RICHARDSON GMP

TOUCHSTONE DISCIPLINE

Richmond I Goodman Wealth Management

Market Commentary – A Tale of Two Markets

Year to date, the S&P/TSX Composite Index has done well, outpacing the US markets quite nicely. This, as we all know, is a departure from the previous few years which saw the oil and gold weighted Canadian markets lag badly. But now many of these laggards have taken the baton and are driving the index higher.

Is this sustainable?

For much of the past 3 years, commodity based sectors have languished under the weight of a poor pricing environment and the commensurate inability to generate earnings growth… and thus strong stock performance. In their place and what was "working" in the index were companies that were able to drive earnings and dividend growth – that were not reliant on the whims of global commodity prices. Companies like Alimentation Couche-Tard, Stantec, and Gildan Activewear stand out to us as prime examples of the former.

Because our investment process does not require us to invest in ALL sectors, we have been fortunate enough to vastly outperform the Canadian Indices by avoiding what wasn't working and concentrating on where strength resides. However, the strong start to the year by some of the golds and many of the oils has caused us to take notice. Why would sectors that have been so dismal lead the charge? More specifically, why are small companies in these sectors with poor fundamentals now the best performers?!

In digging deeper, we studied the best performers in the S&P/TSX since the start of the year:

We were struck by those in the top 50. We have been investing on behalf of our clients for over 20 years and it's been quite some time since we've seen the same situation. Apart from very few of these companies being household names, here are the common attributes for the top 50 stocks leading the index higher year-to-date:

- Smaller companies
- Huge variability in earnings
- Poor (or no) dividends
- Very expensive (high P/E)

The TouchStone is a symbol of a true and reliable test of value.

The only good investment plan is one you can stick with. Simple plans should work in all types of situations. You really don't want a plan that only works ***some*** *of the time. True peace-of-mind resides in knowing that it works – and that it endures.*

If you doubt this, just ask us about 2008.

We manage wealth differently. Our unique approach captures opportunities, while prudently employing "investment circuit breakers" to protect your hard-earned wealth.

Good, sound advice makes a difference.

Find out what you're missing: We invite you to subscribe to our newsletter and visit our blog, or contact us directly if you would like to learn more.

Douglas Goodman
Director, Wealth Management

Philip Richmond
Director, Wealth Management

(416) 941-6715

Richmond.Goodman@RichardsonGMP.com

Website / Newsletter

Blog

However, they do have one positive attribute in common:

- High *expected* earnings

Therein lies the rub. How could you have kept pace this year with the index unless you were willing to buy stocks you normally wouldn't consider?

The answer to that question is: only if you believe the projected earnings will pan out.

To that end, we have been increasing our weight to the oil sector in companies that exhibit earnings growth AND **enjoy household name status**. Companies like Suncor and Canadian Natural Resources have been added and we are actively analyzing others.

Bottom Line: It's too early to tell if the shift this year away from what previously led the markets is lasting or not. We will, in the meantime, focus only on companies where we can identify favourable risk/reward characteristics. These do not include many of the companies that have mysteriously rocketed higher.

The TouchStone is a symbol of a true and reliable test of value.

The only good investment plan is one you can stick with. Simple plans should work in all types of situations. You really don't want a plan that only works ***some*** *of the time. True peace-of-mind resides in knowing that it works – and that it endures.*

If you doubt this, just ask us about 2008.

We manage wealth differently. Our unique approach captures opportunities, while prudently employing "investment circuit breakers" to protect your hard-earned wealth.

Good, sound advice makes a difference.

Find out what you're missing: We invite you to subscribe to our newsletter and visit our blog, or contact us directly if you would like to learn more.

Douglas Goodman
Director, Wealth Management

Philip Richmond
Director, Wealth Management

(416) 941-6715

Richmond.Goodman@RichardsonGMP.com

Website / Newsletter

Blog