Market Outlook

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Sell in May and Go Away? Maybe Not...

There is an old investing adage, "Sell in May and go away." The saying means sell your investments before leaving for the summer vacation. The saying, originally "Sell in May and go away, and come back on St. Leger's Day," originates from old English, when the aristocracy would leave London for the countryside in the hot summer months before returning for a famous horse race, the St. Leger Stakes, that occurs in mid-September.

The Raymond James Private Client Solutions (PCS) team did some research on whether there is any merits to the adage by splitting the year into two halves: a "summer" half from May to October and a "winter" half being November to April. In looking at 30 years of data, "winter" outperformed "summer" by a significant margin (5.3% vs 1.0%) despite the "winter" half outperforming only 53% of the time.

Averages are just statistics, however. In looking at the TSX over the past few years, we can see that the summer months have been solid performers. In the same PCS research, a buy-and-hold portfolio that stayed invested all year outperformed a portfolio that remained invested only in the summer or winter halves.

Much like my experience over the last 25 years, the key to long-term performance is staying invested in a well-built portfolio, even when markets get uncomfortable, like they did in March 2020. For that reason, even if you go on vacation this year (we hope we can!!!), we will be staying invested to help you meet your long-term goals.

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Peak of Technology?

We believe there has been a huge shift in market trends as we move out of the coronavirus pandemic. After proving to be a lifesaver during last year's lockdowns, technology may have peaked, at least in the short term.

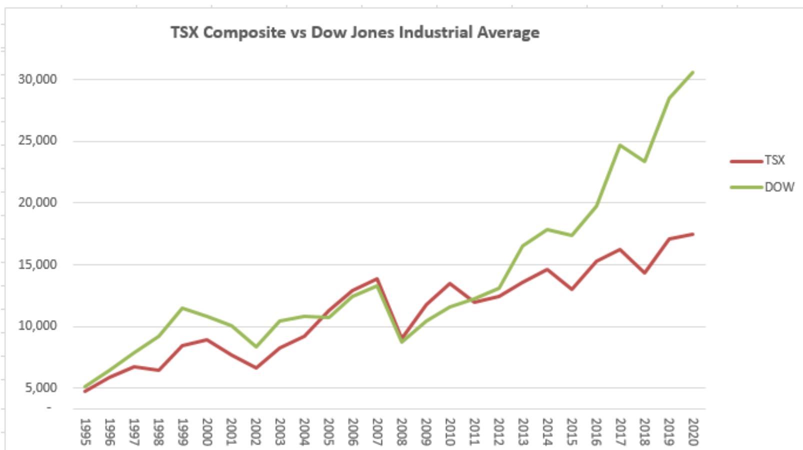
During the lockdowns, technology allowed us to continue functioning as a society. Zoom allowed us to work from home, Uber Eats and DoorDash delivered food from restaurants that never offered such service, and retailers had to beef up their e-commerce presence if they wanted to survive. Netflix kept us entertained and Amazon kept us stocked with toilet paper and hand sanitizer, amongst any other product we desired.

While large-cap technology companies will continue to be a driving force in our lives, the next leg of market leadership will likely not be in technology stocks. In the hybrid world to come, real assets are attractive.

Let's Get Real

With inflation emerging as a theme for the future, we are shifting our focus to companies and industries that deal with real physical assets ("asset-backed investments"). Since the Canadian economy has large exposure to commodities like oil and the mining sector, we are expecting the Canadian dollar to strengthen over the next couple of years as the Canadian equity market performs well. As a result, we have reduced our US dollar exposure down from 45% to 30%.

In addition, the Dow has seriously outperformed the TSX Composite over many years but we expect the TSX to start catching up. When I first started my career in 1996, the TSX and Dow Industrial Average were roughly at the same level, both around 5,000. Today, the Dow is about 35,000 while the TSX just recently closed above 20,000 for the first time ever.



Source: Bloomberg, SV Wealth.
Data points reflect last trading day for respective year, i.e. Dec 31.

Moves Made

We made several adjustments to our portfolios recently:

- XIU, an exchange-traded fund that mimics the Toronto market, continues to be our biggest position. We like the TSX's exposure to the financials and commodities sectors and believe financials will be a big beneficiary when interest rates start to normalize.
- Asset-backed investments, like real estate, are one of our favourite themes right now because the replacement cost for these assets has been going up as commodity prices spike.
- After over a year isolated in lockdowns, people will want to travel when allowed; we expect airliners to benefit.

We look forward to continue helping you meet your investment and life goals. Until next time, stay safe and all the best.