WHEW! THANKFULLY THAT IS OVER.

January 31, 2023

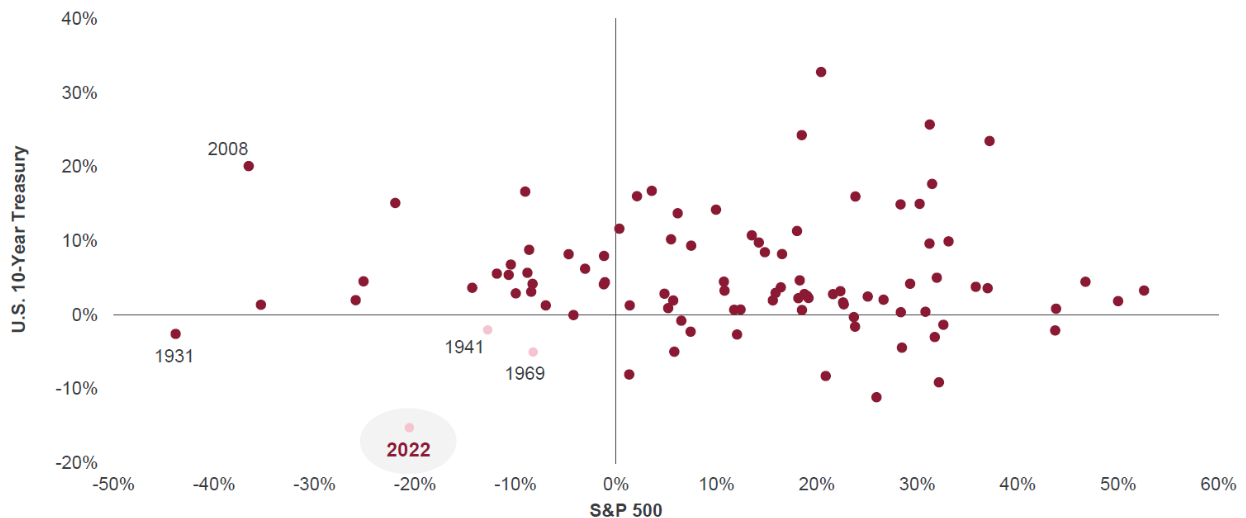
Whew! Thankfully that is over.

How many times could we have said that recently? These comments could easily have been made for any of the last 3 years but for broadly different reasons. Covid 19 brought new realities in 2020 and 2021 and now as things appear to be getting back to the new normal, the financial markets brought 2022 down as well.

I also could have been speaking about the holiday season that brought havoc to anyone silly enough to want to travel to visit family on Dec 23rd or Dec 24th in much of the US Midwest or Eastern Canada.

In 2022, it seemed that there was no where to hide. It has been a rare event where bond and equity markets drop at the same time. In normal selloffs, gains in bond prices help to offset drops in the stock markets and reducing the impact on retail investors.

Annual returns to equity and bonds since 1928



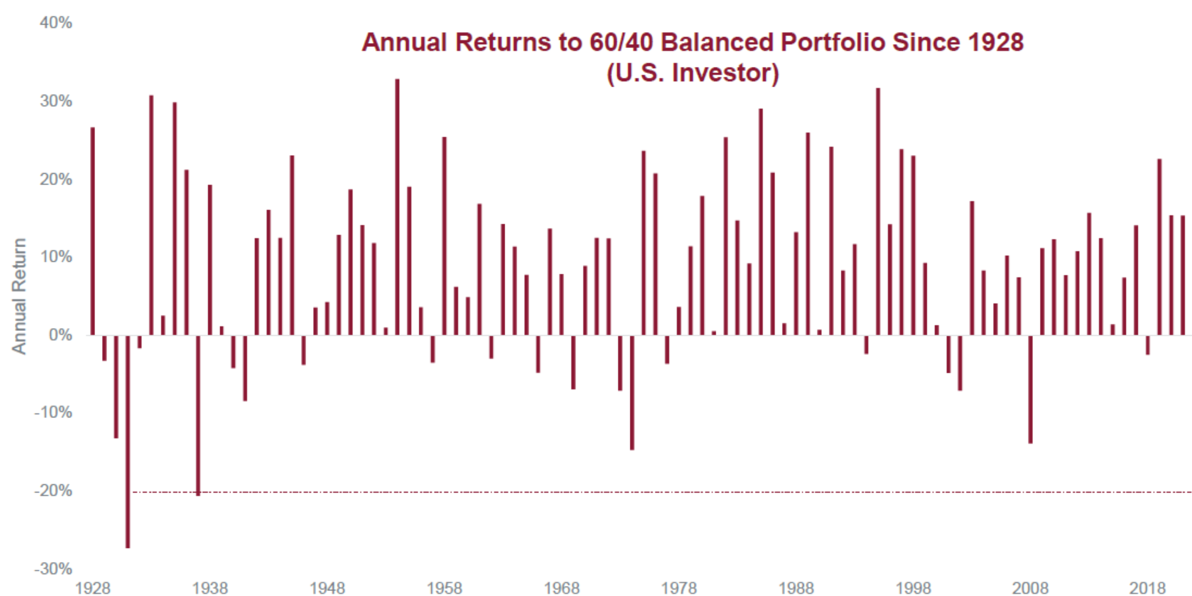
The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html. Annual data. Sample: 1928 – 2021. Data accessed as at November 5,2022. Balanced portfolio defined as 60% equity (S&P 500) & 40% fixed income (10-year U.S. Treasuries).

The above chart shows that since 1928 there have only been 4 times in history when both the bond market and the equity market have sold off at the same time for an entire calendar year. The others were 1931 with the start of the great depression, 1941 and the start of the second world war and the1969 bear market.

In 2022, everything travelled down the same snowy road together. The broader US markets dropped by 19.44%, the tech heavy Nasdaq 100 lost 33.47% and even the sleepy old Canadian bond market dropped by 11.69%. Ouch!

The bright spot that helped the Canadian market "outperform" the other indexes and "only" lose 8.7% was the energy sector.

To put 2022 in perspective, last year was one of the top three worst years for balanced investors as the chart below shows.



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According to this data set, 2022 was a worse year for the 60/40 balanced portfolio than even 2008 where the dip in stocks was stronger but the value of bonds rose.

I wrote previously about the reasoning behind underweighting commodity mining and energy businesses in my previous post When Safety Hurts. This stance has helped us reduce the risk of the portfolio 2018, and 2020 but hurt us in 2022.

The TSX Energy sector was up 24.4% in 2022. Within the Energy sector, the Integrated Oil and Gas subsector was up 45% and the Oil and Gas Exploration subsector was up 47.80%. This is on the back of gains for the Energy sector of 41.8% in 2021. Safety hurts indeed!

S&P/TSX GICS Sectors	2022
Energy	24.4%
Consumer Staples	8.5%
Industrials	0.2%
Materials	-0.2%
Communications Services	-7.0%
Consumer Discretionary	-8.1%
Financials	-12.7%
Utilities	-14.0%
Real Estate	-24.3%
Information Technology	-52.2%
Health Care	-62.2%

The Canadian Focused Equity portfolio lost 11.9% in 2022, trailing our blended benchmark by 4.2%[1]. Much of the outperformance that we had over the benchmark in 2018 and 2019 has been given back due to our energy underexposure. The Canadian Focused Equity portfolio has gained 8.2% annually since inception vs 8.1% for the benchmark. .

Early in the year we raised cash to help cushion the drop in prices, and to have ready capital for later in the year. We did well selling early but obviously did not go far enough.

We added new positions in TD Bank, Nike, Canadian Pacific, CI Financial, Brookfield Asset Management, Definity, Restaurant Brands International, Lightspeed and Diversified Royalty.

We sold Granite REIT and Enghouse Systems Limited.

We made some mistakes in 2022. I had been looking for an opportunity to own Generac Holdings Inc. the rapidly growing maker of standby power generators. The price had fallen well off the highs and I added a position. The shares continued to fall and I bought more. The shares had dropped so much in the year that near the end of the year I sold out of the position as I felt that investors in the portfolio would be better off pocketing the tax loss. We anticipate re-entering the position early in 2023.

[1] There is some variance in the returns between clients. Some accounts had tax loss selling in 2021 and 2022 where the securities sold were not immediately replaced. Also, some clients choose not to participate fully in every position due to varying ESG preferences. The returns shown are the aggregate of all of he assets in the model.

We also were caught in some smaller capitalization positions when they seemed to be punished more than their larger peers.

As I write this, the portfolio is having a very strong January as the markets rebound.

There is no telling how long these current market conditions will last. One thing is certain though. Eventually sustainable competitive advantages and the higher margins they bring will once again build lasting value for investors.

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