Pearlstein's Corner

Wealth Management
Dominion Securities

Mark Pearlstein
Vice-President, Portolio Manager
& Wealth Advisor

416-733-5257 | mark.pearlstein@rbc.com | www.markpearlsteinwealthmanagement.com

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The Big Tech Stocks and Why Wall Street Isn't Main Street

To say we're living in interesting times is an obvious understatement. No matter where we look, confusion reigns. The real news is threaded through with fake news. What's true these days?

While the pandemic circles the globe and we isolate ourselves, most of us feel fine (aside from anxiety and restlessness). And yet millions are infected, hundreds of thousands have died.

In our daily lives, retail, hospitality and travel have been shut down. Governments that until recently were on cost-cutting missions, now seem to have millions, billions and trillions of dollars to bail out corporations and support the general population. No one dares ask how this will be accounted for in the future.

What will the new normal look like? Lots of crystal ball gazers, but really, no one knows. We've never been here before. Collectively, we'll have to figure it out as we go.

And to ratchet up confusion levels even further, despite everything, the stock market seems to buck the trend. Oh sure, there were precipitous drops, but they were quickly followed by rollercoaster gains. Overall the US market is down marginally, less than 4% at time of writing, but nothing like the disaster many had predicted.

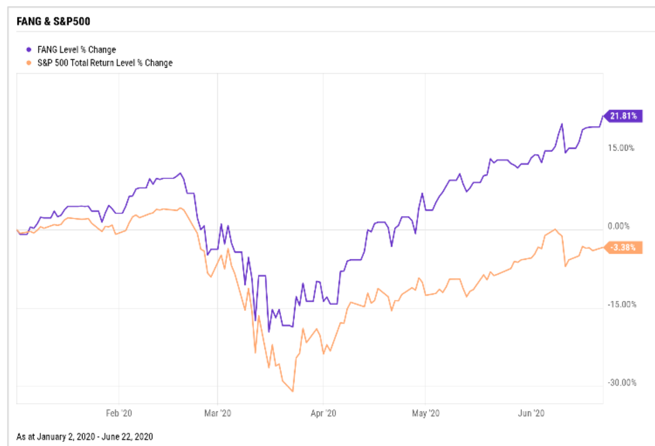
Why? Most analysts see the end of the pandemic and some are forecasting a return to previous highs in early 2021. In their minds, they've built in the bad news and are looking to the future.

So, now what?

It's Not "One Market"

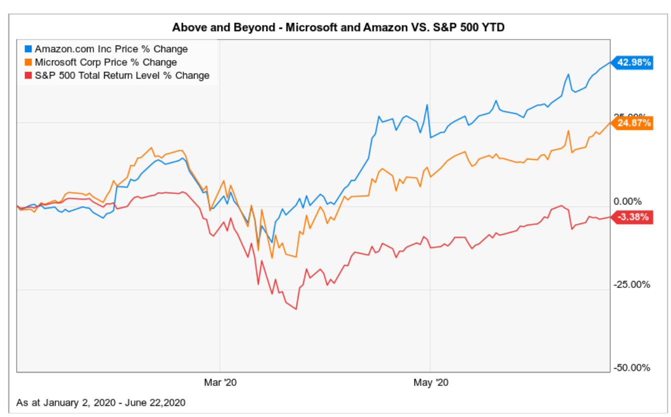
It is becoming more obvious that just a few sectors of the market are determining the overall direction of the indexes. Going by indexes alone tends to hide the division between the "Haves" and the "Have Nots".

Look at the S&P 500. In a basket of 500 shares of leading companies, five big tech stocks – Microsoft, Apple, Amazon, Alphabet/Google and Facebook account for 20% of the market, and those shares have been doing relatively well.



With people sheltering at home, they're spending more time on social media (looking at ads which is good for Alphabet and Facebook), ordering from Amazon and using Microsoft and Apple products and services.

Since the beginning of the year, Amazon is up 43%, and Microsoft 25%.



Those numbers from the Haves hide much of the wreckage in other sectors.

For example, the price of oil makes headlines. While workers in the energy sector – Main Street – are unemployed or feeling the impact of a severe decline, Wall Street carries on. The energy sector has dropped by over one-third this year in North America. Not good news, especially in Canada, where that weighting is over four times larger than its U.S. cousin. But it doesn't seem to have much impact on the broad stock-market index south of the border, because energy constitutes only 3% of that market. This makes the whole energy sector in the S&P 500 just a fraction of the five biggest tech stocks.

So, when you read about the S&P 500 in the headlines, it's important to dig down a bit and look at individual sectors.

It's a good time to review your portfolio to ensure you're not too overweight in one sector. I know how tempting it can be to load up on a winning sector like tech right now, but often this doesn't end well.

We need to remember that some sectors are more cyclical than others. Technology, for example, has bigger ups and downs than consumer staples. So, if you've had a good run in the tech sector, it may be time to trim some of those holdings and lock in your profit.

Time for a Portfolio Review?

If you're currently a client and would like a portfolio review, please get in touch at 416-733-5257 or email mark.pearlstein@rbc.com

If you're not yet a client, but would like to discuss your portfolio and your investment goals, please contact me and start a conversation.

This newsletter is also available in video format. Visit our website to see all our other media content:
https://ca.rbcwealthmanagement.com/pearlstein.group/videos

Team Update

After 70 years in the investment business, and with the same company no less, my father is officially retiring, just shy of his 93rd birthday. Amazing. We had planned a party, but obviously now is not the time. So, I will be sharing a little about my dad in a short video. You will find it in your inbox in mid-July.

Some of my clients have mentioned that they've found my newsletters very useful and have shared it with other family members, friends or colleagues. If you know someone who might benefit from this, pass it on!