Green Private Wealth of Harbourfront Wealth Management is a discretionary portfolio management group focused on helping investors achieve their goals through building wealth and managing their risks.

Month in Review - October 2022

October bucked the seasonal 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&P 500 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&P 500 (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.

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.

Currently, the S&P 500 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&P 500 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):

2. Whereas the 200-week moving average of the S&P 500, a chart of the closing prices on Friday of the S&P 500 over the past 200 weeks, is providing support, where buyers step in and aggressively buy stocks (again, the blue line):

Comments from Portfolio Manager Ian Goodman

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.

Springfield Equity Pool

The portfolio remains in short-term cash holdings, based on the relative strength analysis employed to manage this fund. The outlook for equites is substantially poorer than cash at the present time. This approach has helped dampen volatility and avoid the significant declines experienced by many of its peers in the Global Equity category.

Forsyth Private Real Estate Pool

This fund continued its steady performance this year posting a gain of 0.79% in August and bringing the one-year return to 12.77%.

According to Statistics Canada, there are currently 243,000 apartment-style homes under construction in Canada. While the number of rental units under construction continues to rise, it is likely less than half of this total apartment-style figure. With the stated immigration goal of the current federal government being 1.4 million people by 2025, it's clear that the shortage of housing supply in Canada will get worse before it gets better. The continuing accumulation of investor capital in multi-family apartments will be a major contributor to solving the housing crisis in Canada.

Your portfolios have held up well year-to-date, with any losses on your portfolios substantially less than the typical stock and bond portfolios that most Canadians invest in. Our cautious approach on the equity side is paying off, and we'll continue with that approach until volatility has reduced and equities are more attractive on a risk-reward basis.

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