L-R: Bogue Clark, Juliana Weese, Blair Mott, Tony Liokossis, Stephanie Lindsay

June 2022 Commentary

May continued the pattern we've seen so far this year. We returned a modest +0.65% in our hypothetical equity model[1] while globally equities were again negative, posting -1.95% for the month. That puts our year-to-date at +3.58% vs. -12.99% for the benchmark global index[2], a massive 16.57% difference. The theme for the year continues uninterrupted, with no end in sight.

Market Update

Things are getting interesting. Very, very, very interesting. Market declines come in two basic flavours. Serious and not-so-serious. What we are enduring may turn out to be former. There are deep, fundamental problems in the global economy that are now being reflected in the stock market. Notwithstanding the bitter taste of the corrections we've endured over the last decade or so, in

[1] 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.

[2] Global stock market is represented by *EWI785 World Stock Equal Weight Index*ᵗ, Courtesy of SIA Charts

hindsight none of them was the real deal. By 'real deal', we mean stocks get cut in half and take five years to recover. That last such event was the 2008 sub-prime crash, about which we have written extensively. It is pictured below using the S&P500 index as a proxy. Of particular interest are the first three waves of that crash, denoted as A, B & C. From the peak of the A wave to the bottom of the C wave the market declined 23.8%. That was the appetizer.

Compare this to where we are at the end of May 2022, pictured below. The first three waves bear an uncanny resemblance to 2008, right down to the double bottom at the end end of the B wave. From the peak of the A wave to the bottom of the C wave the market declined 20.9% in 2022.

At this point in 2008, the market was down but it was not Armageddon. We recall pundits dismissing the idea that things could get much worse. Turns out things got a lot worse. Should 2022 turn out like 2008, we're in the second inning. The next step would be a cascade down into summer.

By now you know we only muse on the future as an exercise in context. We don't know what's next but we cannot discount the possibility that this is a big one. There are three important factors that support this thesis.

Firstly, the factors driving this market are serious and deeply intransigent. Inflation is out of control. If we lower rates to goose the economy and lift stocks, it's gasoline on the fire. To fight inflation, we normally raise rates. Doing that in the context of the amount of worldwide debt that has become accustomed to absurdly low rates is a huge problem. Intervention-happy central banks are stumped, exacerbated by the fact that their last few attempts have not been received well. Waning central bank influence would be consistent with our long-held theory that trust in government is eroding.

Secondly, the behaviour of our model portfolio this time around has been markedly different to every other market decline in the last decade without exception. During that period the corrections came suddenly and unfolded sharply. Every single time, there was no warning and we simply had to endure them. We took the initial hit and only took evasive action if the magnitude of the decline warranted it.

This time is completely different. We started evasive maneuvers more than a year ago, long before the market showed its hand. For the last half of 2021 we were outperformed by most North American

stock market indexes. Now we can see why. The variables below the surface that reveal potential risk started flashing well before the decline in the major indexes started. This is what it looks like when a market crash is due to fundamental economic problems as opposed to short term trading ebbs and flows.

Thirdly, the timing would be perfect. We're overdue for a real crash, it's been 14 years. If we get one now, it leaves about a decade for the final assault on the peak, after which it's a whole new ballgame. The assault on the peak requires energy. To build energy, you have to sell and exhaust the selling until there are no sellers left, leaving only buyers. We need this for a big, final push. It's exactly like a slingshot. If it is sitting with no tension, it can't fire. If you pull it back a little, it will fire a little. The more you pull backwards, the further and faster forward it will shoot. Stocks are the same.

What if?

The third point above is what makes this point in history very, very, *very* interesting. Recall our ongoing thesis that the more geopolitics and economies go sideways, the more we will lose faith in our leadership. That will cause money to leave their control and go into private hands. Over the next decade, it will drive up all manner of assets including, most importantly, stocks. After years of holding our cards close to our vest, in April's letter we put a target out there - the market would roughly double over the next decade.

That target is fixed but the starting point is not. What happens if stocks are in the process of getting cut in half? If you measure the returns to the fixed target from the bottom of a 50% crash, it is no longer a 100% return over the next decade. It is now a 300% return in less than a decade.

You Are in Great Shape!

It goes without saying that this is a huge opportunity. The key is that you CANNOT ride the stock market all the way down. If you manage to preserve your portfolio during one of these events, and then – critically – get back into the market anywhere near the bottom, it changes everything. These opportunities are rare, but you only need one.

We have raised significant cash in your portfolio, so you have significant protection from this falling market. The flip side of the coin is this means you have dry powder to re-enter at lower levels if the opportunity presents itself. We are exactly where we need to be if things get nasty. If you would like to discuss this, please call our office any time.

Stay Tuned

We’re starting to see the story unfold. Markets are down and now we now know why. Thus, we know what has to change for us to get a recovery. In the coming months, we’ll find out if we get those catalysts before this turns into a rout.

June 2022 Portfolio Review

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

Cash	44.30%
Diversified Global Equity Portfolio	37.11%
Diversified Canadian Equity Portfolio	12.09%
Wholesale	6.49%

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

% Held	Security	Symbol	Sector	Price	Yield
44.30%	Cash				
6.49%	McKesson	MCK	Wholesale	$ 415.79	0.45%
37.11%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 25.16	9.05%
12.09%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 42.77	0.89%

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Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Returns	
2022	-2.76%	2.22%	6.38%	-2.67%	0.65%								3.58%	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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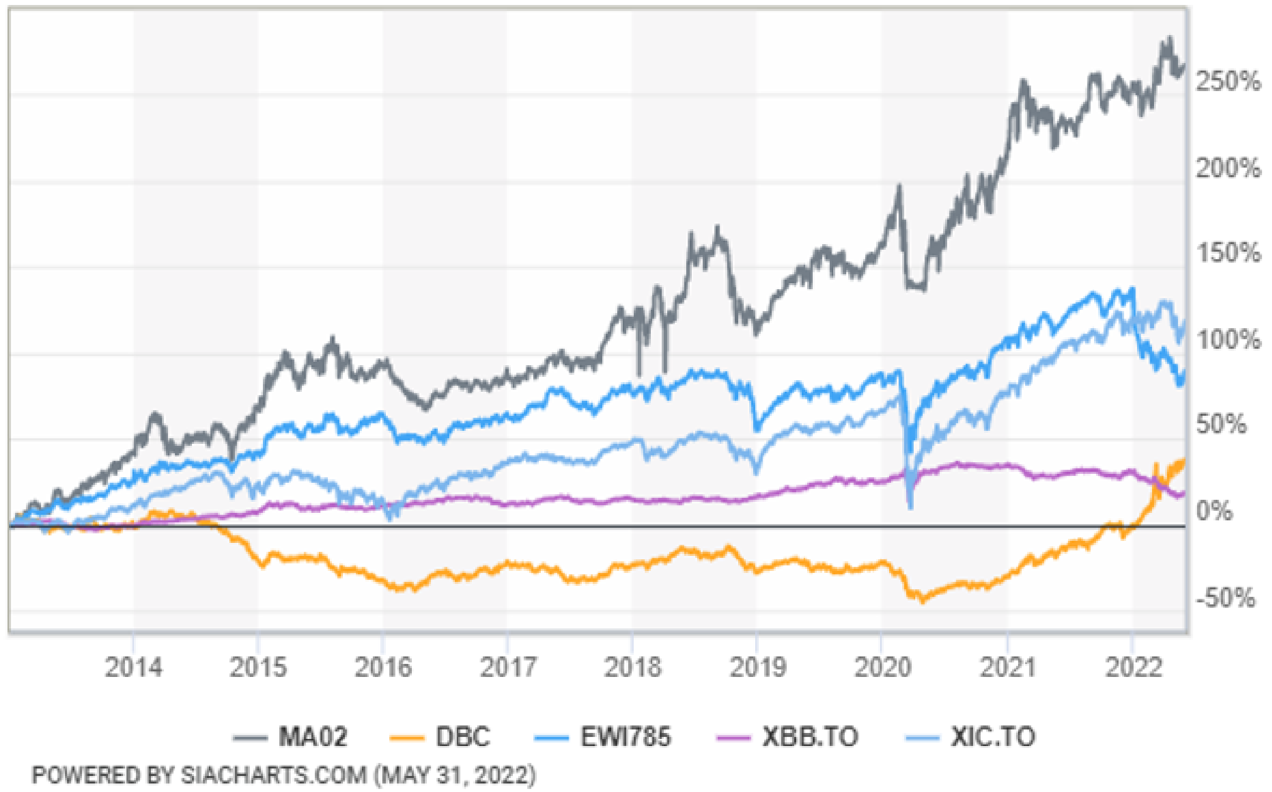

<u>Growth of $10,000 Jan. 04, 2013 - May 31, 2022</u>

Mott Liokossis Model (MA02)	$36,603
World Stock Equal Weight Index (EWI785)	$18,756
Canadian Stocks (XIC.TO)	$21,648
Canadian Bonds (XBB.TO)	$11,783
Commodities (DBC)	$13,620

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