Mott Liokossis Wealth Managment Group

Newsletter

January/February 2024 Commentary

We've had an explosive start to 2024 and are now experiencing market conditions completely different to the last three years. More on the reasons why in our commentary below. Our *Hypothetical Equity Model*[1] returned 3.62% in January and 10.36% in February, bringing us to 14.35% to the end of February. This is the best two-month opening to a calendar year we've ever had, going back to the inception of our model in 2013. In fact, it is the best 60-day opening even if you include the six years of back-tested data we compiled before we went live with our model, all the way back to 2007 – 18 years! January and February also notched record month ends.

This compares favourably to our *Global Equity Benchmark*[2], which posted 1.27% in January, 5.15% in February and sits at 6.48% as of the end of February, almost 8% behind our model in 2024.

Market Commentary – Achieving Sudden Traction

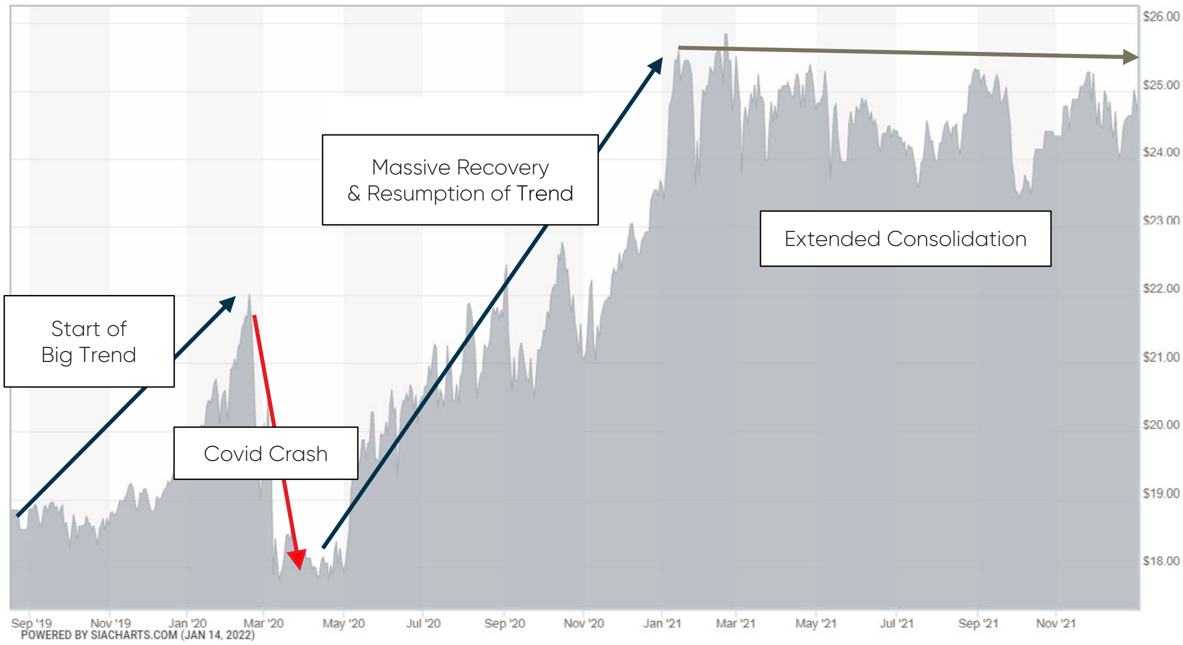
Let's look at what happened, then we'll tell you why. Below is a screenshot from our January 2021 newsletter containing an excerpt and a graph of the SIA ML Global Tactical Pool, our exclusive private fund. The graph shows that from January 2021 onwards, we entered a sideways pattern, bouncing up and down within a narrow channel while making no progress. The longer this aimless condition persisted, the more it caught our attention. In fact, we reproduced this graph at various stages of its evolution in no fewer than seven of our letters between June 2021 and February 2022. We felt that the longer the graph ground sideways, the more pressure would build & the bigger the eventual breakout would be, with the expectation that the explosion would likely be to the upside. We quote ourselves from January 2021:

> *"Below is our flagship SIA ML Tactical Global Equity Pool. We started this in August 2019. It went straight up, then ran into the April 2020 Covid woodchipper. From there, it promptly exploded to new record highs into Q1, 2021. Since then, it is pretty much a billiard board. The more this continues, the more energy we store and the bigger the next move. Generally, that should be in the same direction as what preceded it (edit: straight up)…"*

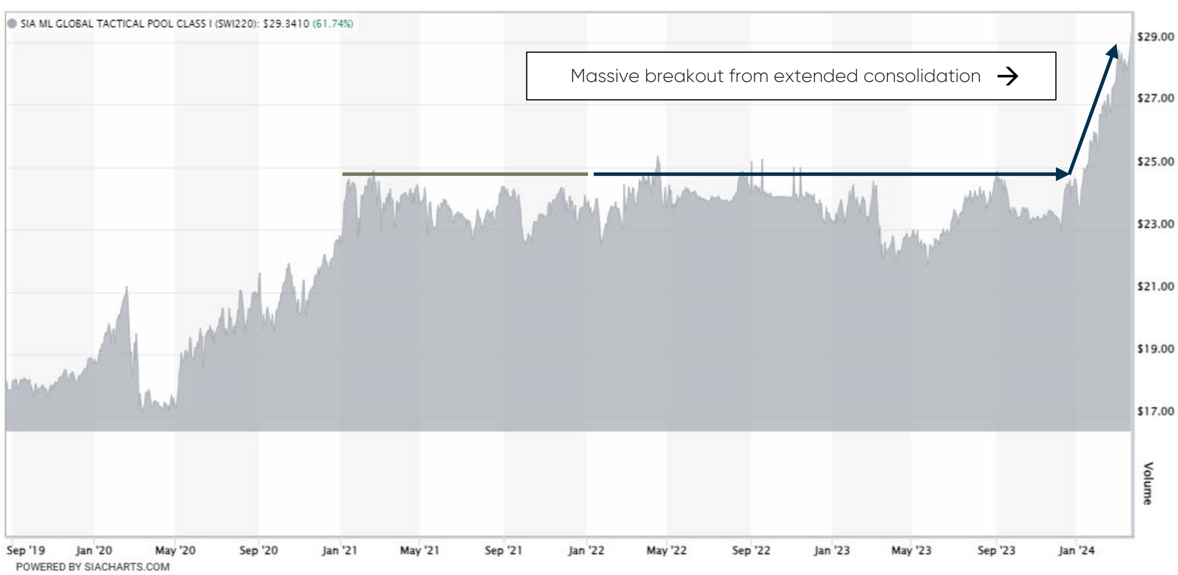
1 If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the '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 Indext, Courtesy of SIA Charts



Here's the same graph updated as of mid-March. The blue portion starts where the previous graph ends. The directionless action continued to build energy for another two years! And then it confirmed our thesis:



What's Behind the Sudden Change?

Why has our model suddenly exploded to the upside? Before we answer, remember three things:

1. Equity markets are being driven by politics more than ever.
2. We're not picking sides, we are analyzing investment markets.
3. Our aim in these pages is to give you the unvarnished truth you're not likely to hear elsewhere.
4. The market has completely changed complexion.

In our June 2023 letter we wrote that the grinding sideways market was mostly a malaise caused by the policies of the current Biden administration in the U.S. The previous Trump administration had ushered in big energy production which had a domino effect, lowering energy prices which in turn lowered inflation and allowed interest rates to remain stable at low levels. We had a decrease in regulations, freeing up businesses to do business. Finally, it was also a time of global stability with Iran, North Korea, Ukraine and Russia all contained and the Abraham accords signed in the middle east. Every one of these factors was reversed over the last three years by the Biden Administration. The stock market did not like it and, in our opinion, it is possible we would have seen a crash but for forceful central bank intervention.

In that June 2023 letter when pondering what could change our fortunes, we came up blank except for one obvious thing – yet another change of administration, a Trump second term. It would almost certainly mean a return to the market-friendly policies outlined above. Were that to happen we wrote: "*we firmly expect the stock market would explode to the upside.*" So it has come to pass.

The election is still in front of us, but the stock market always looks forward – as far forward as conditions permit. We're now just seven months away from election day in the U.S. Vegas bookies have Trump as the -110 odds-on favourite to win a second term as of this writing. The market has indeed come alive, advancing in lockstep with each Trump victory in the Republican primaries, right up to his official confirmation as the Republican candidate.

There's more to this, however. Leadership in the stock market has moved from a narrow, Artificial Intelligence Technology-dominated condition to a more broad based and domestically oriented market. More so than before, stocks that do their business inside the borders of the U.S.A. are moving. Unlike, for example, Apple which produces iPhones in China, the companies driving our returns produce and sell largely in the North American market. Why are they moving?

If you look at Trump's economic policies during his first term, which he has reiterated in his 2024 campaign so far, they focused on leveling unfair trade deals and rearranging tariffs & incentives to favour U.S. firms. The goal is to put U.S. interests first and bring production, capital, and jobs stateside. In our analysis, that's what is behind the sudden and decisive change in character of the stock market since November. This is now a more organically functioning market. It is much easier to profit from compared to what were, in our opinion, the sick and heavily manipulated conditions of the last couple of years when the U.S. Federal Reserve was working double time to avoid disaster.

We're going to be glued to our screens between now and November 5th.

So, We're Out of the Woods?

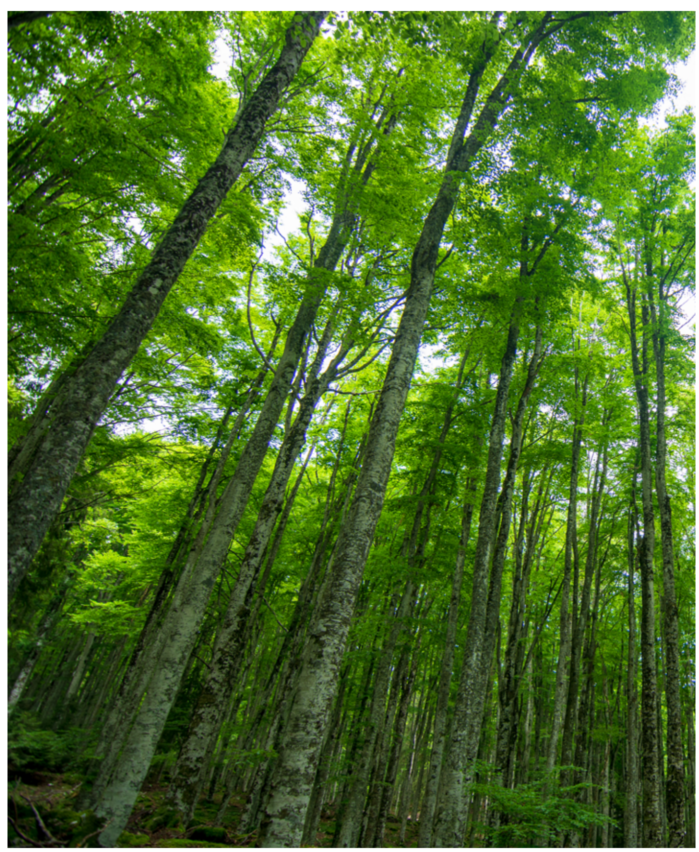
To put it briefly, not by a long shot. When the market looks ahead, it builds expectations either good or bad. When those expectations are not met, things change muy rapido. If indeed we are correct in our analysis that expectations of a return to 2017-2020 conditions are driving markets, then the risk is that this fails to materialize. While it is only seven months to election day, we expect it to be fraught with political instability. The forces working to prevent Trump from even making it to election day are formidable. Anything can happen. If the current market trend continues, expectations only grow and with them the risk of disappiontment. It is for this reason that we remain – every single day – focussed on risk management. Making money is great but you have to preserve those gains. We win also by not losing. Witness 2022 when our model was flat while developed markets lost over 16%.

The Even Gooder News

Both our short-term and long-term performance is first quartile but we do not achieve this by being overly aggressive and risking our necks. The money management industry has not materially changed how it manages risk since the 2008/2009 sub-prime crash, and so most investors remain vulnerable. It's like living near the fault line in California. Most of the time, things are great but every once in a while it gets bumpy. You need to be out of state before the shaking starts.

Unlike the vast majority of our peers, post-2008 we adopted a set of tools that focus on side-stepping these infrequent but significant events. We place true risk management front and centre. We do not simply buy and hold and hope for the best. It's been 15 years since that crash, the kind that cuts the stock market in half and takes years to recover. We are long overdue for another. As already mentioned, in our opinion, only increasingly forceful central bank interventions have prevented this from happening already.

To be clear, none of our indicators portend anything bad for the stock market. The next big crash may be years away but there will be a next one, it's only a matter of time. That is why sticking to our model is so important. However, and this message is especially imporant for our newer clients, big stock market crashes present opportunites. Far from being something that should keep you up at night, these events are game changers from which you can profit significantly - if you navigate them successfully. The approach we use in managing money is the only one we've studied that gives you a chance to do that. So while we enjoy this fantastic run of performance in our model, rest assured that we have one eye on the exits at all times. In our next letter we'll take you deeper into how we do what we do, and some of the amazing things we have in the pipeline.

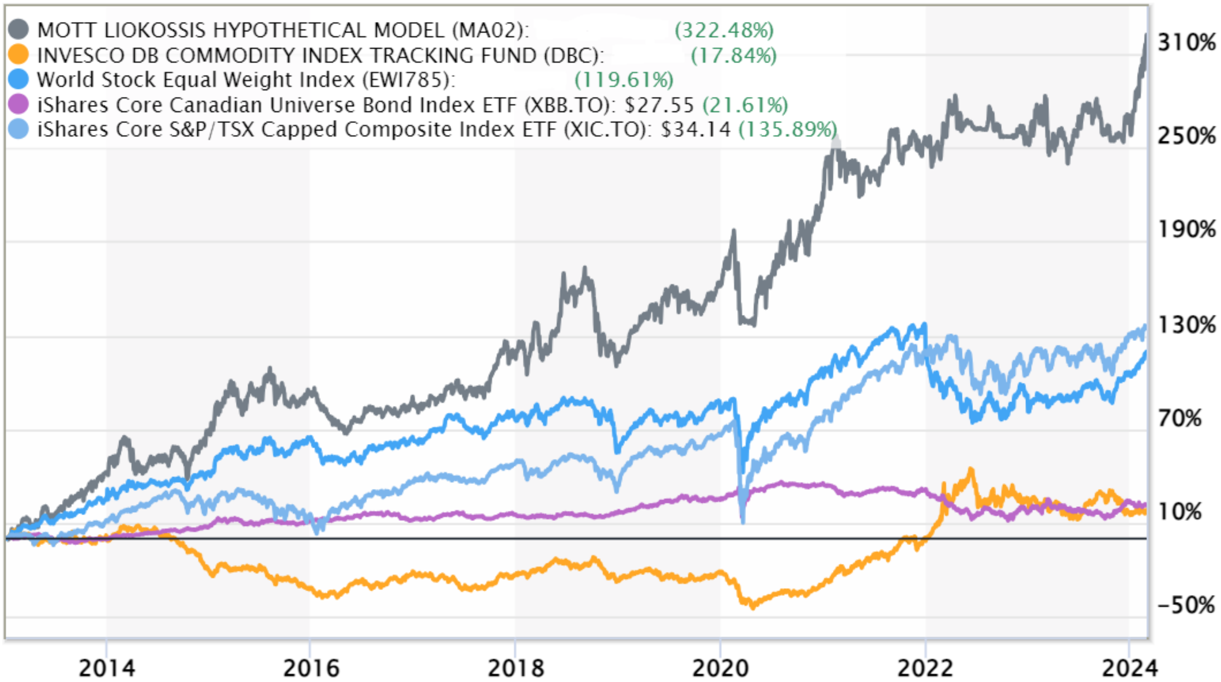


Mott Liokossis Hypothetical Equity Model – Holdings at Feb. 29, 2024

Weight	Equity Name	Symbol	Sector	Price	TTM Yield
5.46%	ABB LTD ADR	ABBNY	Manufacturing	$62.52	1.50%
5.23%	PULTEGROUP INC	PHM	Construction	$147.17	0.46%
5.60%	SAP SE ADS	SAP	Computer Software	$255.11	0.86%
6.34%	CRH PLC ADS	CRH	Construction	$114.48	2.07%
6.56%	NVIDIA CORP	NVDA	Electronics and Semiconductors	$1,075.06	0.01%
6.64%	BROADCOM INC	AVGO	Electronics and Semiconductors	$1,765.29	1.08%
5.44%	SERVICENOW INC	NOW	Computer Software	$1,047.40	0.00%
10.34%	BMO SIA FOCUSED CANADIAN EQUITY ETF	ZFC.TO	Canadian Equity	$41.72	0.52%
6.31%	UBER TECHNOLOGIES INC	UBER	Transportation	$107.95	0.00%
40.23%	SIA ML GLOBAL TACTICAL POOL CLASS I	SWI220	Global Equity	$28.15	0.00%
1.87%	CASH				

Mott Liokossis Hypothetical Equity Model – Percent Gain from Jan. 4, 2013 to Feb. 29, 2024

Growth Chart



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