WATERMARK PRIVATE PORTFOLIOS OCTOBER 2022 COMMENTARY

October bucked the trend of being a poor month as equities rebounded strongly since the market bottomed on October 13th when US CPI (inflation) surprised to the upside. Too many market participants had hedged equity holdings going into that CPI report, betting against stocks. When they took off the hedges after the report, stock indices exploded higher on the day, with the S&P500 rallying 5.5%. This is what happens when a large majority of market participants are positioned one way, and all try to exit through the trap door at the same time. The month ended with the S&P500 (in CAD) rallying 4.2%, while the TSX Composite increased 5.1%.

The bond market continues to act poorly, showing more volatility than equity markets and falling for another month. The Canadian Universe Bond Index fell 0.6% in October after being down 5.1% at one point, highlighting how volatile bonds have been. We continue to hold private debt and private real estate investments for the safety portion of your portfolios.

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Markets

Markets continue to focus on central banks and how they are dealing with inflation, with a big focus on economic reports such as CPI, employment, housing, and others:

1. When an economic report is announced that the market believes will be inflationary, central banks will remain aggressive in fighting inflation, resulting in bonds and stocks falling.

2. When an economic report is announced that the market believes will be deflationary, central banks will stop their battle with inflation, resulting in bonds and stocks rising.

Furthermore, market positioning and how market prices react to moving averages (the average closing price of a stock or index for the past number of days: ie. A 50-day moving average is the average price over the last 50 days) are causing large moves in markets:

1. We see markets react to moving averages and then flip the other way, trapping people who bought at inopportune times, which can then lead to panic on their part.

2. Computer-programmed traders are programmed to chase positions higher or lower, exacerbating these moves.

3. Inexperienced portfolio managers, sitting on their hands, trying to “ride” the market, HOPING, that the bottom may be in, resulting in less volume in markets than normal.

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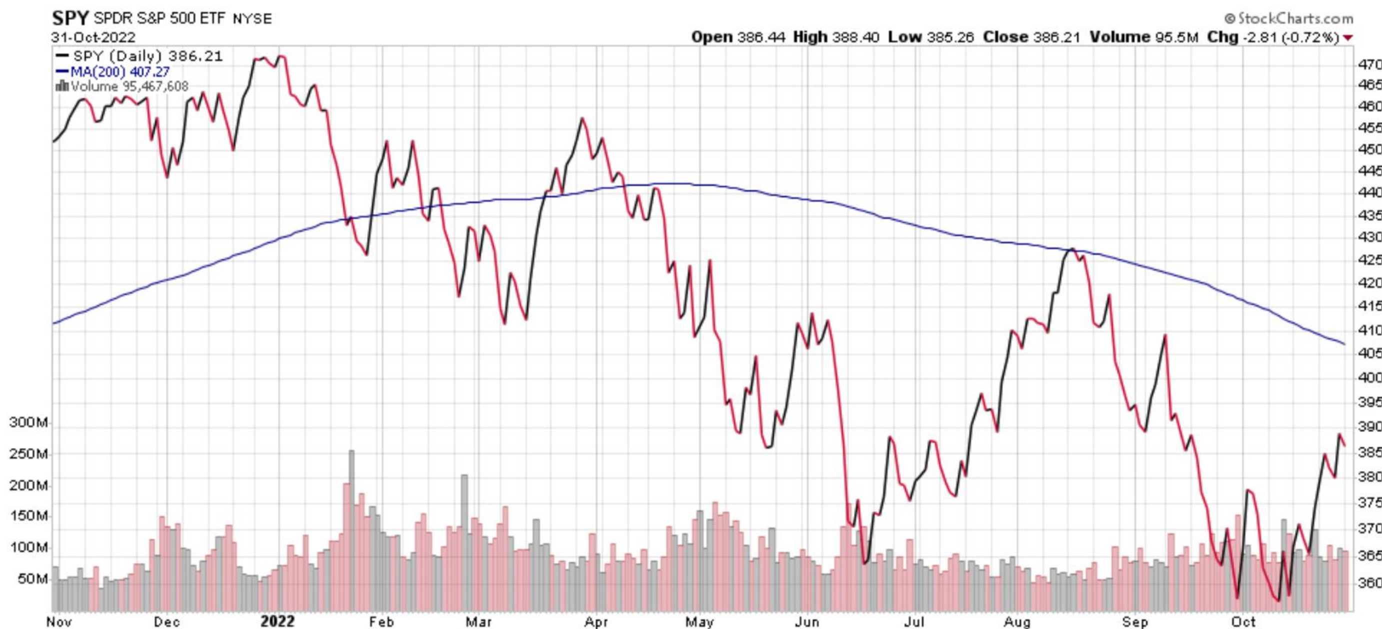
Currently, the S&P500 is trading between two key technical indicators, with one providing a “wall” for stocks, and the other providing “support” for stocks:

1. The 200-day moving average, a chart of the closing prices of the S&P500 over the past 200 days, is providing the “wall.” It is downward sloping and a place where participants are currently taking profits (see the blue line):



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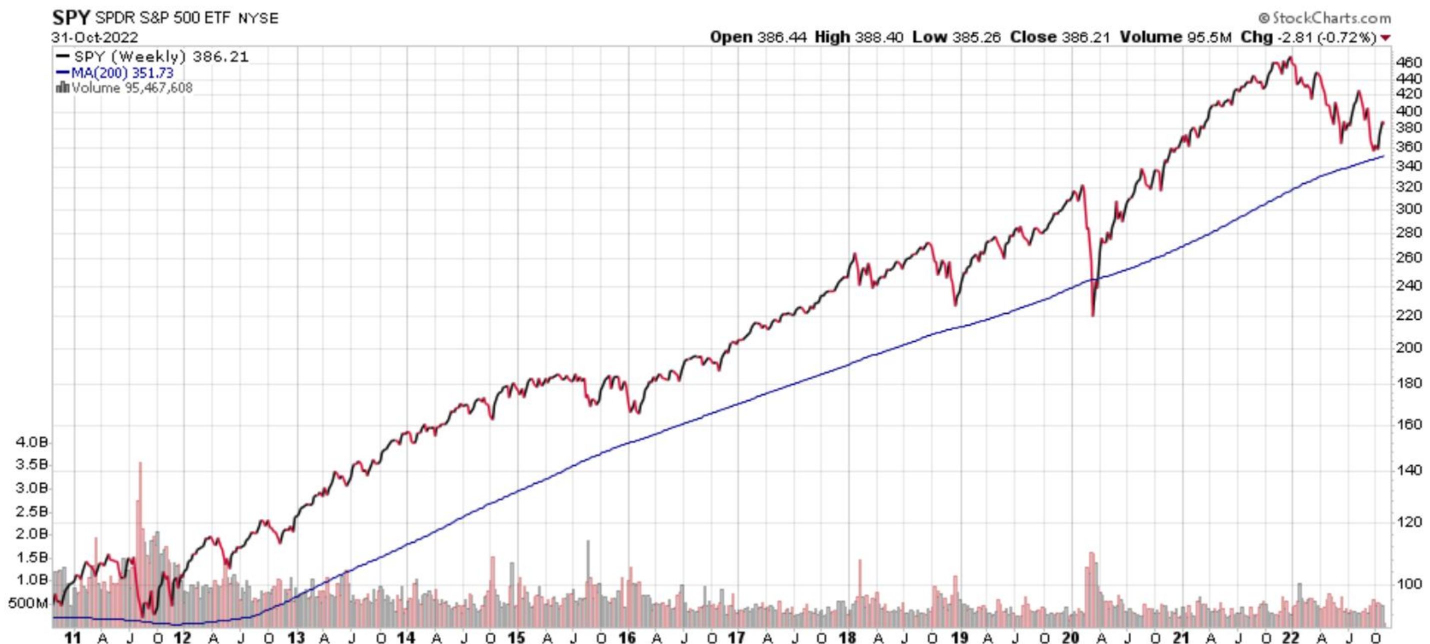
2. Whereas the 200-week moving average of the S&P500, a chart of the closing prices on Friday of the S&P500 over the past 200 weeks, is providing support, where buyers step in and aggressively buy stocks (again, the blue line):



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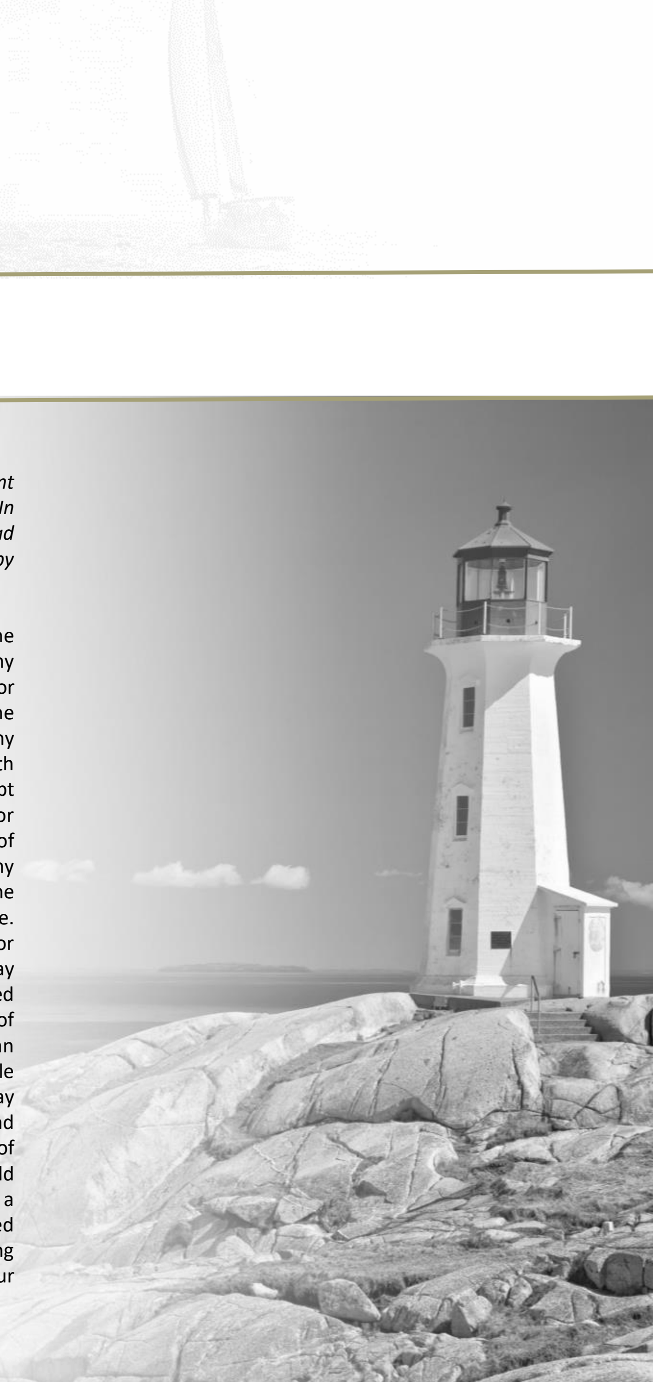
Until we see the S&P500 either move above the 200-day moving average and higher or below the 200-week moving average and lower, we'll remain flexible on our equity positions. For the most part, we'll stay away from owning the S&P500 as technology stocks still look overvalued on some metrics, and in a higher-rate environment, we prefer to own companies with lower valuations. This means that some companies can perform well in the environment that we are in, even though technology stocks, being a large weight in the S&P500, can take the S&P500 lower.

We reiterate our view that we are currently in a trading range; therefore, we must be flexible with equities, taking gains when we have them, and then keeping cash on hand while waiting patiently for better entry points. At some point soon, we should see a pause from central banks, and we'll be able to invest for the longer run. However, we feel that rate hikes have not fully made their way through the economy yet, leaving us with another reason to take profits in the short run.

Your portfolios have held up well year-to-date, with losses on your portfolios substantially less than the S&P500 and the Canadian Bond market. Our cautious approach on the equity side is paying off, and we'll continue with that approach until central banks give us the all-clear.

DISCLAIMER



I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of Harbourfront Wealth Management. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by Harbourfront Wealth Management Inc."

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