



## WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

### Can we predict Bear markets? Do they matter?

The short answers are 'No' and 'they shouldn't'.

The caveat is that you have the right kind of money invested in stocks. The client who has saved money for a house purchase in two years should not, repeat not, take the risk of stock prices rising during the interim. History says, on average, they might. The problem with averages is they are the smoothed result of volatility. Volatility should be your friend in both directions. For most clients, 'volatility' is industry gobbledy-speak for 'drop in my account value'. That's not how we look at it. Volatility, if correctly managed enhances returns. Managing volatility requires a plan, discipline and experience (explaining why we're not worried about Fintech and Robo-advisors, crushing our business). If you must sell, volatility is your enemy and your life sucks. Even if you make money, you'll be so stressed you will have earned every penny. If you're not under a time pressure volatility is your friend. (see the AAI notes below).

Dividend income has a way of smoothing market downside declines. Dividend stocks usually have greater earnings visibility = less surprises. The lower mystery factor means they are less often market darlings. Their stock prices tend to spike less, if at all. Dividend stocks get left behind in roaring bull markets – missing the upside blow off. Dividend investors listened with envy at the 2021 cocktail party chatter of how 'everyone' made a killing in Bitcoin.

Investors who've matched their portfolio withdrawals to their dividends aren't forced to sell to raise cash for a living. Market prices are market prices and nothing more. They can ignore or act as they see fit. This is a very different place than the day-trading fraternity.

Being less overvalued, dividend stocks have less air underneath them. When, not if, markets decline, investors contemplating selling their dividend paying stocks face a reduction in their income, particularly during recessions when bond yields are down. They're more likely to sell

something else. This makes dividend stocks 'sticky' in portfolios. Dividend indices usually decline less than Growth Indices. 2022 has proved this in spades.

The peak to trough decline for the FANG index has (so far) been **-43%** (details below). Over that same period the Canadian Dividend index shows +6.5%. The Hilberry Canadian Dividend Growth portfolio shows +9.2%. It could have turned out differently. The past is not the future, but that's the way it happened. With this in mind...

### **Rallies to the Bottom – Nick Maggiulli May 31, 2022**

Mr. Maggiulli provides a history lesson on major bear markets, focusing on 'bear market rallies'. Our experience is such discussions matter if you're a market-timer, indexer, and have a heavy US market focus. Dividend stocks not so much.

<https://ofdollarsanddata.com/rallies-to-the-bottom/>

About that volatility thing.

### **American Association of Individual Investors (AAII) Sentiment Survey.**

<https://www.aaii.com/sentimentsurvey>

Outlier survey results are contrary indicators. Extreme Bullish = SELL. Extreme Bearish = BUY.

#### **Nov 11, 2021 AAII Sentiment Survey readings:**

- Bullish 48% - (high).
- Neutral 28% - slightly below average
- Bearish 24% much lower than average.
- Bull-Bear spread +24%. While extreme, the readings were clearly bullish.
- Time for being more selective in buying.

The NYSE FANG index peaked Nov 5 at 8062.

#### **April 28, 2022 AAII Sentiment Survey readings:**

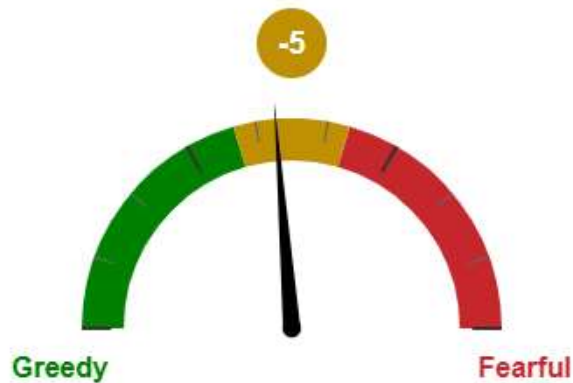
- Bullish 16.4% - very low.
- Neutral 35.7% - wider than normal
- Bearish 59.4% much higher than average.
- Bull – Bear spread was **-49%**, deeply bearish.
- Time to get out the cheque book!

April 27 the FANG hit saw 5,222. The ultimate low (so far) has been 4,618 May 24 for a peak to trough decline of **-43%**. Intra-day May 20, the S&P500 hit a peak-to-trough decline of **-20.9%**. We've been buyers over the past 4 weeks.

Last week the AAI Bull-Bear spread reading remained well into the red with 53.5% bearish readings. This week optimism is back. Kind of. We're back to neutral. Fear has abated. We're still below average enthusiasm. We think there's more upside to come.

**CURRENT AAI SENTIMENT BULL-BEAR SPREAD:**

The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. Click [here](#) to learn more.



**BULL-BEAR SPREAD TRENDS:**



And to put it all into perspective...

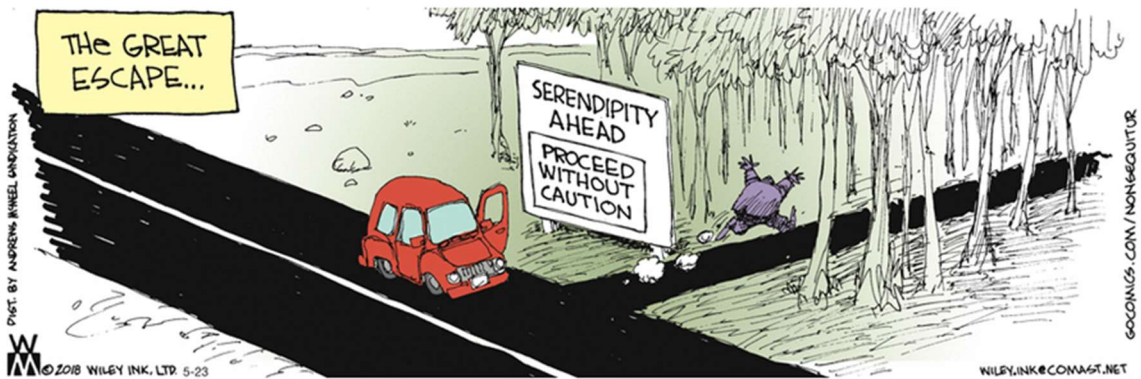
**Different Kinds of BS – Morgan Housel**

(warning, strong language)

<https://www.collaborativefund.com/blog/bs/>







June 3, 2022

## Have a Great Weekend

Steve & Anna Hilberry



### FOR THE RECORD June 3, 2022

DOW INDUSTRIALS:	32,899
S&P 500:	4,108
S&P/TSX COMP:	20790
WTI:	\$120.47
LOONIE IN \$USD:	\$0.7940 \$US

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