MONTHLY MARKET CHIT CHAT

October, 2023

Some of you know that I like birds… the enjoyment of bird watching is something that I've developed in the past few years since we moved to St. Jacobs. Well, last week, I was in Costa Rica and there are a lot of incredible birds down there! In fact, I spotted 60 different species of birds! And there were some really incredible ones, but I have to say that spotting a Toucan was definitely (VERY!) special! And quite remarkable!

Although it was the rainy season in September, I'll admit to you that the weather was spectacular! The sun rises at 5:30am with dawn pouring in the windows before that, often overcast days which I spent hiking through a number of different nature reserves and then often the rumble of afternoon thunder which perhaps culminated in some rain as the sun went on to set early at 5:30pm… early to bed, early to rise!

The News – Headlines

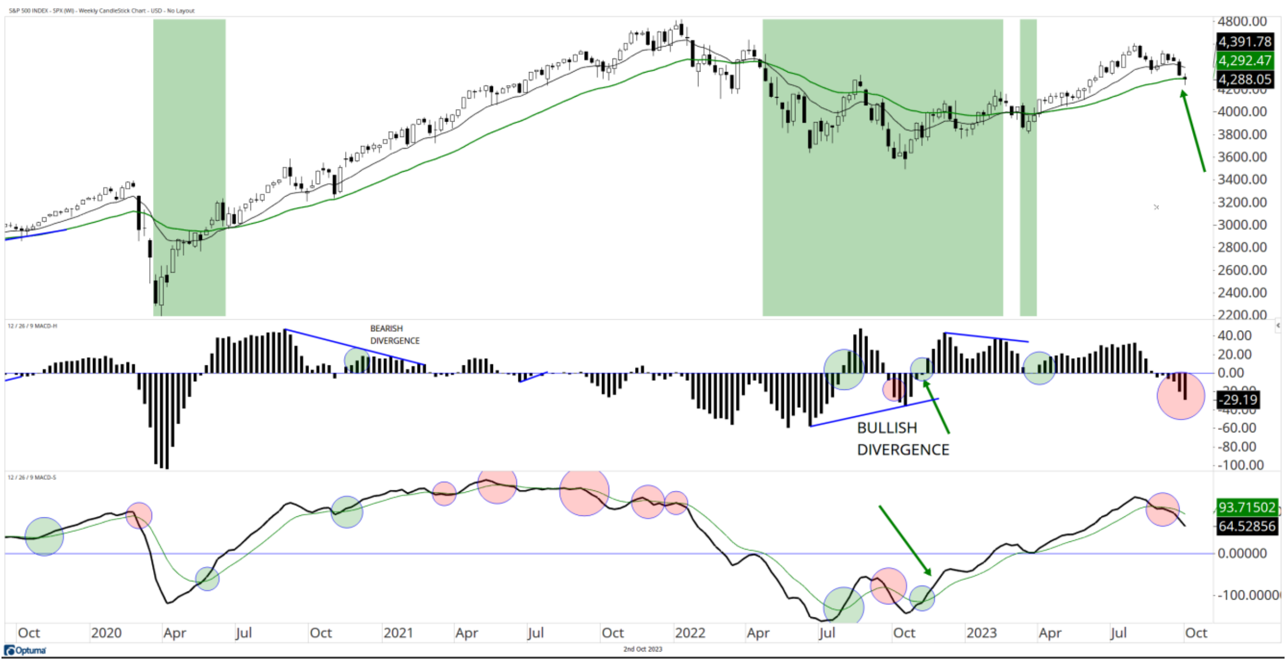
The Canadian government praises and calls a Ukrainian Nazi a war hero and a Canadian hero before realizing his background (afterward, they tried to stroke the entire reference from the transcripts and record, but the vote wasn't unanimous. So yes, it did happen). SEC continues to delay approval of Bitcoin ETFs. Ukraine has started to conscript women (ages 18-60) for their military effort. U.K. journalist arrested for "misinformation" after calling out and exposing Trudeau for applauding Nazi. Two video game (Fortnite) contest winners were denied prize money because they're Russian, even though they don't live and/or bank in Russia. Excess deaths continue to pile up in many OECD countries including: U.S., U.K., Canada and Australia, somehow avoiding further investigation.

The Bottom Line

This "Monthly Market Chit Chat" is getting an overhaul. Next month, it will look different. Perhaps even VERY different. The market itself is still falling after it's late July peak.

The Bigger Picture

We've seen the weekly S&P 500 MACD histogram turn negative (lower panel) while making lower lows as this correction that started at the end of July continues to develop. This during, on average, the seasonally weak time of the year for markets which has proven to be the case in 2023. We still have a bullish long-term picture with the 13-week average > 34-week average and the 65-week average rising, but the toll on investor sentiment and portfolios is obvious.



Source: Optuma
* as at September 29, 2023

Market Summary

	13-week Moving Average	34-week Moving Average	Price Above/(Below) 200-Day
S&P/TSX Composite (Canada Stocks)	FALLING	FALLING	BELOW
iShares DEX Bond (Cdn Bonds)	FALLING	FALLING	BELOW
S&P 500 (U.S. Stocks)	FALLING	FALLING	ABOVE
U.S. Long Bonds	FALLING	FALLING	BELOW
iShares Emerging Markets	FALLING	FALLING	BELOW
Commodities ($CRB)	RISING	RISING	ABOVE
Gold (U.S. dollar terms)	FALLING	FALLING	BELOW
Canadian $ (vs. U.S.$)	NEGATIVE	NEGATIVE	BELOW

Source: Optuma
* * as at September 29th, 2023

** changes from last month are noted in RED text

The Toronto market has been underperforming all year long and has now taken what appears to be a decisive turn for the worse as dividend stocks including utilities, banks and REITs get crushed further as the market decides to accelerate the adjustment for dividend paying stocks compared with the alternative “GIC” (guaranteed investment certificate) type rates that are available in Canada. As I’ve said before, this makes sense, high dividend yielding stocks tend to underperform in a rising rate environment and that is exactly what is happening.

Relatively Speaking

	8EMA/20EMA BULL/BEAR	What Does It Usually Mean? (BULLISH/BEARISH)
Offense vs. Defense	OFFENSE	BULLISH
Growth vs. Value	GROWTH	BULLISH
Nasdaq vs. S&P 500	NASDAQ	BULLISH
Discretionary vs. Staples	DISCRETIONARY	BULLISH
Stocks vs. Bonds	STOCKS	BULLISH

Source: Optuma
* * as at September 29th, 2023
** changes from last month are noted in RED text

But underneath, we're still seeing a growth-oriented bias, which is interesting. The Nasdaq has started to outperform again, bonds have offered no haven from the stock market weakness and value stocks (lots of dividends in there) are weak. All that seems like good news from the perspective of gauging the market from the bigger picture.

Commodities

The energy complex is the obvious standout, which some of course would question given the strength in the U.S. dollar, but it still seems to be the case. Crude oil is correcting in the context of what has been a strong uptrend from the lows of the high $60's/barrel to the recent high around $95 this fall.

Code	Name	1M %	13WK EMA Slope	34W EMA Slope	65W SLOPE
NG2Spot	Natural Gas	14.59%	True	False	False
CLSpot	Light, Sweet Crude Oil Futures	11.87%	True	True	True
SPGSIZ	S&P GSCI Zinc Index	9.84%	True	False	False
SDSpot	Sugar #16 Continuation	4.82%	True	True	True
TRJCRB	Thomson Reuters/Jefferies CRB Commodity Index	1.70%	True	True	True
C2Spot	Corn Futures	1.54%	False	False	False
PLD	Palladium Index	0.54%	False	False	False
SISpot	Silver Futures	-0.95%	False	False	False
W_FLSpot	Wheat (P) Continuation	-1.57%	False	False	False
HGSpot	High Grade Copper Future	-1.64%	False	False	False
DBA	Invesco DB Agriculture Fund	-1.79%	False	True	True
HG2Spot	Copper Futures	-1.81%	False	False	False
GCSpot	Gold Futures	-5.04%	False	False	False
S2Spot	Soybeans Futures	-7.74%	False	False	False
KCSpot	Coffee Continuous Futures	-8.63%	False	False	False
RB2Spot	RBOB Gasoline	-10.39%	False	False	False
LSSpot	Lumber Continuation	-17.96%	False	False	False

Source: Optuma
* * as at September 29th, 2023

Relative Strength Report

The cyber security stocks continue to hold up the best within technology, which means they've held and digested their 2023 gains most strongly (compared with other technology industry groups) and are closest to their highs. But solar, clean energy, bonds, utilities and dividends have offered lots of ugly price behaviour, but that's not new, it's been the case for most of 2023.

Bullish/Strong: Uranium, Oil, Energy stocks, U.S. dollar, Inverse small-caps, Cyber Security

Bearish/Weak: Wheat, Corn, Solar, Clean Energy, Gold stocks, Genomics, Utilities, Bonds, Airlines, Biotech

Our "Financially INsync" Universe

We recently updated our universe, which now includes 102 large-cap stocks. The "Financially INsync" universe is a quantitatively screened basket of large-cap securities that trade on the U.S. and/or Canadian markets. Stocks must have outperformed the S&P 500 on a 1, 2, 3, 4, 5, and 10-year time frame for inclusion and the universe is screened once each quarter. It is not a model portfolio, nor is it investable, but our team uses it to better understand a segment of the market that has provided strong market relative returns in an effort to have a market pulse on the risk-taking environment that we face as investors. I'm still trying to catch up since my return, and won't make any specific observations about the universe this month.

David's Contrarian Corner

Dividends! And no, I'm particularly interested because those that know me well, know that I believe that total return = dividend + capital gain(loss) is most important to investors, or at least it is to our clients. Collecting a dividend can sound great, but experiencing an offsetting (and even more significant) loss on the share price which can amount to many years' worth of dividend collection just isn't appealing when I approach and think about markets. Look at the following chart, which really is impressive if you see it for what it is. The magnitude of difference between the broader markets and the dividend paying ETFs is striking (and much more so in the U.S. example as you can see in the chart).

Source: Optuma
* * as at September 29th, 2023

My Hot List

Uranium stocks have been very hot amidst the recent correction, although have shown some selling pressure developing in recent days as I write this and October gets underway. In a weak market, and particularly during corrective conditions, it is important to see what stocks, sectors or groups are outperforming, but it's not admittedly reasonable to expect to be able to insulate broad weakness by holding a position or two from a strong group. That's of course why we need to diversify, but also a reminder that during challenging market conditions, most stocks fall and trying to express an overly aggressive stance isn't usually wise.

Chart(s) of the Month

Here's a view at the Canadian equal weighted utilities ETF ($ZUT:TSX) and you can see that ugly price behaviour as we now bear down on the COVID lows as the next low of importance. This basket of equal-weighted stocks (meaning the big stocks are not biasing the performance) is down -30.8% from the recent highs of last year.

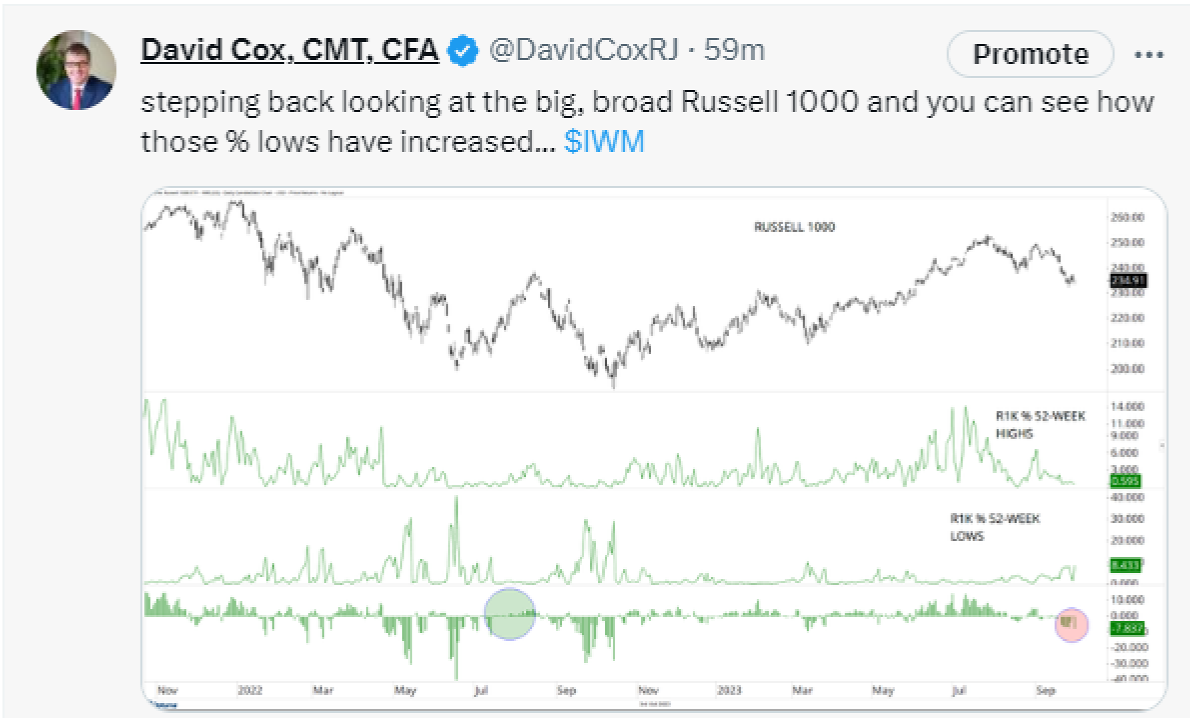
Source: Optuma
* * as at September 29th, 2023

Most stock markets have been weak lately and one exception (and no, I'm not counting the wild inflationary and smaller volatile countries like Argentina and Turkey) is Russia. The market has been doing well. It of course has a significant proportion of energy and its valuation remains rather attractive (that said, most western based investors can't easily invest there since the securities were banned/de-listed at the outside of the current conflict).

Source: Optuma
* * as at September 29th, 2023

Social Media Corner

I don't even know whether to tell you I'm still "tweeting" on Twitter or "x'ing" on X or whatever it's called. But yes, I still regularly post observations and if you haven't, and you dare to venture into deeper into the social media realm, please point yourself over to @DavidCoxRJ and give me a follow! Here's a couple of recent tweets:



David Cox, CMT, CFA @DavidCoxRJ · 3h
Promote

solar stocks $TAN trading at 2014 levels...

the stark reality is that if capital cannot be employed productively and returns by industry cannot be generated, the narrative won't be sufficient and subsidies won't be enough to help this take over conventional energy...

Upcoming Dates, Seminars, and Announcements

As mentioned, I'm going to take a new approach with this chit chat next month (after having written in for approximately 17 years (give or take a year or two) and try to put fewer to sleep while potentially increasing the interest of others.

In times like this as the big blue-chip stocks tumble and the headlines paint doom and gloom, it can (should!?) spark a desire to learn more about different ways to allocate and invest your hard-earned money. Yes, there are different investment strategies! I'd be happy to connect for a meeting and provide some perspective as we (all investors around the world!) embark on a new path with higher interest rates in the coming years. A new trend that will require a long adjustment period for many as old ways stop working and new ways aren't well enough understood. Let price guide us.

Your feedback, questions and/or comments are always welcome…

Sincerely,

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