



WEEKEND READING

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

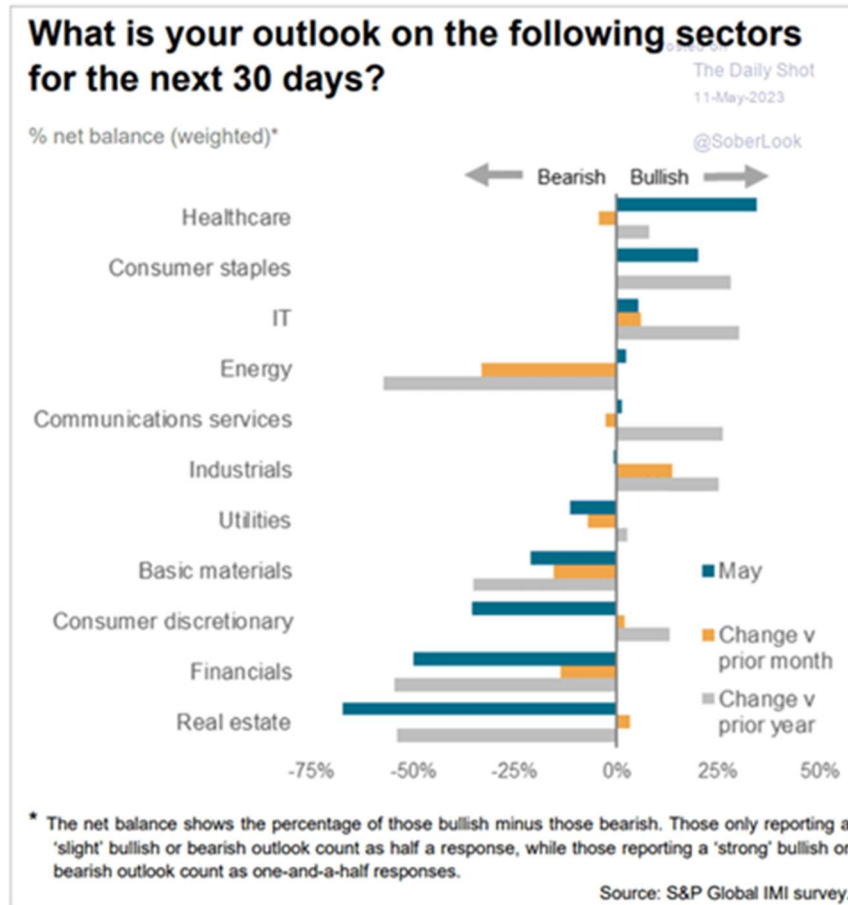
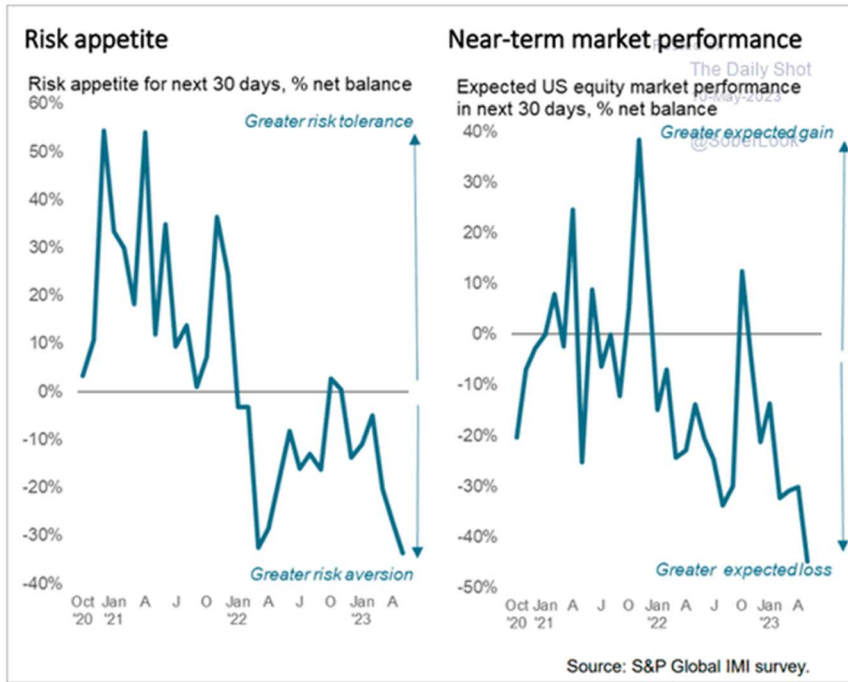
Sell In May and Go Away?

US Recession Risk – Weekly Monitor – Monday May 8, 2023

As the market closed last Friday, the signal from the **financial/commodity indicators** was worse than the previous week due to a rise in BBB spreads. The equity market also lost some ground, but its signal remained unchanged. Similarly, the yield curve inverted further and the price of oil fell, but both indicators were already signalling worse conditions than ever seen before a recession, so their signal remained unchanged. Meanwhile, the price of copper improved and the U.S. dollar depreciated slightly, but both their signal also remained unchanged.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=9be8edec-7dca-4529-9ebd-9efb7462603d&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Note the line “...*but both indicators were already signalling worse conditions than ever seen before a recession...*” ‘Signalling’ means predicting. We think the question is not are we approaching a recession (we think we’re already in one) but what have investors priced in? Standard & Poor’s (S&P) provides an index of global Investment Managers based on their survey of short-term risk appetite and expected returns. We take a contrarian view of the results. When the big money is glum, who’s left to sell? Recognize extremes.



What have you done for me lately?

S&P500 (4122) 3 years, weekly ranges

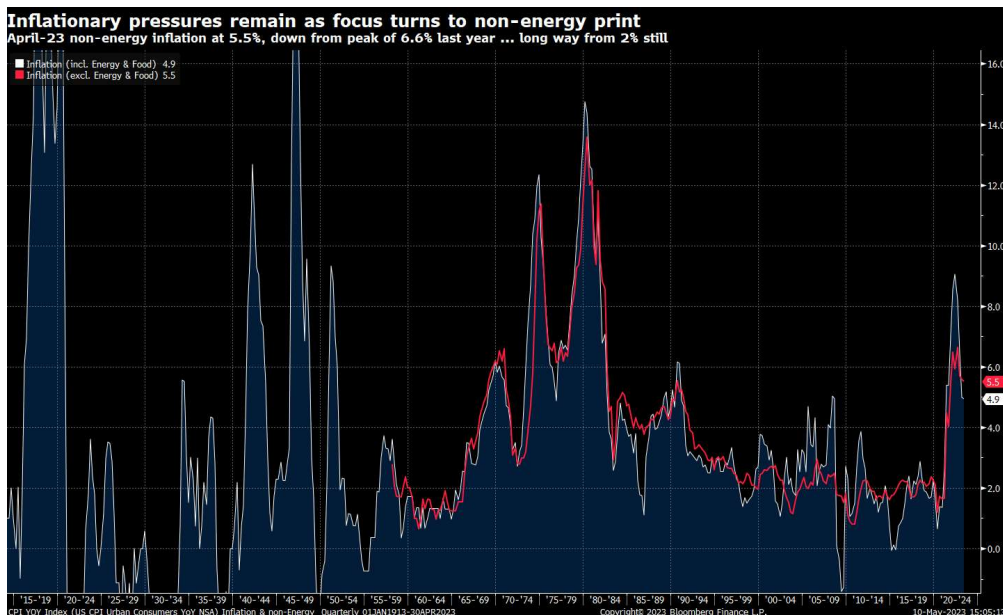


The S&P 500 is **-14%** below the Jan/2022 highs. Jan/2022 peak to Oct/2022 trough **-27%**. The index is currently trading at March/2021 levels. Pain is already priced in. The lows were put in 7 months ago, predicting the recession we think we're in now. Note the upward trend since the Oct/2022 bottom. We believe investors are pricing for expansion. We think the next big move is higher, not lower. We think clients who stick with dividend paying stocks will be glad they did by May/2024.

Inflation Direction is down:

Here's a 123 year look back at inflation. Recently **the non-energy CPI number at 5.5% had its second month in a row over the energy-inclusive number at 4.9%**. Energy tends to lead. Things are trending in the right direction but feel sticky.

US Core non-energy inflation. 1900-2023



Lessons from the Berkshire Hathaway Annual Shareholders meeting

My favorite quote:

“New things coming along don’t take away the opportunities. What gives you opportunities is other people doing dumb things... In the 58 years we’ve been running Berkshire, I would say there’s been a great increase in the number of people doing dumb things. And they do big dumb things.” — Warren Buffett

<https://novelinvestor.com/lessons-from-the-2023-berkshire-meeting/>

Speaking of doing dumb things, this week revealed Vancouver Island investors got caught in yet another Mortgage Investment Corporation (MIC) scam.

Mortgage broker facing lawsuits put on \$5,000-a-month allowance - Times Colonist May 10, 2023

These stories repeat too often in Western Canada. Falling under Provincial oversight, MICs are relatively small entities, flying below the national regulatory radar. Here’s a few:

- NorthStone Investment Fund Inc. BC \$250 million
- Eron Mortgage BC \$170 million
- Dominion Grand Vancouver \$11 million
- Shop Your Mortgage Victoria - \$58 million
- All Canadian Investment Corporation Salmon Arm \$1.6 million

<https://www.timescolonist.com/local-news/mortgage-broker-facing-lawsuits-put-on-5000-a-month-allowance-6978077>

The following Globe & Mail story lists recent failures.

<https://www.theglobeandmail.com/report-on-business/mortgage-investment-corporation-canada-real-estate/article34526694/#story>

‘Bank Problems Aren’t Over, But It’s Not 2008’ - First Trust

First Trust’s Brian Wesbury provides a useful look-back at the 1970’s US Savings & Loan (S&L) Crises.

<https://www.ftportfolios.com/Commentary/EconomicResearch/2023/5/8/bank-problems-arent-over,-but-its-not-2008>

NBF Monthly Equity Monitor May/2023. Sell in May and Go Away?

NBF's Economics team advises caution, reducing US equities noting the 'Sell In May, Go Away' strategy.

NBF Asset allocation:

- Cash: 11% (+2% funded from US equities reduction)
- Fixed Income: 47% unchanged
- Equities: 42% broken down as...
 - CDN equities: 20% unchanged
 - US equities: 16% (-2% from 18%)
 - Foreign Equities: 3% (unchanged)
 - Emerging Markets: 3%

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=c88481fe-c112-449e-aadc-9ef17810c14e&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

The tone of the above link **NBF Monthly Equity Monitor** is downbeat on the prospects for stocks. How downbeat? The reduction in equities from 44% to 42% represents a 4.5% SELL call in the equity sleeve. If accurate and stocks fall, that implies 4.5% lesser decline. If stocks fell 20% this move would preserve 0.9% of the portfolio that otherwise would have been lost. The equity allocation is perhaps less dramatic than the headline. I'll add that NBF is a leading Canadian financial institution. When a major financial institution says 'SELL', they usually don't wait to publish their thoughts, then go do the trades. Posted opinions are moments in time that have passed.

Do we use Seasonality?

We've long paid attention to the seasonal pattern of broad equity market returns that sees the majority of price gains achieved between the months of October and May. We are aware that September is often the worst month for stocks followed by October, while the worst short-term declines have occurred in October (Oct/1929, Oct/1987, 2008).

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." Mark Twain

<https://corporatefinanceinstitute.com/resources/capital-markets/sell-in-may-and-go-away/>

<https://www.visualcapitalist.com/the-best-months-for-stock-market-gains/>

If stock markets have jumped (lately not), and we're in late stages of an expansion cycle (passed it, now in a recession) and we've just entered an inverted yield curve (been in one for awhile) and it's April we will be more cautious than normal. In strong bull markets (we're not in one) clients requiring liquidity, may be advised to raise cash.

We find Seasonality a useful contrarian behavioural guide. Avoid April-May's excess optimism from clouding your value analysis (there's little excess enthusiasm this year see above Risk Appetite Index). In April don't pay too much, just because everyone else is.

September to October often see declines, but not always. Mentally prepare yourself for those downdrafts. The mindset should be a contrarian, opportunistic, mindset. Don't Sell just because everyone else is. We don't blow out our dividend paying stocks just because it's May and we don't blow our cash horde just because it's October.

Has Sell In May worked recently?

	30-Apr-13	30-Apr-23		Buy/Hold	Sell-Apr	Buy/Hold
Index	Start	Sell Apr	Buy/Hold	Diff	Avg Return	Avg Return
Dow Industrials TR \$USD	\$100	\$183	\$291	59%	6.23%	11.27%
S&P500 TR \$USD	\$100	\$191	\$315	65%	6.68%	12.15%
TSX Comp TR \$C	\$100	\$179	\$210	17%	5.99%	7.70%
NSDQ Cdn Div indx TR \$C	\$100	\$182	\$219	20%	6.17%	8.15%

Criteria & Notes:

- Sell-May: Liquidate all holdings at Apr 30 close each year. Invest to US 6 mos T-Bills. Reinvest Oct 31 each year.
- Buy/Hold: Purchase total return index. Hold for period.
- Total Return indices are calculated post close meaning it is not possible to BUY the exact value at the close.
- All Indices are synthetic, exclude real-world costs, trading spreads & execution, fees, etc. would impact Sell-April to a greater degree.
- FOREX rates are not factored to USD returns. Canadian investors saw additional returns from US dollar strength 2013-2023.

Observations:

- For all indices Buy/Hold beats Sell May. Over the past 10 years, for US markets Sell in May opportunity cost was significant. For Canada the difference was not as large. Recall the above numbers are synthetic. Sell in May real world probably lower still.
- The correlation of returns for all indices Oct-April is notable. The deviations have occurred been April to October.
- The 6 mos. and annual returns span and hide significant volatility. There could be a lesson here. Don't look at your portfolio too often!
- I'm not completely happy with the 10-year study period. We will be presenting more depth at our upcoming May/2023 Seminars in Duncan and Comox.

May/2023 semi-annual review:

- **May 23: Arbutus Ridge – Duncan**
- **May 30: Crown Isle - Comox**

Please RSVP and please bring a guest!

Have a Great Weekend

Steve & Anna Hilberry



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FOR THE RECORD May 12, 2023

DOW INDUSTRIALS:	33,261
S&P 500:	4,103
S&P/TSX COMP:	20374
WTI:	\$70.43
LOONIE IN \$USD:	\$0.7376 \$US

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