly savings exploded – to $5,800!

The second difference between clients and government is that clients cannot create money. This is a key point that we will address next month.

The machinations of demagogic and economically illiterate politicians have led us here. In our estimation, there is zero probability that these debts will be repaid and that social obligations will be met as promised. Politicians can either cut spending or they can get re-elected, but not both. There is no way out, it is a fait accompli. Or is it? Imagine you are the president of Italy with a rapidly aging population raised on the promise of a substantial pension and you know it is not going to happen. Really imagine it. You can't stop spending. You want to placate your voters and stay in power, but you know the end is nearing. Promises are going to get broken. You have visions of Mussolini's final moments in the town square in the back of your mind if you become the one to break the news. It's a real pickle.

Miraculously, a solution is proffered. You are approached with a plan to escape the inescapable. In Part 2 we'll address the plan. It is already in play around the globe. In our opinion, the headlines that are dominating our daily lives are not what they appear to be. They serve another, much bigger agenda. Next month, we'll dive into some controversial ideas and what they portend. You may disagree with us or find it a bit far-fetched but at least you'll know our take.

November 2021 Portfolio Review

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

Cash	12.63%
Diversified Global Equity Portfolio	37.57%
Diversified Canadian Equity Portfolio	12.06%
Computer Software	10.91%
Electronics & Semi-Conductors	8.52%
Energy	6.54%
Aerospace & Defense	5.90%
Conglomerates	5.87%

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

% Held	Security	Symbol	Sector	Price	Yield
12.63%	Cash				
5.90%	Airbus SE ADR	EADSY	Aerospace & Defence	$ 39.61	0.00%
8.52%	ASML Holding NV	ASML	Electronics & Semi-Conductors	$1,006.26	0.33%
12.06%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 40.76	1.56%
6.54%	Cheniere Energy Inc.	LNG	Energy	$ 128.00	0.00%
5.43%	Infosys	INFY	Computer Software	$ 27.58	1.45%
5.48%	Oracle Corp.	ORCL	Computer Software	$ 118.76	1.01%
37.57%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 26.57	5.93%
5.87%	Textron Inc.	TXT	Conglomerates	$ 91.42	0.09%

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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%	-0.85%	0.93%	0.28%	7.23%	-4.67%	1.70%			**8.72%**	**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.

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Growth of $10,000	Jan. 04, 2013 - October 31, 2021
Mott Liokossis Model (MA02)	$34,951
World Stock Equal Weight Index (EWI785)	$22,937
Canadian Stocks (XIC.TO)	$21,630
Canadian Bonds (XBB.TO)	$12,826
Commodities (DBC)	$9,881

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