RBC Wealth Management
Dominion Securities

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The end of a good decade seems a plausible time to reminisce, something I quite like doing. It has now been over 40 years, 4 decades, that I've been investing other people's money. At university I started an investment club with a few hundred dollars from a few friends. That kept me amused through graduate school. Thank you friends, because of you I've been in the rat race ever since :). The track record of Cohort's Investment Club led to a job as a stock broker at a boutique firm called R. A Daly. I didn't have any wealthy clients back then so I sold my research on small Canadian manufacturers to independent investment counsellors, of which there were quite a few at the time.

In the early 1980s I moved to Dominion Securities. At that time I talked to clients about the three 6s; stocks traded at 6 times earnings, had a 6% dividend yield and traded at 0.6 times book value. Stocks had a lower valuation then than they did even in the depths of the Great Depression of the 1930s. Stocks, however, were not what investors wanted to buy. In the winter of 1980–81, people were lining up outside in the freezing cold to buy gold and silver bullion. Twenty year bonds yielded 14% but, one year Canada Savings Bonds yielding 19% were more popular. The first decade's lesson learned: beware popular investments.

Later that decade (October 1987) there was a spectacular stock market crash. The Dow Jones Industrials Average lost 20% in a day, Black Monday. The widespread assumption was that since the stock market had crashed (like it did in 1929) there must be a depression to follow. There wasn't. Instead, falling interest rates and low stock prices led to a boom of leveraged buyouts in the early 1990s. Many of my old favorite Canadian manufacturers disappeared into larger companies at that time.

Repeatedly in my quarterly letters in the late 1990s I warned that stocks had never been more expensive. On average they traded at record high Price/Earnings, Price/Book Value and Price to Sales ratios. Technology stocks (Internet version 1.0) were valued merely on the number of eyeballs that could be reached by potential advertisers. Most of these early Internet companies disappeared,

the hard way. They went bankrupt. When the technology laden NASDAQ Index peaked at 5,000 in early 2000, customers had zero interest in archaic concepts such as yield. I remember complaints about my purchase of bonds yielding a puny 7% in the late 1990s and, complaints about taxes that had to be paid on realized capital gains. Two years later, in 2002, the NASDAQ was down 80% and even the venerable Nortel, which in 2000 made up 1/3 of the TSX Indexes, was bankrupt. Second decade lessons learned: debts matter, profits matter.

The decade of the Noughties began with the technology stock bust. Soon there was talk of "peak oil", the idea that oil supplies were running out and that demand was rising inexorably. The price of oil hit $140 a barrel in 2008 and energy stocks became over a third of the Canadian stock index. In the U.S., novel ways of packaging loans led to a real estate bubble that ended with the financial crisis of 2008–2009, the bankruptcy of storied financial firms like Lehman Brothers and Bear Stearns and others. Third decade lesson learned: trends that can't go on for ever, don't.

The fantastic decade just ended sprung directly from the collapse that preceded it, much as the great year just ended arose from the mass panic that occurred at the end of 2018. The bull market of the last 10 years must be the most unloved bull market ever. There hasn't been anything like the frenzy that led people to line up to buy gold in 1980 or internet stocks in 1999. To be sure there have been enthusiasms, cannabis stocks for a time, bitcoin for a while, but not the overwhelming greed of earlier manias. Instead there has been a lot of TINA (There Is No Alternative) investing. Periodic sell offs in stocks have confronted the lack of available safe yields. Central banks have engineered ZIRP (Zero Interest Rate Policies) which seems to drive investors back to stocks after each sell off. Stocks then rally giving rise to FOMO (Fear Of Missing Out). Professional investors' career risk is an underappreciated factor in the stock market. Fourth decade's lesson learned: when fear is at its highest, opportunity is at its greatest.

In my experience, the most important causes of bull and bear stock markets are, firstly, the cost of money. Researchers at the Bank of England report that we now have the lowest interest rates in 5000 years.

Another factor that is hugely important in explaining economic and investment trends is demographics. The ageing of the populations in Japan, Europe the USA and now China, although thoroughly predictable, are having a persistent impact.

Finally, another variable that explains economies and by extension investments, is technological change. That is something that at university all those years ago I learned that Karl Marx would agree with. Today there are 5 billion smart phones in use around the world. I couldn't possibly think about all the ways that technology has changed our lives over the last decade.

When I think about the future I find it easy to be glum. War in the Middle East (something of a constant during my career) and especially climate change seem to be intractable problems. But at

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the beginning of my career the Dow Jones Industrial Average was at 800. Now it is at 28,500. Maybe that is all we need to know about timing the stock market. It is time in the market that matters, not timing. A final lesson learned: crashes do happen and we need to always be prepared, but in the long run it doesn't pay to be pessimistic.

Happy New Year. I wish you good health.

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