

MARKET UPDATE

Q3 | January 1 to September 30, 2020

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It's been a crazy year in the stock markets in 2020 with a lot of divergence among asset classes but also within the same asset class.

In the stock market, investors have favoured mega-cap technology stocks over the tried-and-true dividend payers. In the bond market, investors have shunned investment-grade bonds to chase after higher-yielding junk bonds. In the preferred share market, the banks and insurance companies have replaced some rate-reset preferred shares with a longer dated (60 years), riskier investment (lower credit rating) called Limited Recourse Capital Notes (LRCNs).

Inconsistent Equity Returns in 2020

It's been a tale of two different markets in 2020: Growth vs. Value.

This makes sense if you believe that only technology stocks will make money during the Covid19 lockdown. In the table below are some stock market returns:

Benchmark total returns (in CAD\$) for July to September (Q3) and Year-to-Date (YTD) Through September 30, 2020				
	JULY	AUGUST	SEPTEMBER	YTD RETURN
TSX Index	4.48%	3.53%	-2.84%	-3.09%
S&P 500 Index	3.83%	4.93%	-2.70%	8.28%
EuroStoxx 600 Index	2.21%	2.16%	-0.95%	-4.82%
MSCI Global Index	3.10%	4.31%	-2.05%	4.76%
Russell 2000 Index	2.51%	4.26%	-2.54%	-6.35%
ZCM Cdn. Mid Corporate Index	1.95%	0.03%	-0.14%	7.93%
ZLC Cdn. Long Corporate Index	2.28%	-2.53%	-0.86%	6.81%
ZPR Cdn. Laddered Pfd. Index	7.72%	5.84%	-1.66%	-2.95%
ZRR Cdn. Real Return Index	3.86%	0.28%	-1.04%	10.94%
VCLT US Long Corporate Index	3.44%	-6.57%	0.47%	10.67%
ZUP US Preferred Share Index	2.33%	0.08%	0.80%	5.35%

Data Courtesy of Bloomberg Finance L.P.

In the above table on the far right, the total return (with dividends re-invested and converted into Canadian dollars) of the S&P 500 Index is up 8.28% for all of 2020.

The reason is two-fold:

1. The Canadian dollar is down against the US dollar, making the return higher than in US dollars.
2. The mega-cap technology stocks that are in the S&P 500 Index make up more than 20% of its market capitalization (stock price times shares outstanding). Those indexes not dominated by mega-cap tech holdings (the TSX Index, the EuroStoxx 600 Index and the Russell 2000 Index) are in negative territory for the year.

If they want to keep up with the S&P 500 Index, fund managers have been forced to buy the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google).

According to Lu Wang of *Bloomberg*, “Only 27% of large-cap mutual funds beat their benchmarks in the third quarter, the poorest showing for any Q3 since Bank of America Corp. began tracking the data in 1991. While other factors contributed to the dismal performance, strategists including Savita Subramanian highlighted underexposure to Apple as a key culprit.”

In other words, if the portfolio didn't own 6% in Apple shares, it underperformed the S&P 500 Index. By doing so, these fund managers risked losing their bonuses, or worse, their jobs.

While we acknowledge that the drop in interest rates was an elixir to the markets (tech stocks do best when rates go down and vice versa when rates rise), there comes a point when these stocks

become ridiculously expensive and investors need to exhibit caution. Stocks are trading similar to the Tech Bubble in 1999-2000.

On December 27, 1999, Microsoft Corp. traded at a high of \$59.56 and subsequently dropped over the succeeding 10 years to a low of \$15.15 on March 9, 2009. Unlike other tech stocks, Microsoft had real revenues and earnings but still fell 75% from its peak. The stock didn't reach \$59 again until September 27, 2016, taking 17 years to return to breakeven (1999 to 2016). Most retirees or investors nearing retirement can't wait 17 years to earn a return on their money.

Cisco Systems fared even worse. After 20 years since its March 27, 2000 peak, it is still down 47%.

Is holding just mega-cap tech stocks in your portfolio the only refuge? For short-term traders, it may be so. But that comes with added risk.

Below is a chart courtesy of *Bloomberg LP*. The top graph shows the current Price-Earnings ratio of the S&P 500 Index (the white line). It is equal to the highs set in Year 2000 before the bubble burst on the tech rally.



The bottom graph on the prior page (the blue line) shows that, despite the rise in the S&P 500's valuation in 2020, underlying earnings have not moved in lockstep with the price. On the contrary, earnings are barely rising, an indication that corporate profits are not returning to normal as expected.

- Companies with a dividend yield greater than 2% (value).
- Firms with a dividend yield less than 2% (growth).

Will we get a similar outcome in 2021 to what happened in year 2000? Stay tuned.

We noted in our last Market Update of June 30th the reasons for the valuation concerns, so we won't belabor those points. What we did want to discuss was that, based on current levels, the next stock market move higher may come from the value stocks, not the technology issues.

For the rest of 2020 and the beginning of 2021, here are some investment choices:

- Continue to buy tech stocks at even higher valuations and incur added risk.
- Sit on cash and wait for another big correction – it is a recession, after all.
- Buy beaten-down value stocks.

The third option is what hedge funds have been doing in the past month – holding their tech stock positions but buying the higher yielding value names.

With a growth stock, the total return is only based on the stock price as most of them don't pay a dividend. The rotation into value names is based on the expectation for a higher "total" return – stock price appreciation **plus** dividend yield, which is why it's a compelling strategy.

A comparison of Value vs. Growth among TSX 60 stocks

To illustrate the disparity between growth and value, we divided the companies comprising the TSX 60 into two groups:

Our findings are noted in the table below:

TSX 60 Index – Performance through September 30, 2020 (Growth vs. Value)				
TYPE	TOTAL RETURN	DIVIDEND YIELD	PRICE-TO BOOK VALUE	PRICE-TO SALES
Growth	+13.5%	0.80%	10.03	6.36
Value	-14.9%	5.11%	1.74	1.94

Data Courtesy of Bloomberg

Through September 30, 2020, the total return (including price plus dividends) of the value stocks was **down** 14.9%, compared to the growth names, which were **up** 13.5%. The 28.4% disparity in returns is huge.

We also considered two valuation ratios (Price-to-Book Value and Price-to-Sales) to illustrate how out of whack are the valuations of growth stocks.

The Price to Book Value Ratio and its relevance

Book value per share is calculated as follows: (Total Assets - Total Liabilities) / Number of Shares Outstanding).

The Price to Book Value ratio (P/B) is a decades-old formula and is widely used by market analysts. Traditionally, any value under 1.0 is considered a good P/B for value investors, indicating a potentially undervalued stock.

The P/B ratio is useful because the book value of equity provides a relatively stable and intuitive metric that can be compared easily to the market price. The P/B ratio can also be used for firms with positive book values and negative earnings (such as resource companies) since negative earnings render price-to-earnings ratios useless, and there are fewer companies with negative book values than companies with negative earnings.

However, potential problems using the P/B ratio stem from the fact that any number of scenarios, such as recent acquisitions, recent write-offs, or share buybacks, can distort the book value figure in the equation.

The current price-to-book value of the TSX 60 growth stocks is a whopping 10 times, suggesting their stock prices have probably risen too far, too fast. The TSX Value stocks appear to be slightly undervalued as the dividend yield (5.11%) is higher than average, suggesting the stock prices may be too low.

The Price to Sales Ratio and its relevance

The price-to-sales (P/S) ratio compares a company's stock price to its revenues. The ratio shows how much investors are willing to pay per dollar of sales. Like all ratios, the P/S ratio is most relevant when used to compare companies in the same sector. A low ratio may indicate the stock is undervalued, while a ratio that is significantly above average may suggest overvaluation.

For example, Shopify Inc. has a P/S ratio of 59.70 times, suggesting expectations may be unreal. If the average P/S ratio of growth stocks is 6 times (Amazon's is 5.3 times), today's investor has huge expectations that Shopify can essentially double its revenues every two years. That's a stock priced for perfection and why we've taken profits on three occasions since our first purchase around the \$83 level.

On a price-to-sales basis, the TSX 60 Index growth stocks appear expensive. Their P/S ratio is 6.36 times, or 3.2 times higher than the TSX value names at 1.94 times.

In summary, we believe that if the market rises from here, it should be the value stocks that lead the way. If the market corrects, we believe the value stocks could hold their own but that growth stocks may get clobbered.

Bonds are up for the year but beginning to fall

As noted in the table on Page 1, bonds are up year-to-date, ranging from 5.35% for US preferred shares (in Canadian dollars) to 10.94% for the Canadian Real Return Bonds (long-dated, inflation-protected bonds).

With the reduction in interest rates earlier in the year, long bonds have had the best performance because they are the most sensitive to changes in rates. That's because longer-term bonds have more interest coupons remaining and a greater duration than near-term bonds.

Since the end of July, however, interest rates have begun to rise at the long end of the yield curve, causing prices to fall. The steepening of the US yield curve suggests the bond market is anticipating another round of US fiscal deficit spending and the onset of higher inflation.

If that occurs, bond prices may continue to fall, making it important that investors pay attention to price and yield.

This may put pressure on high-yield, junk bonds. The yield of those lower credit quality bonds fell remarkably in March with the onset of quantitative easing by the central banks.

Usually, junk bonds, rated BB-High or lower, should trade about 5% higher than their investment grade counterparts. However, the table below illustrates how silly the high yield market has gotten. This is a recent sample of bond offerings by a Canadian bond dealer.

It's worth noting that:

- These are cyclical businesses, which is why they don't garner an investment grade credit rating.
- Their balance sheets are heavily indebted, hence the junk rating.

Current Junk Bond Price and Yield examples

COMPANY	COUPON	MATURITY DATE	BOND PRICE	BOND YIELD	CREDIT RATING
Norbord Inc.	5.75%	Jul. 15, 2027	\$107.45 USD	2.97%	BB-High
Mattamy Homes	4.63%	Mar. 1, 2028	\$100.50 CAD	4.30%	BB-Low
Parkland Corp.	6.50%	Jan. 21, 2027	\$107.44 USD	3.98%	BB-Mid
Superior Plus	5.13%	Aug. 27, 2025	\$103.31 CAD	3.93%	BB-Low
GFL Environmental	5.13%	Dec. 15, 2026	\$105.91 USD	3.42%	BB-Low

Data Courtesy of Bloomberg L.P.

- The yields are only 1.00% to 1.50% higher than some bonds rated BBB-High and A-low. These yields should be much higher for the accepted risk.
- In March, during the stock market sell-off, and before central banks started buying junk debt, these bonds traded around par \$80-\$85, a 20% discount to where they trade now.

Investors should also note that the last time the Federal Reserve raised interest rates in 2018, it wasn't just the junk bonds that got hurt.

The S&P 500 Index fell 19% between October 1st and December 24th, while the FAANG stocks dropped 30%, illustrating that tech stocks are one and a half times more volatile. Tread carefully.

In their race to earn yield, investors have ignored the risk, lulled into a false sense of security that these are stable companies that can't lose.

ETFs AREN'T AS SAFE AS OWNING INDIVIDUAL STOCKS IN VOLATILE MARKETS

By Annie Bertrand, CIM

The Exchange Traded Fund (ETF) world has grown from 1 fund in 1993 to 7,000 funds trading globally in 2019. With so many options available, investors must do their homework if they want to effectively manage the risks of their portfolios.

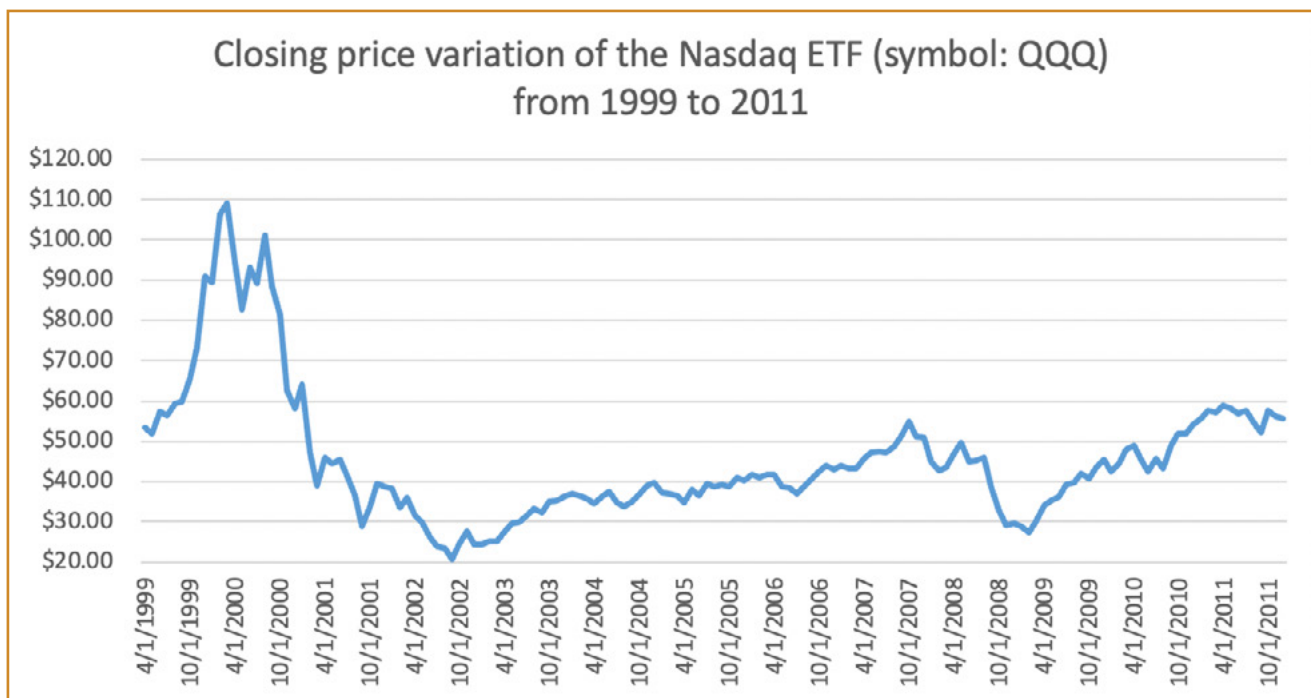
In 1998, I started investing in core markets like the S&P 500 Index. Since I had a long-term investment horizon, I decided in 1999 to add the Nasdaq ETF (symbol: QQQ) to my portfolio.

I put a portion of my equity allocation in this ETF because I believed that technology was the future. While I understood that the sector was volatile, I felt confident that by owning an ETF, I was managing the risk well. The chart below illustrates the mistake I made by purchasing this ETF at a hefty valuation at the top of the market.

My confidence remained intact until September of 2002 when my passive ETF was down 60%. I learned an important lesson watching my hard-earned savings disappear.

The concept of an ETF, which seeks to track an index (known as passive investing) has been tweaked in the intervening years. New criteria such as objective factor-based and fundamental analysis are used to select stocks to construct an ETF based on a personalized index. In that way, passive investing has become more active.

These new ETFs were designed to mitigate some risks. For example, some ETFs will use an equal weight criterion instead of holding stocks based on market capitalization. That's because some companies' market caps have grown faster than others. Here's



Data courtesy of Bloomberg LP

the effect of 2 ETFs that track the S&P 500 Index on performance. The SPY index is invested by market cap while the RSP index is invested by equal weights:

- For the year 2008, the SPDR S&P 500 ETF (SPY) had a return of -38% versus a return of -41 % for the Invesco S&P 500 Equal Weight ETF (RSP).
- For the year 2016, the SPDR S&P 500 ETF (SPY) had a return of +19% versus a return of +16% for the Invesco S&P 500 Equal Weight ETF (RSP).

Those results are not surprising. When you allocate an equal weight to all 500 companies, even the performance of the smallest companies will influence multiple factors like the percentage weight in different industry sectors, which in turn will influence the volatility and the performance of the ETF.

Because specialty and sector ETFs have exploded in the last few years, the temptation for investors

is to add them to their portfolio without fully understanding the additional risks they are taking.

For example, when you select a specific country, you need to understand the political risks, the development of that country's economy and the volatility of its currency. Also, many of those niche ETFs are smaller, which exposes investors to liquidity risk. Finally, these ETFs usually have a higher Management Expense Ratio (MER), which is a drag on long-term performance.

If you own a range of ETF products, think before you buy. Analyze the holdings to reduce the non-systematic risk. Diversify by industry, country, size of company and the weighting of an individual stock and you'll enhance the odds of making better returns.

LONG-TERM PORTFOLIO MANAGEMENT IS KEY FOR BOTH INVESTORS AND CORPORATIONS

By Thomas Zagrobelny, CFA and Audrey Leung

At times of economic growth, companies tend to have higher earnings and better liquidity, so even poorly managed companies can perform well.

However, during recessions, many companies, like individuals, struggle with cash management and must start making hard decisions. From a corporate standpoint, these decisions might involve cutting expenses like wages, factory upkeep, or even dividends paid to shareholders.

Capital cuts like skipping equipment maintenance or cancelling the construction of a new warehouse may save a lot of money in the short-term, but it can also hinder long-term growth.

Worse still, lowering dividends means less income for investors. At Liberty, we value long-sighted companies who work in the shareholders' interest. That is why we aim for well-managed companies with strong financials so that they do well during good times and are resistant during bad times.

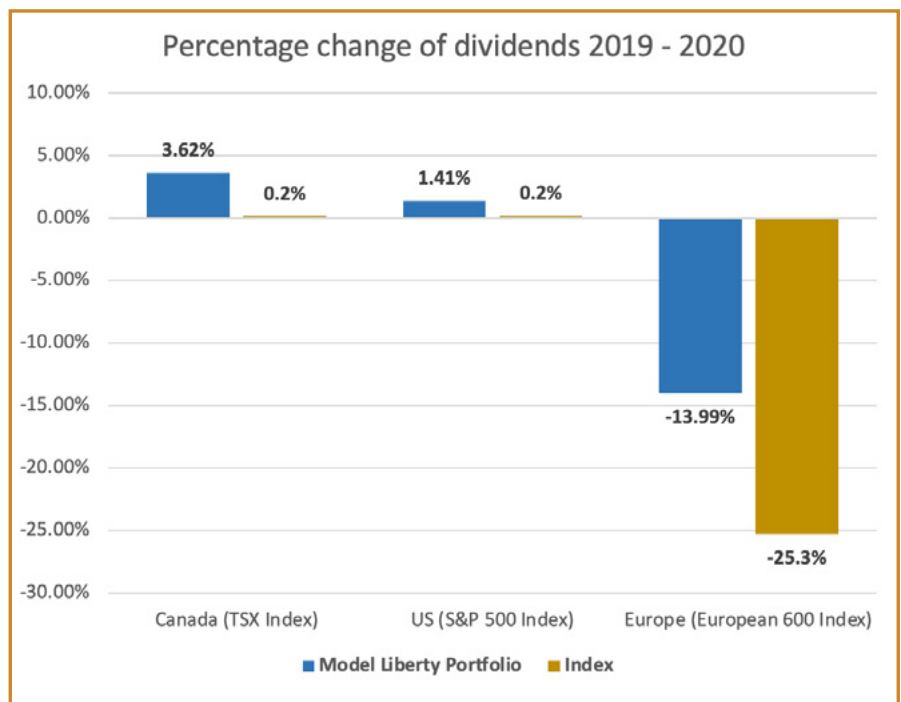
First, let's look at how companies are doing in terms of dividends.

In the chart to the right, the gold bars indicate the percentage change in dividends of the US, Canadian and European markets respectively. The blue bars represent a model Liberty portfolio of stocks from those countries. The model Liberty portfolio has outperformed in all three markets in terms of dividend change during the past year.

A main reason why some companies have higher dividend growth than others is free cash flow, one of Liberty's key metrics. Free cash flow is the cash left after a firm pays for operating costs, taxes, and capital expenditures.

With ample free cash flow, companies can pay down debt and distribute income to investors through dividends. High quality firms with great liquidity typically do not need to cut dividends because they have enough free cash flow even during recessions, whereas firms that have issues with free cash flow have to cut dividends to avoid running out of cash.

As mentioned above, apart from cutting dividends, some companies may also choose to cut capital during recessions. Before diving into it, we need to understand the difference between fixed and variable costs.



Fixed costs, as the name suggests, remain the same regardless of changes in production. It may include rent, insurance, and interest payments.

Variable costs, contrarily, fluctuate with production volume. Examples are direct labor salaries and materials costs, as you need to buy more materials and hire more staff to keep up with a higher volume. Variable costs, due to the flexibility, are usually the first place a firm turns to when cutting costs. However, some companies choose to cut fixed costs, with the possibility of hindering long-term performance.

Take Air Canada as an example. As the company struggles during the pandemic, it has lowered its fixed costs by retiring aircraft and dramatically reducing capacity.

At first glance, it has successfully reduced costs and immediately improved earnings. The consequence,

though, is that when the Covid19 pandemic eases, the economy starts to improve and the markets pick up, it might not be able to service the recovering volume. Thus, Air Canada could underperform competitors in the long run.

While it is essential to study financial statements, it is even more important to understand the decisions behind the numbers and how they affect long-term performance. Cutting costs may be great for the numbers, but cost planning and free cash flow management are the keys to surviving or even flourishing during recessions.

Investors should take note of this as it will eventually affect their dividend income and the potential price growth of the stocks they own.

FUN WITH MATH: THE OPTION TAIL WAGGING THE STOCK MARKET DOG

By Brett Girard CPA, CA, CFA

2020 has been a year of extremes. From February to March 23rd, the S&P 500 dropped by 31%. This was the fastest decline of more than 30% on record.

From the March 23rd bottom, on the back of significant fiscal stimulus (about \$4 trillion in the US and roughly \$386 billion in Canada), the S&P 500 steadily rose by 49% through the beginning of August.

Then, during the month of August, some strange behavior occurred, largely in the options market.

First, some context on options.

When you buy a stock, you acquire a claim to the future earnings of a business and, usually, a vote on the way the business should be run. A stock that trades at \$50 requires \$50 of cash to buy and grants you control over one share.

At certain times, investors want to leverage their investment so that with the same \$50, they can control or benefit from more than one share. This is done through trading options.

An option is different from a stock in that it's not something the company sells, rather it's a contract between two investors. The investor paying the premium believes the stock will go up (they are bullish on the stock) while the investor receiving the premium, or "writing the option" believes the stock will go down (they are bearish on the stock).

With an option, an investor can make a directional bet that the value of a stock will be worth a certain amount over a certain period of time.

For example, an investor may believe that a stock trading at \$50 today might be worth \$60 in three months. To express this view, the investor could purchase an option to buy the stock at \$60 in 90 days. This option might cost \$2, known as the "Premium Paid".

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Understanding
risk is just as
important as
earning returns.
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In 90 days, if the stock is worth more than \$62 (\$60 stock price, known as the “Strike Price”, plus the \$2 Premium), the investor would profit. If the stock was worth less than \$62, the investor would lose only their investment, the \$2 premium.

However, with \$50 cash and each option trading at \$2, an investor could elect to use the \$50 not to purchase one share but rather to purchase 25 options (\$50 investment divided by the \$2 premium) and control 25 shares – thus magnifying the potential profit.

Taking this a step further, if another investor was even more bullish on the company and thought the stock would trade at \$70 in 90 days, they could also purchase an option, but because the chances of reaching a stock price of \$70 are lower than \$60, they would demand to pay a lower premium, maybe only \$0.50 a share. This makes their leverage even higher.

The investor buying the option and paying the premium (the bull) has an unlimited upside, if the stock goes up 100x before expiration, they are entitled to the gains. If the stock price falls, all the bull investor loses is their premium.

The investor writing, or selling the option, has the opposite viewpoint. The most they can make on the transaction is the premium received but they can lose an unlimited amount if the stock price rockets up.

In August, there was an unusually high number of option contracts being written (mostly on the FAANG stocks) for very short periods of time (less than 60

days). In these contracts, the investors paying the premiums expected stock prices to go much higher in a very short period of time.

This caused those writing the options (recall these were the bearish investors thinking prices would drop) to get nervous and try to limit their losses. To offset these potential losses, these investors purchased the underlying shares. If the price did in fact skyrocket, the option writers would be along for the ride.

Having the bearish investors capitulate and buy shares threw off the normal supply and demand dynamic and caused the stock price to skyrocket.

This increase in prices fueled more bullish investors to buy more option contracts at higher prices which, in turn, caused more nervousness in the bearish group leading to more purchases of the stock, a vicious cycle if there ever was one. All said, the S&P 500 rose by 9.7% from August 1st to September 2nd.

Eventually, the momentum dried up and in the intervening three weeks, the S&P 500 fell by 9.7%, erasing all of the gains for August.

Options are a way to magnify your gains but can also lead to significant losses. As we saw in August, with sufficient volume, options trading can impact the market over the short term.

At Liberty, we do not trade in options as the risk, in our view, does not compensate us for the potential reward.

Why is the market rising when unemployment is so bad?

From a recent *Bloomberg* article, “The good news on the US labour market is that millions of the jobs that were lost in the spring were in fact temporary. The bad news is that we’ve had a faster-than-expected bounce back from the lockdown, extraordinary fiscal and monetary easing, and an unexpected housing boom -- and yet the rise in permanent unemployment is still happening at a faster pace than the runup to the Great Recession.”

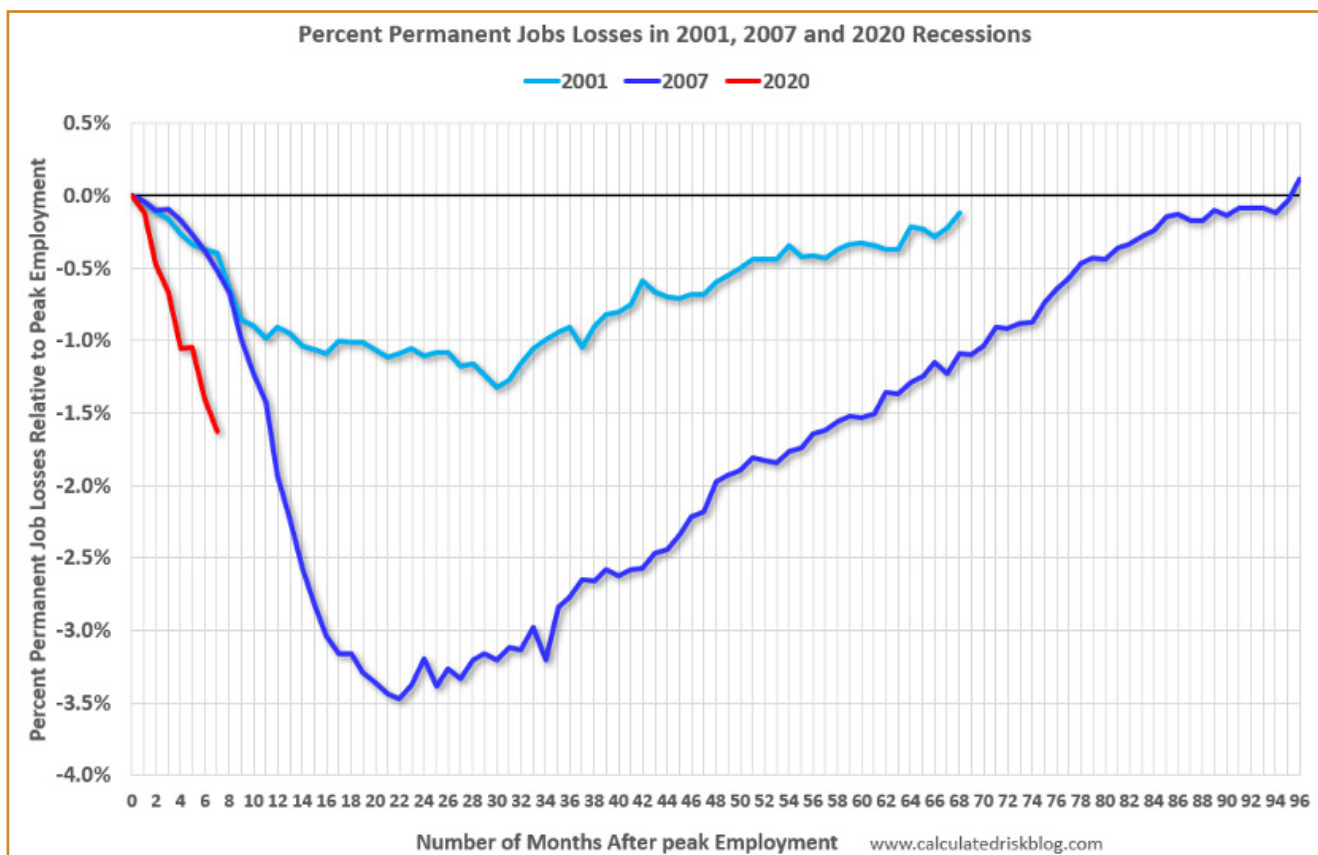
This chart from *Calculated Risk* blog shows that nicely. Cliff diving anyone?

In 2001 (the light blue line), it took about 30 months for job losses to level off. During the 2008 financial crisis and its recession (the dark blue line), the recovery was about 22 months away.

For the 2020 recession (the red line), we saw job losses drop because of furloughs but at a much steeper rate than the two previous recessions. What’s made it worse is that we’re just beginning to see the onset of white-collar job losses.

Companies like HSBC, Standard Chartered, Disney, Royal Dutch Shell and Accenture are eliminating thousands of jobs among their own ranks and will either cut them for good or replace them with technology. We anticipate that if the recession deepens, employees could lose their benefits and/or their jobs.

This is why we’ve always warned that the biggest corrections come near the end of the recession, not at the beginning. We still believe the stock market and the economy are not yet out of the woods.



Why are stocks like Femsa, Jardine Matheson and HDFC Bank down so much?

There are four big reasons why these stocks are down in 2020:

- They do business in emerging markets. Here are the stock market performances of their home markets relative to the company performances. Two of them have similar returns between the company and the home stock index.

Current Junk Bond Price and Yield examples				
COMPANY	STOCK INDEX	2020 COMPANY PERFORMANCE	2020 COUNTRY INDEX PERFORMANCE	COUNTRY CURRENCY PERFORMANCE VS. USD
Femsa	Mexico	-28%	-11%	-11%
Jardine Matheson	Singapore	-23%	-23%	-5%
HDFC Bank	India	-3%	-4%	-3%

Data Courtesy of Bloomberg L.P.

In the table above, only Femsa has a worse showing than its home market index. That's because two of their four businesses (convenience stores and gas stations) have struggled through the pandemic because of a shortage of consumer staples, coupled with a drop in demand as everyone is staying at home.

- The Covid19 pandemic has been more rampant and caused more deaths in these markets than in North America, especially in India (HDFC) and Brazil (Femsa).
- The US dollar has been strong against these emerging market currencies. The Mexican peso, Singapore dollar and Indonesian rupiah are

minor currencies and subject to more volatility than the more liquid major currencies such as the US dollar, the Euro, the Japanese Yen and the Swiss Franc.

- These companies aren't technology stocks.

Jardine owns hotels and commercial rental properties

where business has dried up. HDFC is a bank and currently suffers from higher loan-loss provisions and lower net interest margins because of lower rates.

We still own these companies because they are solid business franchises with investment grade-credit ratings, consistent long-term revenue growth, attractive dividend yields (2.4% for Femsa and 4.1% for Jardine) and they trade at lower-than-average valuations (Jardine trades at 13 times earnings; Femsa at 18 times).

If ever the US dollar declines because of lower interest rates and higher deficit spending, the emerging markets could turn around and perform better in the future than American stocks.

We continue to own the three companies noted above and expect to buy more shares of them.

What is your strategy to insulate our portfolio from an upcoming collapse of bond prices?

We aren't knee-jerk reactionaries. Like our equity investments, our bond portfolios are also diversified and are created to reduce as much risk as possible. If interest rates begin to rise, there'll be few changes. That's because:

- Bond interest will still be paid every 6 months and that money can be used by our clients to help pay for living expenses. If not, it will be re-invested into new bonds. In the latter case, overall income should eventually move higher.

- We have cash available to take advantage of falling bond prices and rising yields.
- Five per cent of client portfolios that own fixed income are invested in inflation protected securities.
- The majority of the bonds in the portfolio yield greater than 4% and they won't mature for many years.
- We've been buying higher quality debt which should hold its value better than junk bonds.
- We own preferred shares which are currently yielding about 7% on a pre-tax basis.

- We can buy more rate-reset preferred shares as opportunities arise. This class of preferred shares is currently yielding 10% to 12% on a pre-tax basis.

Rather than changing bond investment strategies, it's better to have a plan in place and own a little bit of everything. We may not shoot out the lights for our fixed income performance, but we'll also not incur big losses.

Avoiding big losses is the name of the game in the investment world as it keeps us in the game for the long run.

When do you sell a stock?

Our basic philosophy is to invest in companies that generate consistently growing free cash flows and hold them, in some cases, for decades. Novo-Nordisk is one example, a company some clients have owned since 1997.

That said, when do we sell a stock outright?

Here are some examples of a change in fortune that may cause us to sell a stock:

- Difficulties caused by their own hand or by no fault of their own.
- A change in ownership.
- A lack of succession planning by the Board of Directors and/or the executives.
- A change in future opportunities.
- Rising competition or technology that leads to a drop in market share or pricing power.
- Fraudulent activities.
- Accounting changes that may help short-term profits at the expense of long-term returns.

One example of an outright sale from all accounts in the spring was Atlantia shares, an infrastructure company that owns various toll roads and airports. Its stock was negatively impacted when a bridge collapsed in Genoa, Italy on August 14, 2018.

The reasons for selling were:

- The Italian government didn't want to negotiate further with the Benetton family (Atlantia's majority owners). Instead, they chose to nationalize the Autostrade per l'Italia, which Atlantia owned.
- Any settlement was going to weigh on future earnings as Atlantia would have fines to pay, it would see a reduction in tolls and incur higher capital expenditures to satiate the government.
- With a drop in earnings, Atlantia's debt ratings eroded.
- Covid19 slowed total transaction fees (tolls and airport revenues) in 2020 and it didn't appear it was going to improve in the future, especially at Atlantia-owned airports.

I made 35% on Moderna stock in just one week. At this rate, I could retire in a year! Why don't you trade like this?

After my 41 years in the industry, I've found that few things change in the market. Some investors may make a lot of money in a short period of time but it's unlikely they'll do well in the long run. That's because emotions often get in the way and override the most prudent of decisions.

During the tech bubble meltdown in 2000, 99% of day traders lost everything. Back then, brokerage analysts were supporting companies with no actual revenues or profits and investors followed their recommendations blindly. It continues to this day as brokerage firms try to keep the day-trader's adrenalin pumping.

Here's a recent headline: "Penn National Gaming lands a higher price target from Stifel on its view that the *Portnoy Momentum Trade* will continue."

Stifel wrote, "Although the valuation might appear stretched when evaluated against historical norms, we view PENN as a 'story' stock at this point, and **thus find valuation less important to our overall investment thesis.**"

In other words, Stifel analysts have eschewed valuations to keep the hype momentum going, encouraging unwitting investors to keep trading, which is where Stifel makes its money. In investing lingo, it's called, "*Priming the Pump*", or "*Putting Lipstick on the Pig*".

Momentum investing can last for a period of time, but, unfortunately, those who believe they can be right

all the time often let their egos get in the way and, ultimately, lead to their timely demise.

New technology companies are coming to market every day through Initial Public Offerings (IPOs) or Special Purpose Acquisition Companies (SPACs) and they're now the flavour-of-the-day.

According to Wikipedia, "A special purpose acquisition company (SPAC), sometimes called a blank-check company, is a shell company that has no operations but plans to go public with the intention of acquiring or merging with a company using the proceeds of the SPAC's Initial Public Offering. SPACs let retail investors invest in private equity type transactions, particularly leveraged buyouts."

A year ago, it was cannabis companies. The year before that, everyone wanted to get in on the cryptocurrency craze.

When investing in concept stocks, like the Penn National Gaming example, you have to buy 10 of them and hope that two make enough money to pay for the other 8 that go bankrupt.

And remember this: One doesn't become a billionaire by trading stocks. It's the people who create the ideas and bring companies to market, or the SPACs earning big fees for doing so, who become billionaires. Mark Cuban, owner of the Dallas Mavericks, is one example.

If you have any questions, let us know.

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