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February 2022 Commentary

Our hypothetical equity model* opened January down 2.76%, ending our modest three month winning streak. It's been a year of making not much progress after the last rocket ride in 2019/2020, so we continue to wait. The green shoots we saw last month have, yet again, not grown into anything.

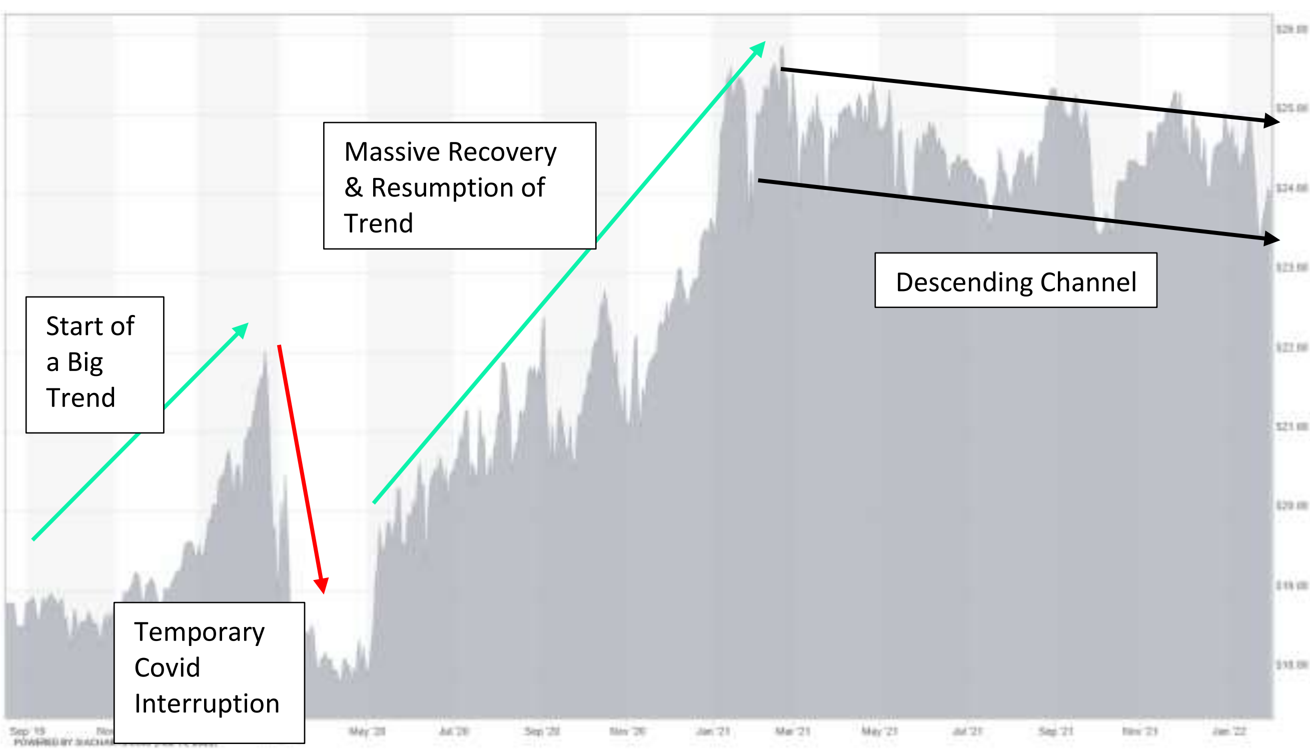
> * If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio.
>
> Our *Hypothetical Equity Model* closely approximates the actual performance of your equities before fees. It gives us context, allowing for various types of analyses & comparisons.

Market Update

The policies of the Biden administration in the U.S. with respect to energy have had a predictable result. The earliest moves after inauguration day were to shut down pipelines, shut down exploration and drilling and return the U.S. to its position of 4 years earlier where it was a net importer of energy. We wrote about this in the lead up to the election, then again after the change in administrations. Turning off this massive new supply of energy to the world has caused energy prices to skyrocket. Coupled with the Covid-related supply chain interruptions causing cost-push inflation pressures, we've seen prices surge forward. As a result, our portfolio has seen a dramatic rotation out of tech and into energy and banking stocks. This makes us a little nervous. Energy and commodities are a capricious group. They stage frequent surges only to deflate just as quickly. These surges are enough to move our dials and make some investments in those sectors. Most of the time the moves are short term and the swell of prices deflates. We've been whipsawed in our model this way a few times since 2013. The last true bull market we saw in commodities was 2001-2011. Since then it has all been fake-outs. It would be easy enough to simply avoid commodities were it not for the fact that when a true bull market does manifest, you must get in on it because the returns are sensational. Thus, we continue to execute and be disappointed so that we don't miss the good one. Is this it? It would seem to depend upon whether the inflationary policies and events that got us here continue. Presumably, with the world opening up as Covid declines, we would expect some of the supply-cost push to abate. We've already seen this in certain things like lumber prices, which spiked dramatically late last year and have now dropped like a stone. We're setting our expectations of making a lot of money on energy low, but we'll know soon enough.

Quick Technical Update

Our *SIA ML Global Tactical Pool* (SWI220) continues to grind without resolution. As the chart below evolves (updated for January) it seems to have clearly described what we would call a *descending channel*, a series of lower highs and lower lows. The price bobs between the two extremes. If you were actively trading an asset with this profile, you would sell at the top of the channel and buy back at the bottom, taking a few percent return each time. Until, that is, the price breaks out of the pattern. And break it will – eventually – but in which direction?

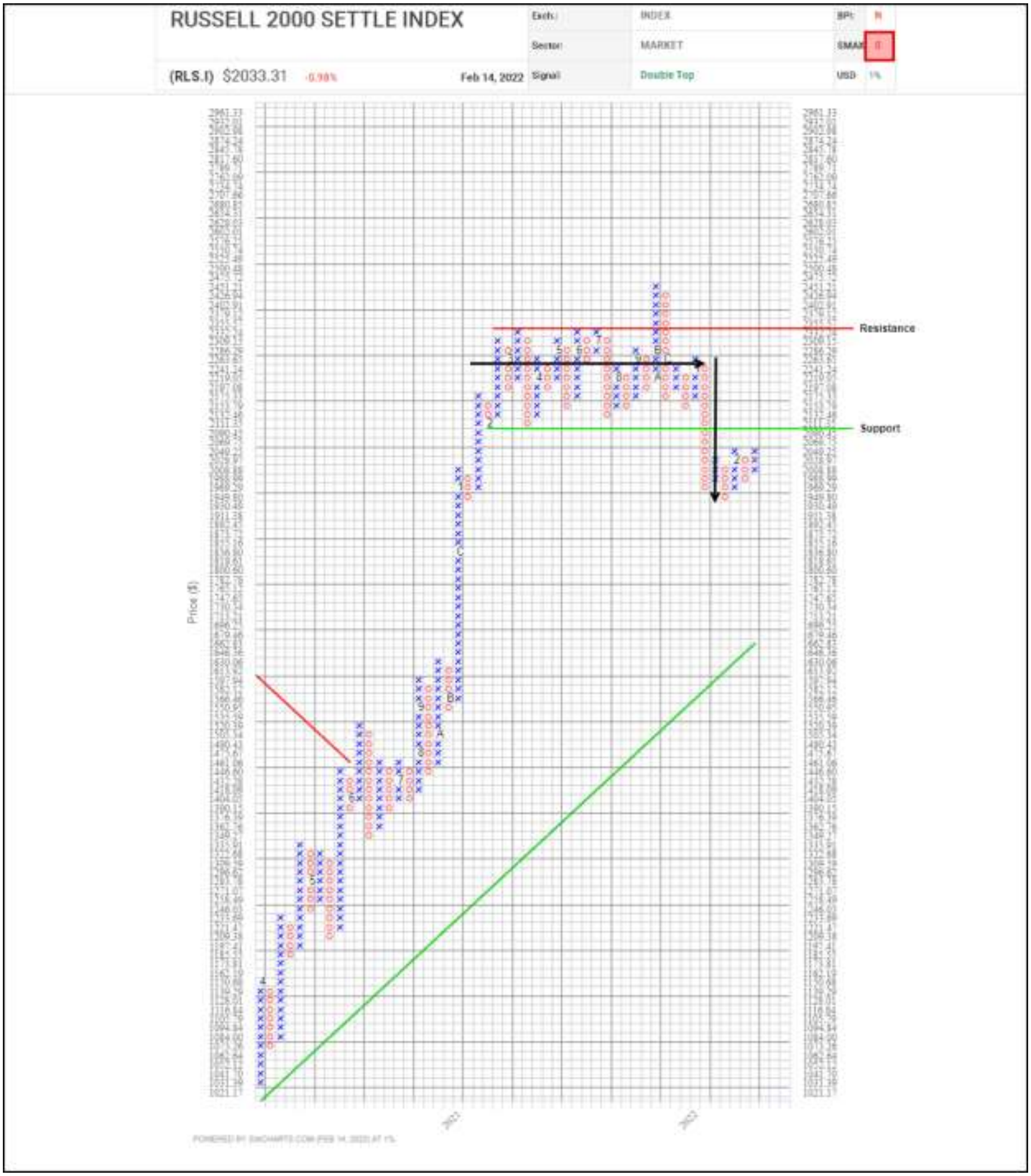


We often speak of 'the market' when referencing how stocks have fared. In reality there are many different markets all over the world and they all have particular characteristics. Overall, the index that is most similar to SWI220 is the Russell 2000 (RLS.I) in the U.S. because of its broad diversification.

Both SWI220 and RLS.I soared in late 2020 into early 2021 and then went sideways. The performance of SWI220 has been much better in the last few months, showing that it provides enhanced risk protection in times of trouble while capturing gains in the good times. Here's a snap shot of a Point & Figure chart (the type of chart that underpins everything we do) of SWI220:

Since March of 2021, SWI220 has been in a sideways trend which continues to this day. Twice the price threatened to break down and did not. It has been retested since, again without breaking down. Without getting too technical, currently SWI220 is showing strength relative to other asset classes.

In contrast below, RLS.I looked like it was going to take off in October, but this was a false break out which was smashed in January (the first big row of red Os). After a brief consolidation, support at the bottom if its range failed and it tumbled into a lower range.



These charts show how much is happening beneath the surface when there seems to be nothing remarkable. Our mission is to make money long term and part of doing that is preserving capital during difficult markets, which we've done. We patiently await the next phase, which is to capture gains once the market returns to full health.

February 2022 Portfolio Review

Mott Liokossis Hypothetical Model sector breakdown at the end of January 2022:

Cash	13.60%
Diversified Global Equity Portfolio	37.64%
Energy	13.28%
Diversified Canadian Equity Portfolio	12.05%
Banking	11.67%
Computer Software	6.00%
Wholesale	5.76%

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Hypothetical Model Growth Portfolio Holdings at the end of January 2022:

% Held	Security	Symbol	Sector	Price	Yield
13.60%	Cash				
6.00%	Barclays PLC	BCS	Banking	$ 13.84	1.20%
5.86%	Equinor	EQNR	Energy	$ 35.02	1.62%
5.76%	W.W. Grainger Inc.	GWW	Wholesale	$ 629.28	1.02%
6.00%	Infosys	INFY	Computer Software	$ 29.96	1.33%
7.42%	Cheniere Energy Inc.	LNG	Energy	$ 142.87	0.23%
5.67%	Wells Fargo & Company	WFC	Banking	$ 68.38	0.88%
37.64%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 24.71	15.58%
12.05%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 40.27	0.94%

SIACharts.com

	Monthly Returns													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	
2021	-2.76%												-2.76%	YTD
2021	1.62%	5.68%	-3.36%	0.16%	-0.85%	0.93%	0.28%	7.23%	-4.67%	1.70%	0.60%	0.51%	9.93%	
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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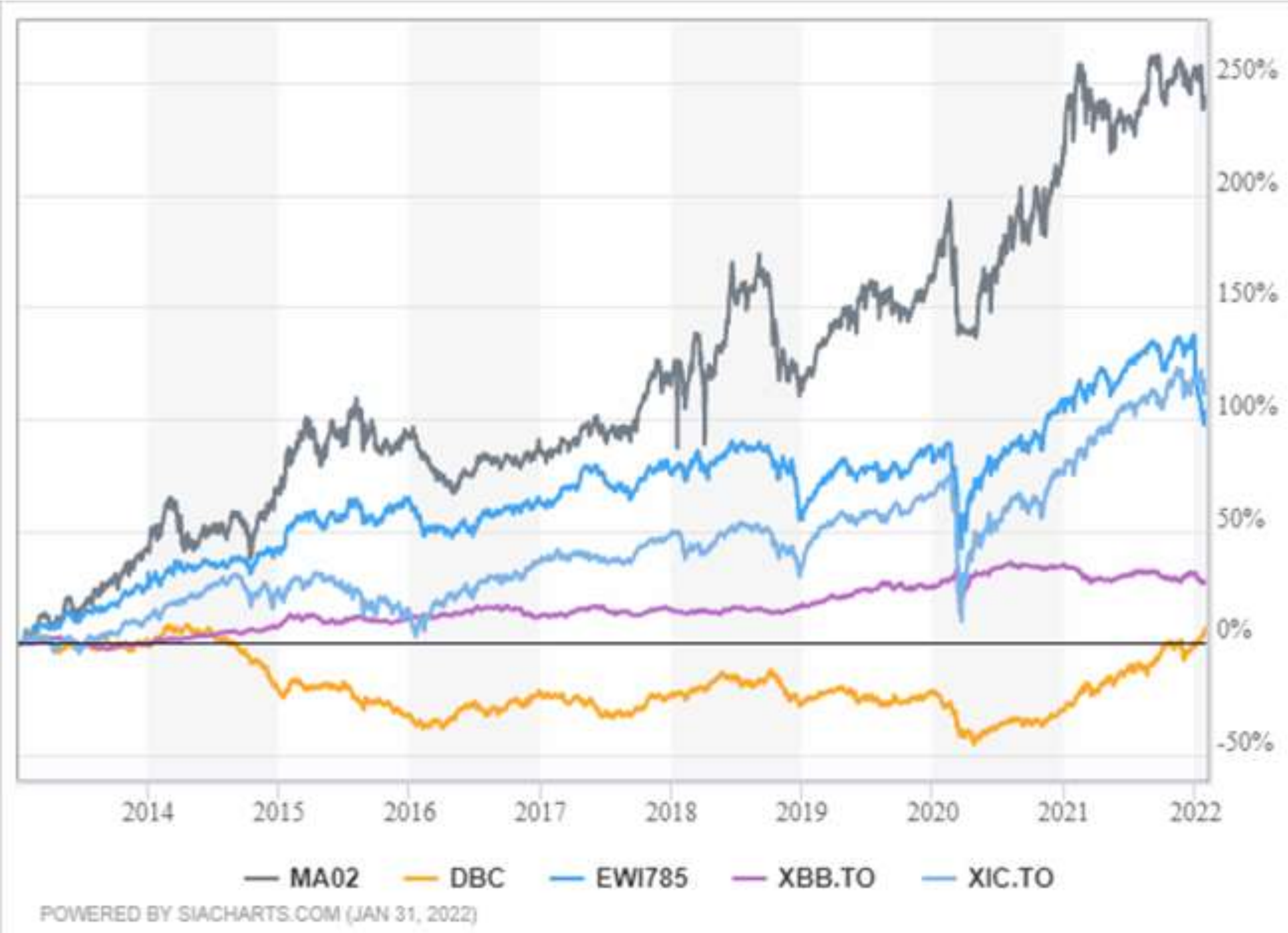

Growth of $10,000 Jan. 04, 2013 - January 31, 2022	
Mott Liokossis Model (MA02)	$34,363
World Stock Equal Weight Index (EWI785)	$20,373
Canadian Stocks (XIC.TO)	$21,701
Canadian Bonds (XBB.TO)	$12,692
Commodities (DBC)	$10,653

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