CIBC PRIVATE WEALTH

“HOW WILL I KNOW”

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By Brahm Satov

Some may wonder, how they will know if a serious downturn is on the horizon. Many say once they see one, they will just sell, however, historically this has proven to be illusive. In other words, once the downturn starts, investors generally don’t sell, but instead wait and hope for markets to recover. I know it sounds simple to buy low and sell high, but believe it or not, for most they chase the latest frenzy and get caught up in the hoopla and end up buying high. Remember Bob Farrell’s Rule #5, “The public buys most at the top and least at the bottom.” Although I do think that markets for the most part are expensive, every cloud has a silver lining and in this case I believe it to be silver and gold. It is my opinion that the precious metals sector should benefit from looser monetary policy and is currently undervalued. I would like to thank, “Whitney” or Whitney Elizabeth Houston (August 9, 1963 – February 11, 2012), also known as the Voice, for the title, "How Will I Know".

Bob Farrell studied at the prestigious Columbia business school under Benjamin Graham (Warren Buffet's famous teacher and the author of the Intelligent Investor). Later Bob worked at Merrill Lynch as Chief Market Analyst. For the 16 of his last 17 years as CMA at Merrill Lynch, Institutional Investor voted Farrell as America's best analyst in forecasting equity market direction. Bob Farrell's Rules have become well known in the industry for their veracity. (Source: https://www.nasdaq.com/articles/wall-street-legend-bob-farrells-10-rules). I believe one of his rules are quite apropos in these equity markets, Rule #4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.

One big warning sign of a recession has been flashing since mid-2022. The yield on the 2-year U.S. Treasury note is above the yield on the 10-year Treasury, a phenomenon known as a yield curve inversion. Please keep in mind that an inverted yield curve has often been a harbinger of recessions in the past. I believe that since 1980, every inversion has ultimately led to a recession, albeit the recession may take longer than expected to arrive.

For those gold investors who have waited patiently, gold has finally has broken to new all-time highs. Meanwhile for most gold miners, and silver as well, they continue to trade nowhere near their long term highs. In my opinion, increasing debt levels, rising global uncertainty as well as lower rates in the not too distant future (as per Jerome Powell's latest testimony), should propel gold prices higher.

Gold Price

Source: Macrotrends

Although recessions are a normal part of the economic cycle as well as their often associated corrections, many do not include this possibility when investing. I continue to believe that portfolios should be adjusted as the probability of correction rises and valuations become less attractive. Although I would agree that bubbles can be stronger and take longer than anticipated. I was cautious before the Great Recession that saw many portfolios come under pressure and I am cautious today. In my opinion, if you are worried about your portfolio or asking yourself if you should become more defensive, perhaps you have already answered the question of, how will I know?

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

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