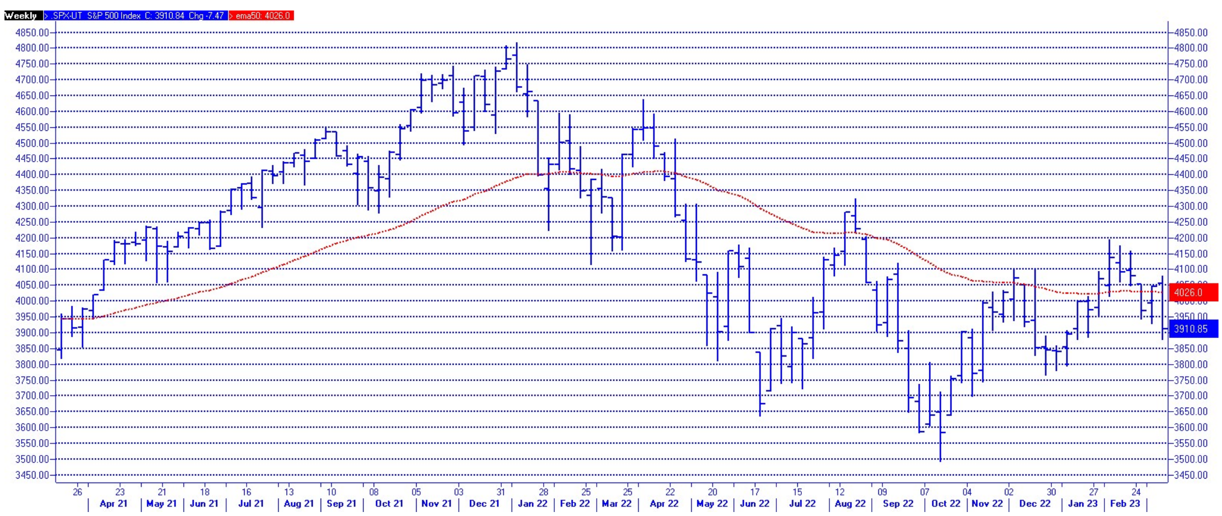
HILBERRY GROUP
WEALTH MANAGEMENT

Mar 10, 2023

Nobody loves you when you're down and out

Investors have been in a cautious mood of late. North American equity markets have been treading water since March of 2021 with lots of 'fun' along the way.

S&P500 Mar/2021-March/2023



The top is in Jan/2022. The bottom (so far) was in October/2022. Peak to Trough was around -24%. Peak to Last is -19.3%. I'll call that a bear market that's been in place for the past 14 months. That's about right for predicting a recession. Note that stock prices will make new highs again in the future. We don't know when.

Will High Risk-Free Rates Derail the Stock Market? – Ben Carlson Feb 28, 2023

Ben Carlson explains that higher rates do not mean a systemically weaker economy or that the stock market can't go up.

Excerpt (edited to fit our format):

"The big question for asset allocators is this: Will higher risk-free rates impact the demand for stocks and other risk assets which leads to poor returns? This makes sense in theory. Why take more risk when that 5% guaranteed yield is sitting there for the taking?

The relationship between risk-free rates and stock market returns is not as sound as it would seem in theory. Here are the average 10-year treasury yields, 3-month T-bill yields and S&P 500 returns by decade going back to the 1940s:"

Average Yields

Decade	10 Year Treasury Yield	3-Month T-Bill Yield	Stock Market Returns
1940s	2.3%	0.5%	8.5%
1950s	3.0%	2.0%	19.5%
1960s	4.7%	4.0%	7.7%
1970s	7.5%	6.3%	5.9%
1980s	10.6%	8.8%	17.3%
1990s	6.7%	4.9%	18.0%
2000s	4.5%	2.7%	-1.0%
2010s	2.4%	0.6%	13.4%

Sources: Shiller, FRED

Mr. Carlson's full article is here:

https://awealthofcommonsense.com/2023/02/will-high-risk-free-raters-derail-the-stock-market/

We get this same question a lot. Our answer is a not very helpful 'maybe'. There is a short-term 6-18 months, correlation between…

(1) Inverted yield curves
(2) stock price declines and…
(3) Recessions

Note the order. Note the time period in my opening paragraph.

Headlines screaming '*Recession Looms'* mean a media type has interviewed a financial industry type who has in turn read some financial data that starts to show a slowing in the economy. Rear view mirror stuff. This isn't very useful. The question is not if we're going to have a recession (we think one is happening now). A better one is 'Will it be deep' (we don't think so) and have stocks already mostly priced one in (we think broadly yes). A quick check of recent major stock index price action will reveal prices have already fallen long before the Recession headlines are printed.

Go ahead. Look now. We'll wait.

Why do stocks go down before the headlines arrive?

As we've often reminded, the media's ONLY job is to sell advertising. They post what they suspect their readers/viewers are interested in. From the Wall Street Journal to Reddit influencers, media careers depend on this Spidey Sense. Media reflects mood. Social Media is even more oriented towards eyeballs vs. truth than is the case with traditional physical print media. Add in social media viewing algorithms and you're even more like to see what you fear, and hate thrown back at you. This is not a recipe for investment success. In my experience headlines are a very useful contrary indicator.

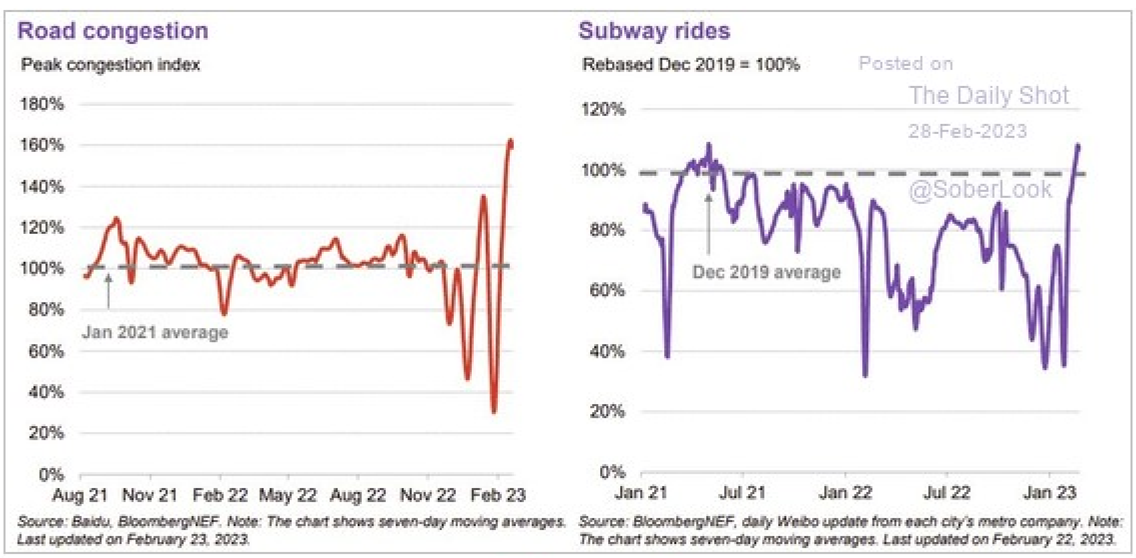
When they're yellin' you best be sellin'. When they're cryin' you oughta' be buyin'.

You may insert ***'I'm'*** in place of ***'they're'***

What about demand for…well…everything.

If a recession means falling demand, what are we seeing in China?

China: Mobility indicators have surged.



Source: @Macromadness2

Source: WSJ Daily Shot 28-Feb-2023

People starting to move again is a positive indicator for demand…eventually.

China Accuses U.S. of Paranoia Over Spy Cranes Concern

We had to include this one. If you thought Chinese balloon spying was weird, another risk is…cranes. None of this bodes well for Chinese/International relations. The Chinese Communist Party must reconcile it's paranoia for control vs. the need to improve the lives of China's citizens through global.

https://www.newsweek.com/china-america-zpmc-cranes-ports-national-security-1785743

Canadian Banks Q1/23 Earnings Recap: the going gets tough – NBF Sector review March 5, 2023

NBF's Gabriel Dechaine has a muted view on the near-term prospect for the Canadian Banks. He has held this view for awhile. He has been broadly right. On average the CDN Bank sector hasn't shown price appreciation since, May of 2021. On the other hand of the banks have all hiked dividends, grown and accumulated internal earnings. Mr. Dechaine acknowledges the banks are about 8% cheaper than average. He just doesn't see a catalyst yet for price gains. That doesn't mean there won't be one.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=a87290ea-274c-45a5-8261-6004ed5ab60c&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Mr Dechaine is an award-winning analyst. I hold his views in high regard. When he tells me he's cautious I listen. And…

His commentary references investor concerns over a lack of near-term clarity for Bank earnings. One could extend this to many sectors. In my experience such times offer opportunity for the patient investor. Attempting to time the turn-around too closely is a mistake. Investors potentially miss (or dismiss) the power of compounding dividends.

Let's take a closer look. One can earn close to 6% cash yields on some of the banks. History says Canadian bank dividends grow on average around 6%.

Scenario

- 100 shares X $100 each = $10,000 year one.
- Annual dividend $6.00 (6% of $100)
- Annual dividend growth rate 6%
- Zero price change over first two years.
- 10% price gain in 3rd year.
- Additional 5% price gain in 4th year.

	Shares	Year Start	Ann Price	Yr End			Cash	Shares
Year	Held	Price	Gain	Price	Mkt Value	Share Div	Income	DRIP
1	100.000	$100.00	0%	$100.00	$10,000	$6.00	$600.00	6.00
2	106.00	$100.00	0%	$100.00	$10,600	$6.36	$674.16	6.36
3	112.36	$100.00	10%	$110.00	$12,360	$6.74	$757.49	6.74
4	119.10	$110.00	5%	$115.50	$13,756	$7.15	$851.11	7.15
				Total Return	37.6%			
				Ann Avg Cmpnd Return	8.12%			
				Total Retun from Price	15.5%			
				Yr 4 Ann yld on cost	8.51%			

At the end of year four, a simple market price comparison (what everyone looks at on their cell phones) appears disappointing. 15.5% spread over 4 years is less than 4% per year. Boring. But…adding the dividend gives us a tidy 8% annual return. A retired investor looking for income is likely to pay attention to the 'Cash Income' column. Spectacular market price gains may be less important to the dividend investor's total return than one would expect.

Dividends come from earnings. Growing dividends mean growing earnings. Prudence dictates Boards of Directors pay out only a portion of earnings, at a growth rate below the actual earnings growth rate. If a company's earnings are growing at a rate of 7%, the price must reflect the earnings growth over time. The longer the price lags, the greater the subsequent rebound is likely to be. Dividends allow us to be patient. We see the access to price news causing investors to obsess over price changes. They often panic and sell TO others at exactly the moment they should be buying FROM others.

The above table explains why dividends can appear to be so boring and stodgy, yet actually can make more money, by losing less of it and getting paid for patience. It also explain why we pay less attention to 'The Market' and more attention to the prices of the stocks we are going to own and the dividends we are likely to receive today and into the future.

We think buying a stock should be like buying a horse. Buy the one YOU are going to ride.

Have a Great Weekend

Steve & Anna Hilberry

March 10, 2023

Steve Hilberry
Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD March 10, 2023

DOW INDUSTRIALS:	34,956
S&P 500:	4,400
S&P/TSX COMP:	20239
WTI:	$74.16
LOONIE IN $USD:	$0.8014 $US

Terms of use Confidentiality ABC's of security

Sent by

Montreal office
National Bank Financial
Wealth Management
1155 Metcalfe 5th Floor
Montreal, Quebec H3B 4S9
Phone: 514 879-2222

Toronto office
National Bank Financial
Wealth Management
130 King Street West Suite 3200
Toronto, Ontario M5X 1J9
Phone: 416 869-3707

IIROC Regulated by Investment Industry Regulatory Organization of Canada

CIPF MEMBER

HILBERRY GROUP

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT