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NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

MOTT LIOKOSSIS WEALTH MANAGEMENT GROUP

May 2022 Commentary

April was another strong month for our hypothetical equity model[1]. It was down 2.67%. If that doesn't sound special, consider that the global stock market[2] – which includes U.S., Canadian and international stocks – declined 4.47%.

Consider further that year-to-date, our model is +2.91% versus -12.02% for the market. That is an almost 15% divergence. The trends discussed in recent editions of this letter remain intact.

This cautionary phase started a year ago and it's still going strong. It has provided the first real test of the new algorithms we incorporated into our model in the fall of 2019. We could not be more pleased. More below.

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[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

Market Update

In the second half of 2021, the *relative strength* process we employ exclusively started to signal broad stock market weakness. In particular, we noted a strong divergence in performance between the big players in the U.S. equity market – names like Amazon & Microsoft – and the rest of the equity market. The big names went from strength to strength while the rest of the market started to struggle. We wrote about this extensively. It is one of the strongest warning signs of an impending market decline or crash. As a result, we started raising cash in May 2021 and we've been surprised at how long this cautious condition has persisted. A full year in, with hindsight we can see the problem. It's amazing how the collective wisdom of millions of market participants around the globe can divine the future without any one of us individually knowing it. Soaring inflation, soaring energy prices, soaring interest rates, war – you name it, we are getting the full spectrum. Obvious. In hindsight.

The global stock market is now down over 22% from it's peak in November and showing no signs of stopping the slide. This is officially a bear market.

Will Central Banks Rescue Us?

The measures we use in managing money necessarily have to strike a balance to achieve long term results. On the one hand, in order to successfully capture the big, long-term trends that are so critical to our success, we have to let these investments move around. We cannot be so sensitive to volatility that we sell prematurely and get bucked off the ride. On the other hand, we have to keep things tight enough that we don't hold any investment – or the stock market in general – so long that we take large losses before selling. It's a tricky game and it's messy in the trenches.

Our preference has always been to accept pretty sharp short-term volatility in pursuit of the long-term performance that can change our lives for the better. Because of this, the focus of our risk management has always been more on avoiding the really big declines that come every few years. We're talking about the kinds of crashes where the market loses 50% or more and takes five years to recover.

In the last decade, we've had two occasions where the warning signs were strong enough that we sold all our stock investments and went to cash. The potential was there for one of the aforementioned big crashes. The first time was spring 2016, and then again in spring 2020 when Covid hit. In both instances, especially the latter, central banks sparked strong recoveries by cutting interest rates and flooding the system with money. In both cases we took evasive action to avoid catastrophic losses that never happened. These *should* have been big opportunities for us to sell early and get back in near the bottom. Neither one turned out that way. We remain convinced that in both 2016 and 2020, but for these unprecedented central bank interventions, a 50% or greater decline would have been the market's fate.

We've wondered if and when the central banks would run out of bullets. Has that time arrived? Is robust intervention to save the market even an option today? Inflation is running in the high single digits, the worst in decades. Instead of riding to the rescue, central banks are being forced to raise interest rates and drain liquidity from the system in order to stop inflation running away - all in the face of a slowing economy. Without central bank support this could get ugly. Not a prediction, just a thought.

Cash on the Sidelines

We ended April with close to one-third of the money that we'd normally have invested in stocks instead having been moved to cash. That's up from around 20% prior. Rather than getting back in, we're doing the opposite.

As mentioned above, the trend has shown no signs of reversing yet. Let's see what May brings.

May 2022 Portfolio Review

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

Cash	12.23%
Diversified Global Equity Portfolio	36.77%
Energy	15.46%
Diversified Canadian Equity Portfolio	11.71%
Metals & Mining	6.51%
Wholesale	6.26%
Diversified Services	5.75%
Banking	5.30%

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

% Held	Security	Symbol	Sector	Price	Yield
12.23%	Cash				
5.30%	Bancolombia	CIB	Banking	$ 49.85	2.07%
6.92%	Equinor	EQNR	Energy	$ 43.82	1.44%
5.75%	51JOB Inc.	JOBS	Diversified Services	$ 78.23	0.00%
8.54%	Cheniere Energy Inc.	LNG	Energy	$ 173.99	0.38%
6.26%	McKesson	MCK	Wholesale	$ 398.07	0.46%
6.51%	Nucor Corp.	NUE	Metals & Mining	$ 199.00	0.91%
36.77%	SIA ML Global Tactical Pool	SWI220	Global Equity Portfolio	$ 24.77	9.19%
11.71%	BMO SIA Focused CDN EQ ETF	ZFC	Canadian Equity Portfolio	$ 41.18	0.92%

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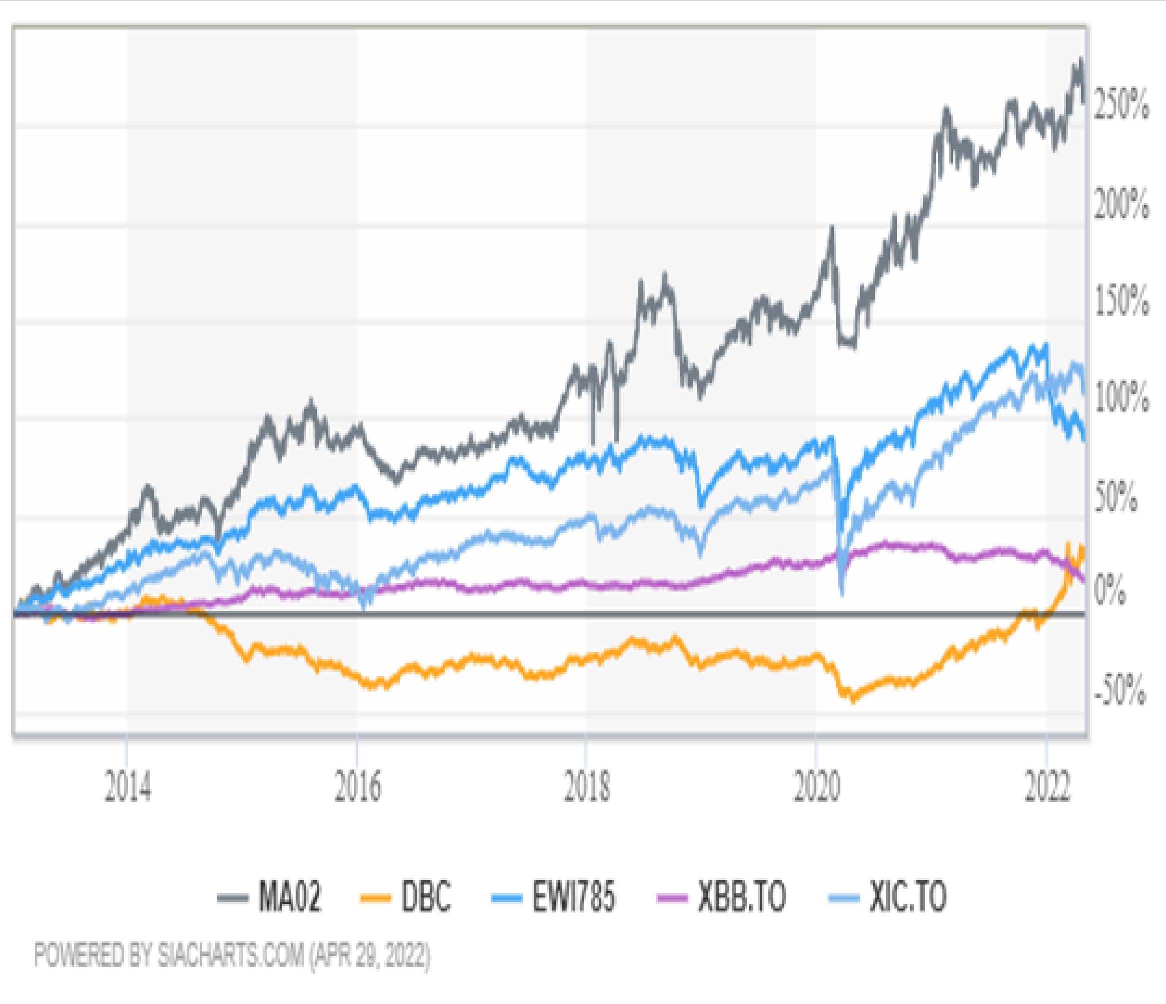
	Monthly Returns													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Yearly Returns**	
2022	-2.76%	2.22%	6.38%	-2.67%									**2.91%**	**YTD**
2021	1.62%	5.68%	-3.36%	0.16%	-0.85%	0.93%	0.28%	7.23%	-4.67%	1.70%	0.60%	0.51%	**9.93%**	
2020	4.33%	-3.90%	-8.54%	-0.42%	9.70%	2.13%	5.75%	4.27%	-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.



Growth of $10,000	Jan. 04, 2013 - April 30, 2022
Mott Liokossis Model (MA02)	$36,368
World Stock Equal Weight Index (EWI785)	$18,964
Canadian Stocks (XIC.TO)	$21,378
Canadian Bonds (XBB.TO)	$11,701
Commodities (DBC)	$13,233

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