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INSIGHTS & OBSERVATIONS

YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS **August 2024**

Welcome back. At the beginning of this year we observed that with about sixty elections slated for 2024, investors should expect drama and some surprises from the political arena. Recent events have already proven this comment to be a large understatement, with another five more months remaining to unfold. In the US race we seem to be at or near a moment where things either accelerate and worsen, or they pull back from the extreme partisan division which has delivered the present conditions. Hopefully the second route is chosen and a more responsible direction is found.

Parliamentary elections in Europe, while less extreme, have not favored the incumbents and reflect a continuation of displeasure from the middle class. Voters appear tired of the 'elites' telling them how to live while the economy stagnates due to years of poor political decisions. More recently higher interest rates and inflation – as always – have also hurt the parties in power. Overall we are keeping a closer eye on the political arena/circus as all investors need to do these days.

Back at home we've now seen a second quarter point reduction to interest rates and the guesses are for further cuts into the fall. The peak of rates now seems to have been this Spring and with inflation slowly declining, investors are happier and as a result have driven up stock prices. For us the higher quality dividend paying stocks we favor are rebounding as interest rates dip, and we expect these stocks to climb higher if and as rates are reduced again.

However, we are still finding very few buys and remain ready to pick up bargains on any market corrections in the next few months. Meanwhile we're enjoying the latest growth in our portfolios. However the recession possibilities still seem underappreciated as does the slow decline in real estate values, hence our current level of slight caution.

This month we've included articles which look at US real estate values, and in the second one we revisit the value versus growth investing approaches.

Later this month until after Labor Day, Yuki will be making another trip back to Japan to visit her family, leaving just Charlie and I here in the office. Hopefully it will be a quiet stretch!

Have a great month and take care.

Philip

August's Articles

That housing costs have been 'unaffordable' for years is certainly not news to anyone living in Vancouver. For well over a decade, we've heard the blame for high home prices shift among various factors as politicians continued to promise action. Most of their changes involved additional rules and taxes which made life more expensive and harder for homeowners, and generally offered very little benefit to potential buyers.

In the last few years this problem seems to be expanding as more countries and cities are facing greater demand for housing while additional supply remains scarce. Growing immigration, increasing affluence for some, and resistance to development have given many other regions a taste of what we've endured for years.

In the article linked below we have a look at this issue in the US, courtesy of economist **Brian Wesbury**, of First Trust Portfolios. Having read the output of scores of economists over the years, his research and ability to communicate it stand out from the crowd as you'll read.

The key issue highlighted by the article is the ongoing growth of bureaucracy especially in the Western world, which has reduced our productivity and efficiency in most areas of the economy. Record high home prices are just one symptom of this trend.

https://advisoranalyst.com/2024/07/30/want-affordable-housing-build-homes-cut-government.html/

WHAT THEY SAID

"The housing and financial crisis could not have occurred in the absence of government housing and monetary policies."

Sheldon Richman

As a kid I was a huge fan of the game Monopoly. We would all meet at my friend Greg's house, and our games could sometimes stretch out over three days. His mom would cover the board with a sheet at the end of each day and ensure it was untouched until we resumed play the next afternoon. We created a central bank to expand the supply of money, and allowed side deals and transactions among players at any time.

Having told this story to a number of people in the investment industry, I'm not surprised any longer when they often have similar tales involving an early love for the game. For many of us, it was our first experience with 'money' and investing, and for some of us this interest still obtains today.

In the article linked below we find a great example of this in author **Bill Gross**, now a private investor and originally a co-founder of US investment giant PIMCO. His background and former firm is in the bond market, but this article touches more on the two classic schools of stock investing, growth and value. As you'll know, we land in the more conservative value investing arena, and as you will read in the essay, Gross also prefers this style over the long term.

The timing of this article is interesting as growth (generally the big high-tech stocks) has beaten value investing in the US for several years, although very recently we've seen a shift in the trend. Lower interest rates definitely explain part of the rebound, but it may also be further assisted if Gross's idea is correct and we see a larger pullback in US tech stocks, the leaders of the past few years.

Either way it feels as if we just passed 'Go' and the game is shifting direction for the next turn.

https://williamhgross.com/value-versus-growth/