
# Somebody has to lose money.

In my rookie year, an industry veteran advised *"Hilberry, somebody, including you, has to lose money. That's how markets work."* He did not mean it was a zero-sum game where all gains were offset by all losses. While on average, investors become richer, price discovery means some will, and must, lose money from time to time.

This is the terrible beauty of capitalism. Great ideas that increase productivity, save labor, reduce costs, and improve our lives make the inventors and their investors rich. Terrible ones that do the opposite are punished, destroying the capital deployed. While the latter are very painful for those engaged, and will make great headlines, the winnowing is vital to our progress. Losses have a way of sharpening the mind. Doing stupid can't last.

A lack of open market pricing explains why Government policy-driven industry initiatives rarely work out as planned. When you control the 'program' there is no room for price discovery of the assets deployed (taxpayers money). If the idea proves flawed, the program quietly is shelved, tax 'invested (spent) is not discussed. The officials don't pay a personal price for the losses.

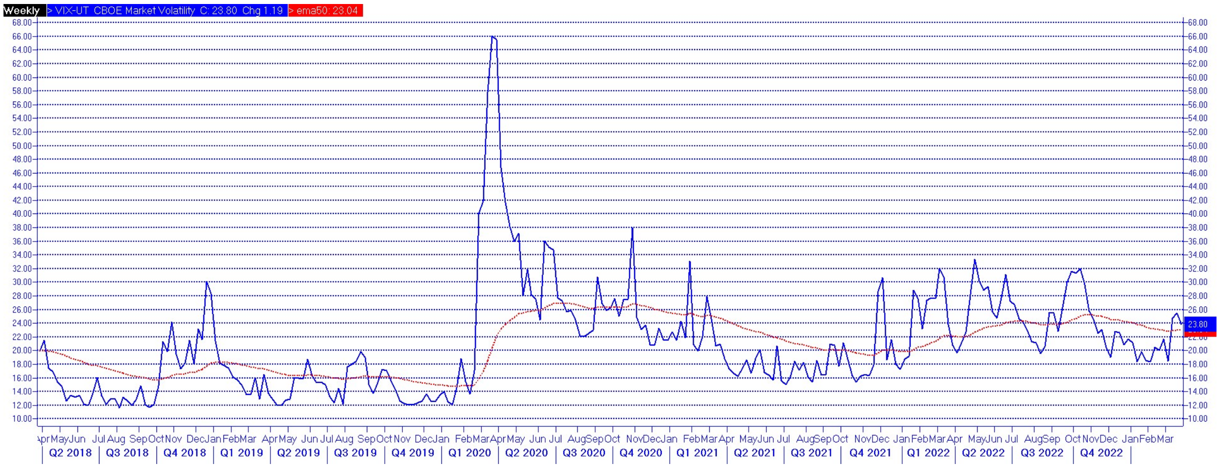
**Examples:**

- British Columbia Resources Investment Corporation (BRIC). Conservative Govt idea.
  - https://en.wikipedia.org/wiki/British_Columbia_Resources_Investment_Corporation
- Solyndra: Progressive Govt idea.
  - https://en.wikipedia.org/wiki/Solyndra

## Surf's Up. Or is it?

Stock and bond markets have been busy fulfilling their duty price discovery. Some investors are discovering, to their dismay, how little other investors REALLY think of their ideas. A few regional banks 'discovered' they were broke. Credit Suisse discovered (was forced to admit) they've been in trouble for years (an open secret). Yes it may have seemed like the markets are 'crazy'. They always are. Media headlines have used 'Crash' and Collapse Pundits say volatility 'soared'.

**CBOE Volatility Index (VIX) week ranges – 5 years.**



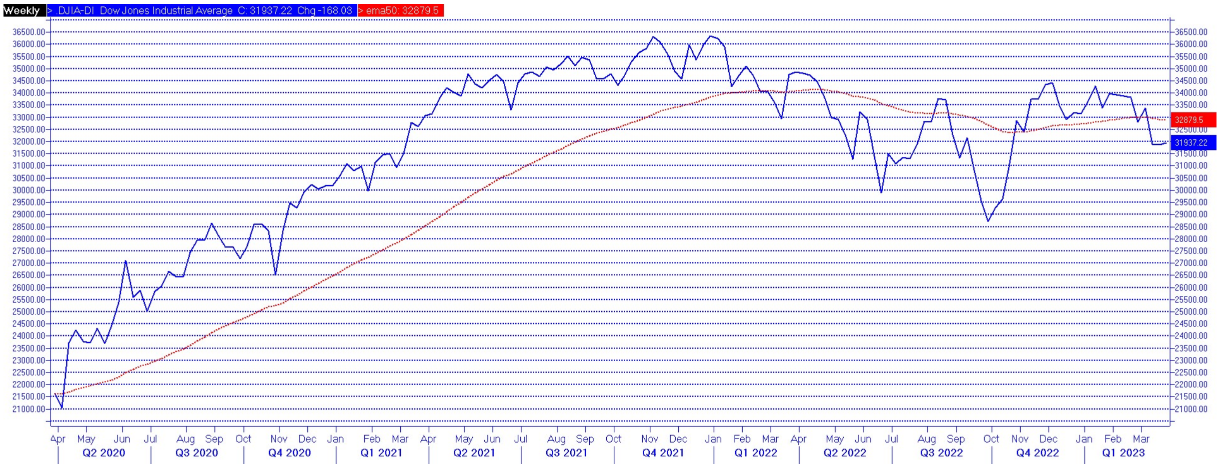
The red line plots the moving average. The spike in the middle of the chart is mid-March/2020 during the COVID-19 panic. Volatility is not high lately.

## 'Volatility is Nothing New' – Ben Carlson March 19, 2023

https://awealthofcommonsense.com/2023/03/volatility-is-nothing-new/

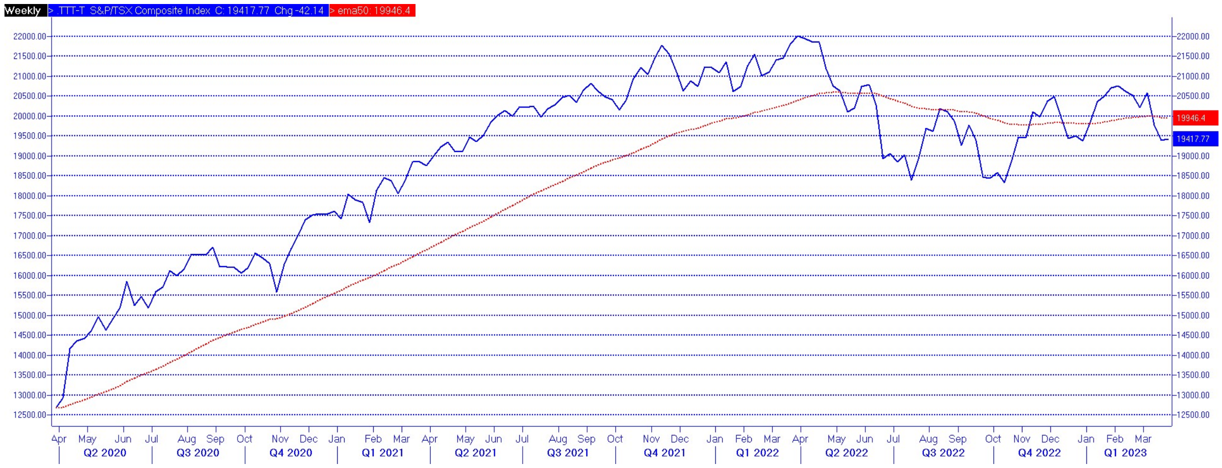
Broadly, US stocks have traded in a range since Q1/2021

**Dow Industrials Average $USD – weekly ranges – 2 years.**



Canadian stock prices have also, on average, treaded water for 2 years

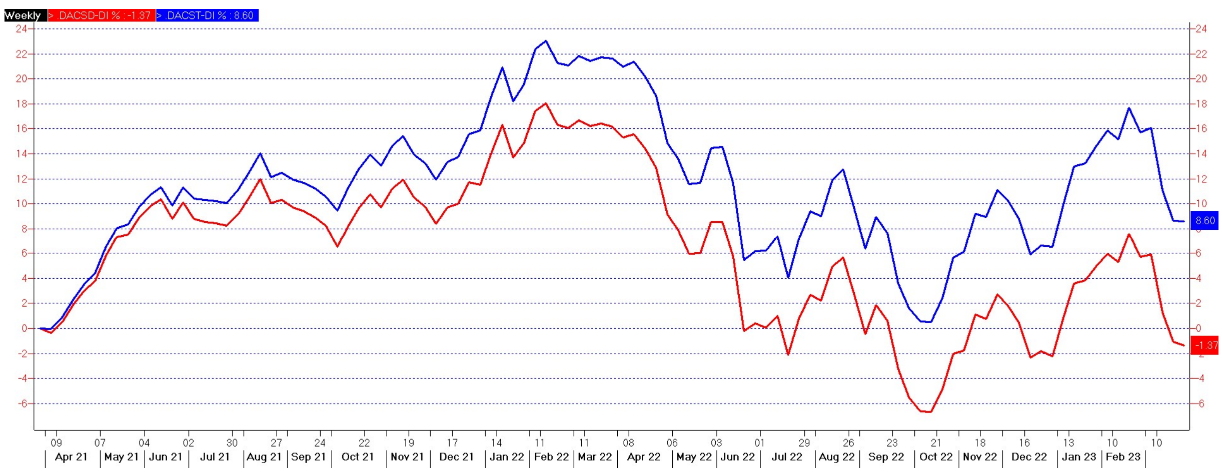
**S&P/TSX Composite Index $CDN – weekly ranges – 2 years**




I must clarify the above two charts address price only <u>and do not reflect the total return of dividends.</u> Reinvested dividends are so boring and yet can be significant.

**Canadian Dividend Index – weekly - two years - percent change - base 0%**

**Price only (red -1.36%) | Total Return (blue +8.6%)**

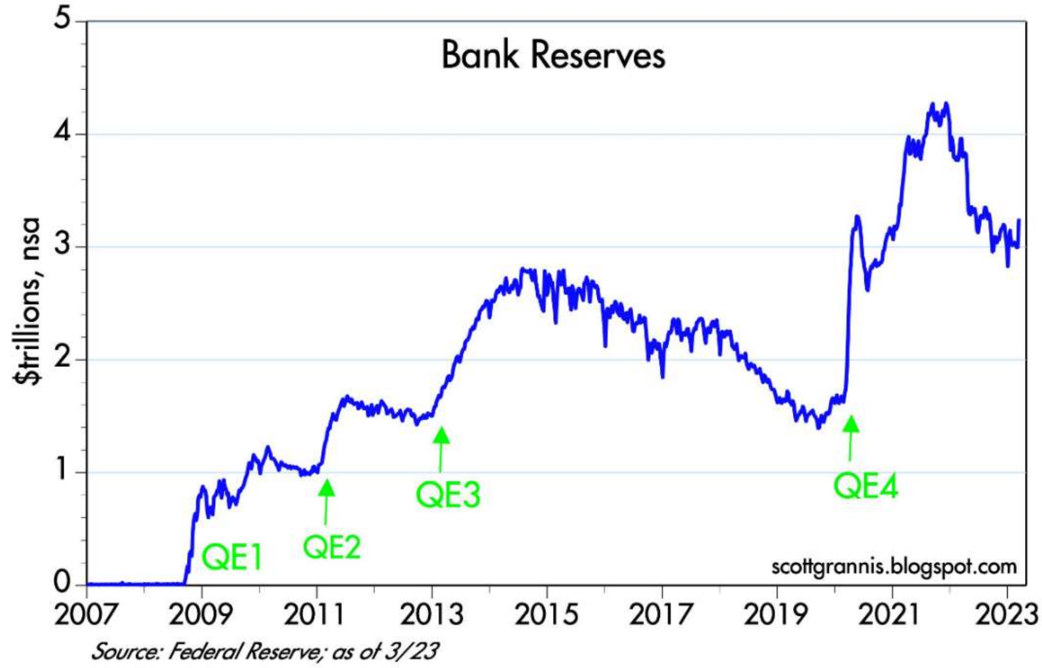



I'll take +8.6% over two years / 4.2% annual average over a loss every time. These results are synthetic and do not reflect real world costs.

## 'More thoughts on the banking crisis' – Scott Grannis March 19, 2023

Mr. Grannis provides a short guide to 'M2' money supply and explains why short-term rates have like peaked and may fall. For the past 6 weeks we've been saying short-term rates have likely approached a peak.  As per usual, Mr. Grannis provides explainers with charts, this time explaining the liquidity situation (spoiler: there's plenty)

## Scott Grannis Chart #4:



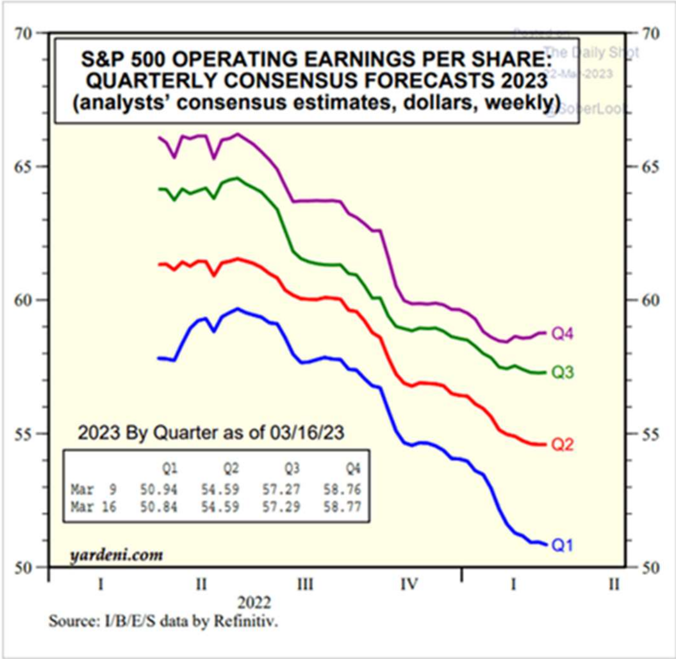

*"Chart #4 shows the level of bank reserves held on deposit with the Fed by the nation's banks. For decades prior to 2008, bank reserves were only a tiny fraction of what they are today. That's because bank reserves paid no interest prior to 2008, and banks were required to hold reserves in order to collateralize their deposits. Thus, banks held only the absolute minimum amount of reserves they were required to hold. After 2008, the Fed began paying interest on reserves, and so banks came to view reserves as a valuable asset: highest quality, risk-free, default-free, and paying a floating rate of interest. In short, reserves came to be viewed as functionally equivalent to T-bills, and banks were happy to load up on their holdings of reserves.*

*By any measure, and from an historical perspective, there is an abundance of bank reserves today. The Fed is not significantly restricting the supply of this very important asset like they did prior to 2008, when the Fed intentionally restricted the supply of reserves in order to boost market interest rates (banks that wanted to expand their lending were forced to borrow reserves from other banks, and that boosted short-term interest rates). That is one good reason to think that the banking system and financial markets today are more resilient than in prior Fed tightenings."*

We urged readers to visit the full blog posting.

[http://scottgrannis.blogspot.com/2023/03/more-thoughts-on-banking-crisis.html](http://scottgrannis.blogspot.com/2023/03/more-thoughts-on-banking-crisis.html)

## Jan/2022 to June/2022: Why did the stock market decline 24%?




The above chart plots projected consensus analyst earnings estimates of 2023 S&P500 operating earnings by quarter. The data plots that opinion change through the 4 quarters of 2022 and into the first half of 2023. Each color line represents the progression of analyst opion for each quarter. In March of 2022, consensus predicted Op Earns Q1-March/2023 around $57. Note that analyst opinion was unchanged-to-UP in the 2nd quarter of 2022. The most recent print for Q1/2023 is closer to $50, 12% lower and the trend is still down. Stock markets typically price in earnings 6-to-12 months in advance. Today's price is for future, not current earnings. Prices usually fall 6-12 months before earnings do. Want to sell?

## What about this cycle?

The S&P500 peaked Jan 4, 2022 at 4818. The index then flopped- 24% to lows of 3636 June 16, 2022, rallied to summer-time highs of 4325 Aug 16, 2022, ultimately bottoming out at 3491 in Oct 13, 2022 (note how lows are in the middle of the months). Jan/2022 to Oct/2022 peak-to-trough decline -27.5%. At this writing Mar 23, the S&P stands at 3979 -17.4% from the Jan/2022 highs. Investors have clearly priced lower something. We believe those who sell stocks now based on the above down-trend are probably reacting to the recent price flops and are too late. That ship has sailed. They are selling to buyers who will likely receive the subsequent rebound in prices. This is not guaranteed to occur.

## *'Bear markets return stocks to their rightful owners.'*

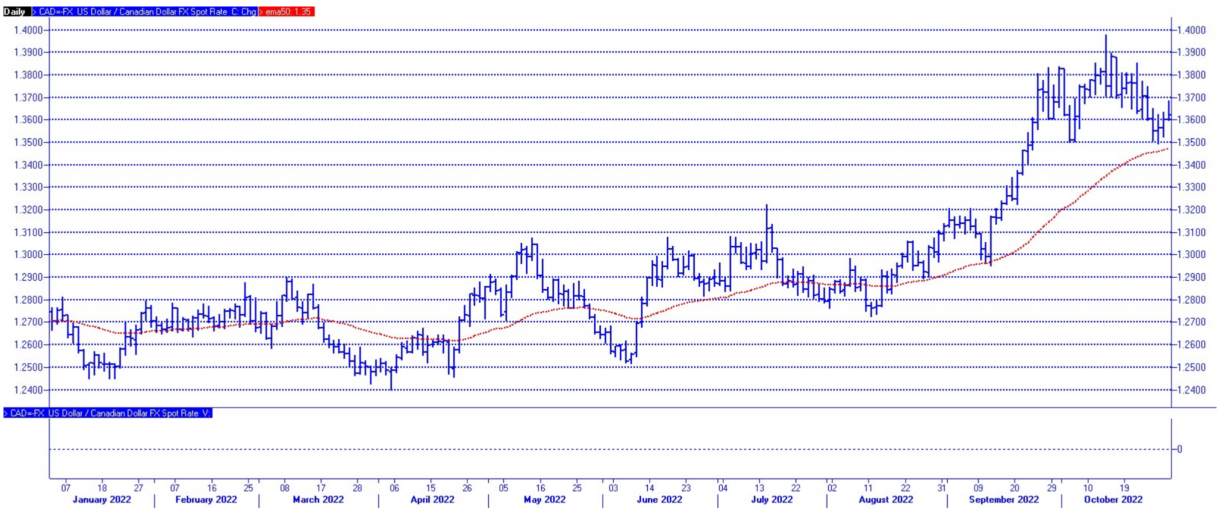
I must add that in 2022 all stocks in the S&P500 didn't 'crash' 27%. The losses were concentrated in the FAANG stocks. The blue-chip, dividend payers we favor declined but the drop was less exciting. Reread the above section on dividend payes.

## Hilberry Portfolios: What have you done for me lately?

Jan 4, 2022 to Oct 13, 2022 the Hilberry 100% equity, US dollar, large-cap, dividend portfolio declined -10.3% net of costs **in $USD**. As often is the case, a flight to quality saw investors rush to buy US dollars, selling everything else, including Loonies.

**US Dollar Index (DXY) Jan 4, 2022 $96.26 | Oct 13, 2022 $112.36 +16.7%**

**US Dollar vs. Loonie Jan 4, 2022 $1.27 | Oct 13, 2022 $1.375 +8.27%**



Some of the US dollar strength was Ukraine related. The lower relative decline in the Loonie speaks to Canadian preceived lower risk versus other non-US currencies. Maybe. The rising US dollar helped offset our US dollar portfolio declines. In Canadian funds, our US equity portfolio Jan 2022 to -Oct/2022 decline was **-2.3%**.

Over the same period our Hilberry pure Canadian large-cap dividend portfolio declined -**3.97%** (call it **-4%**) return in Canadian dollars. Canadian stocks were much less difficult to own.

Jan/2022 our Hilberry North American large-cap blended CDN/USD dividend portfolio was tilted 55% towards US dollar stocks. Jan 4, 2022 to Oct 13, 2022 the North American large-cap portfolio showed a total net retun of **-3.2%**.

## What about the past two years?

Referring back the above March 24, 2021 to March 23, 2023 charts over that period **The Hilberry Canadian Dividend portfolio** generated an entirely unspectacular annual average total return of 7.03% net of costs. $100 invested March 24, 2021 was worth $114.73 March 23, 2023 net of costs. Given our portfolio dividend yield has average 4-5% this implies the dividend payers gained a bit of price over the period. Maybe boring is beautiful or maybe we just got lucky.

We don't like seeing client portfolios decrease in value. When our client's assets decrease, so does our pay! We try to avoid a decrease in value as much as possible. We weren't, and won't be, immune to declines. Experience says those declines are likely to be less spectactular than the headlines would indicate. As drops are often less, the required rebound is also less. This is not guaranteed to be the case! At very least, a smoother ride helps clients stay the course, or even maybe ADD to their portfolios when prices are down. What A Concept!

Recently we're biasing from US to Canadian dollars. This tinkering does Not mean we're freaked out by US politics or bank runs. We see the Canadian Loonie as cheap, like the prices and dividends we're seeing in our Canadian stocks. Ultimately our Canadian clients need Canadian dollar income. Note that we are making this move despite current Canadian Federal and Provincial Govt un-business friendly fiscal and regulatory policies. We suspect that trend has had it's day and is about to change.

## A Change is gonna come

On the change front we were shocked, SHOCKED, to read this week that Quebec, of all places has actually **cut taxes**! No Way! Those in higher tax brackets will, of course, see larger absolute dollar differences. I feel dizzy. The world just ain't right. I note the Quebec budget changes were rolled out before the Canadian Federal Govt budget planned table date of March 28, 2023

## 'Quebec budget highlights: Income tax cuts, pension plan changes, more money for seniors' – Montreal Gazette Mar 21, 2023

https://montrealgazette.com/news/local-news/quebec-budget-2023-highlights-taxes

NBF Commented on the Quebec Budget this week.

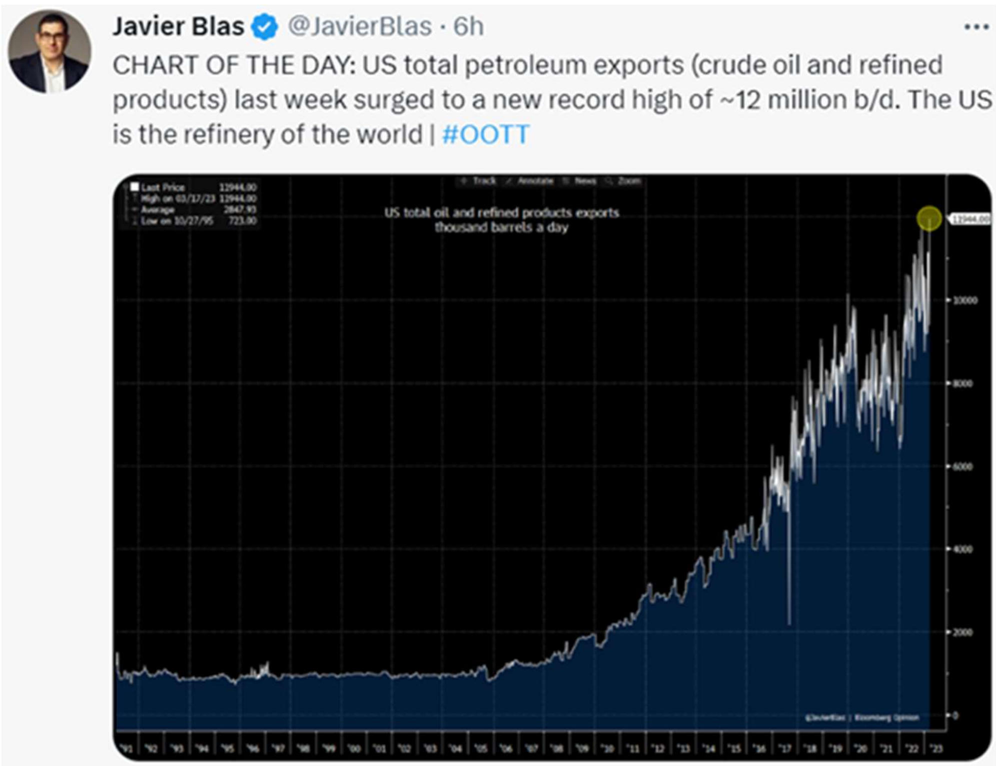
## 'Quebec Budget 2023: Focus on Reducing the Tax Burden' – NBF Economics Mar 21, 2023

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=c1d0e1b1-aea2-4cfb-bd7c-5ef8b1caa81c&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

We normally don't pay much attention to Provincial budgets. This one might be the warming spring winds of better weather for business in Canada. Maybe, just maybe, elected officials are looking at their revenues and actually connecting the dots between the economy and those same revenues. Shocking I know. We certainly hope so.

## Turning to the energy markets

**Regards Oil: About that stranded asset / business case thing.**



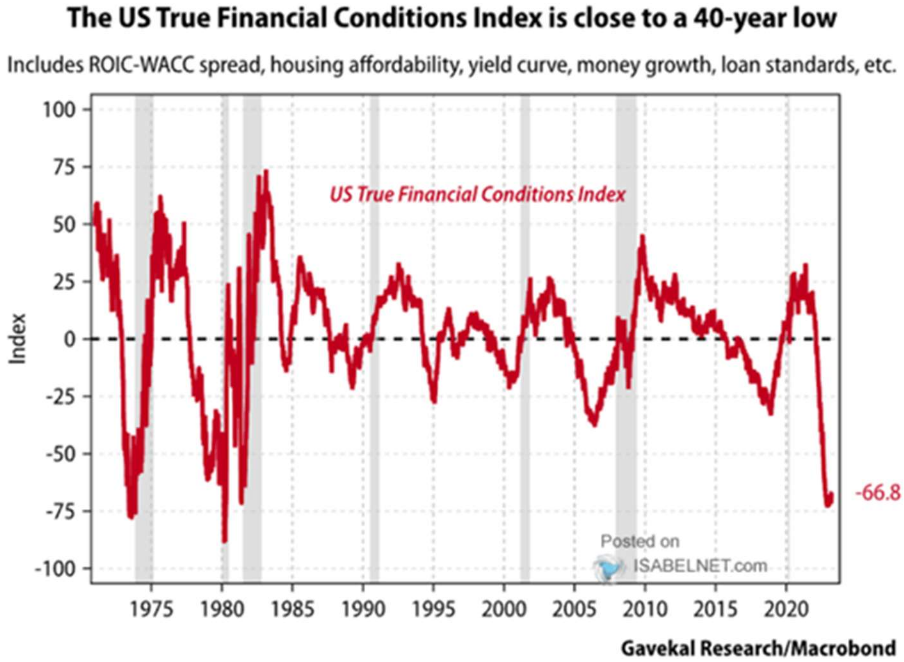

The US certainly thinks there is a business case' for oil and gas.

## Homegrown - Could Canada's Emerging Renewable Diesel Production Replace U.S. Imports? – RBN Enegy Blog Mar 21, 2023

*The buzz and activity around renewable diesel (RD), a chemically identical "drop-in" replacement for traditional petroleum-based diesel, continues to grow. The goals with RD, which is produced from renewable feedstocks, are to reduce the need for petroleum and to lower life-cycle greenhouse gas (GHG) emissions — critical steps in meeting climate agendas in many countries. Canada recently enacted legislation designed to promote the domestic production of RD as part of a broader emissions-reduction strategy. In today's RBN blog, we take a tour of the newly emerging RD production sector in Canada and examine whether it could one day replace imports from the U.S*

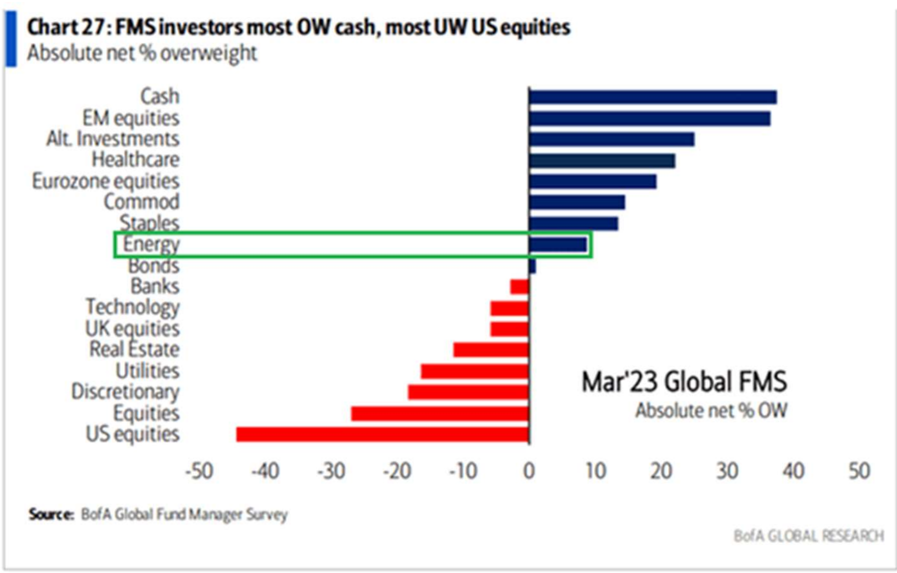
https://rbnenergy.com/homegrown-could-canadas-emerging-renewable-diesel-production-replace-us-imports

## What's in the market's head?




Note how the red line bottoms BEFORE recessions begin, right along with stock prices. Steep drop = steep rebound. Hold on to your hat. We say stay invested.

**From the March 2023 Bank of America Global Fund Manager Survey**




The above chart compares current weightings vs. a 'neutral market weighting' for the various asset classes. Noting the dramatic underweight of US Equities, we'll add that despite this being a 'Global' survey we suspect this underweight has more to do with where most of the money is, inside the US held by US investors, versus an implied anti-US equity stance. As we noted last week, investors are fearful.

March 24, 2023

*"Be Fearful when others are greedy and greedy when others are fearful'*

- **Warren Buffet**

And…

*'When you're going through hell…keep going!'* **– Winston Churchill**

## Have a Great Weekend

**Steve & Anna Hilberry**

Steve Hilberry
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[Anna Hilberry's YouTube Page](#)

[NBF – Hilberry Group website](#)

**FOR THE RECORD March 24, 2023**

| | |
|---|---|
| DOW INDUSTRIALS: | 32,018 |
| S&P 500: | 3,936 |
| S&P/TSX COMP: | 19398 |
| WTI: | $68.95 |
| LOONIE IN $USD: | $0.7269 $US |



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