OUR FAMILY PERSPECTIVES

INSIGHTS FROM CANADA'S LEADING FAMILY OFFICE

THE OTHER MARCH MADNESSES

April 28, 2023

In writing this first quarter report, I'm spending extra time thinking about the world we live in.

March Madness normally refers to the men's NCAA Basketball Tournament. There are four brackets and if you win your game, you move on to the next round. There are 64 teams, 16 in each bracket and they are seeded. As the tournament progresses the teams play down to the Sweet 16, the Elite Eight (quarterfinals) and the Final Four (semifinals). For the first time, since 1979 when they begin seeding, not one first seed in four different brackets made it to the Elite Eight. You could make the argument that this could've been a one in 100-year event.

The other March Madness, of course, was that 3 banks failed, and had to be bailed out. So much has been written about this that I will not spend real estate on this page re-examining why they failed or why they were rescued, however, the implications, in our opinion, have yet to be completely felt. There might be other shoes to drop. It is expected that lending standards will tighten as banks get more conservative in the wake of March's banking issues, which will be a headwind for economic growth. Who would have predicted that in the same month, all four first seeds would have lost before the quarterfinals and three banks would have failed.

Another madness which is bothering me a lot is the proliferation of sports betting. Almost every commercial on TV when watching sports involves the new, exciting, gratifying and serotonin and dopamine creating commercials for online gambling. Most of you understand that betting is a losers' game.

For those readers old enough to remember, in the 1950s when television was in its infancy, some of the most prominent commercials on TV were cigarette brands, promoting a socially appealing and glamorous lifestyle. The idea of promoting something that is not positive for your health, or your bank account and has proven to be habit forming and addictive is something that I think long and hard about. The comparison to sports betting today troubles me immensely, as it's mostly young people who are doing it, and perhaps cannot afford to lose, just like most lottery ticket buyers.

Why I am bringing this up in our Quarterly Investment Commentary is to give context to the fact that one of the longest bull markets in history started some 14 years ago, when the Great Financial Crisis ended, and the new bull market began. Most investors under 45 years of age have never experienced a bear market or recession, other than the brief period at the beginning of COVID that lasted a matter of months when the S&P 500 dropped 34% before a V shaped recovery of the market. And why shouldn't that happen again? Today's cohort of investors, due to what they have experienced in their investing lives, believes that anything you buy will go up and the bull market bias, recency bias, and confirmation bias exhibited by this crowd is extremely worrisome, whether they are invested in meme stocks or growth stocks.

Working from home during COVID exacerbated what I like to call the new casino. This generation now sees hundreds of commercials on TV when watching sports events underscoring that gambling is not only okay, but it's good for you, just like gambling in the stock market.

The market is holding up much better than most seasoned investors believe is sustainable. This skepticism is appropriate given the fastest, steepest, and largest increase in interest rates in recent history. The effects of this interest rate policy may not be felt for over a year. The ultra-low and declining interest rates in the past several decades are unlikely to continue in the next several years. The historic nature of these increases and the fact that the full impacts may not yet have been felt means one needs to be very cautious.

I was taught by my mentor, Sir John Templeton to buy when everyone sells and sell when everyone buys. Right now, we believe it's too early to fill your hat with equities and are waiting for an opportunity. As a reformed portfolio manager picking stocks for 35 of my 50 years, I'm seeing things now that I've never seen before. We are waiting for capitulation and right now we are nowhere near it.

When I think about surprises, it's hard for me to think of any positive surprises. I only think about what can go wrong. Perhaps that's why we've positioned our client portfolios to be weighted towards non-traditional investments and as a result they were up last year while traditional markets saw steep declines. We also made a tactical decision over two years ago that any income strategies must be very short duration or floating rate debt.

I am worrying about all these new words in my vocabulary, that perhaps I didn't think about, or even know decades ago. Words like politicization, polarization, and de-dollarization. I believe that geopolitical and global macro events will continue to be the most important influence on our asset allocation decisions.

Another worry that I have is that the government's debt keeps increasing to new highs on a regular basis. To paraphrase Oaktree Capital's Howard Marks, "It's too good to be true to think that you have a credit card and never have to pay the balance off."

We all know that there will be serious consequences down the line, and we like to think that there is light at the end of the tunnel, however, I hope it's not a train coming.

You would think after reading this that I am a worrier. I'm actually not. I just think about these things, so our clients don't have to.

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