

## **BNN MARKET CALL**

**eResearch Corporation** is pleased to provide two excerpts from Monday's BNN Market Call Newsletters.

Set out below are the respective Market Outlook commentaries from two leading investment analysts, plus Links to their respective 45-minute video interviews.

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### **MARKET OUTLOOK**

Rick Stuchberry, Portfolio Manager at Wellington-Altus Private Wealth  
Focus: Canadian Large Caps and International ADRs

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We are more concerned about the bond market and the rising rate environment than the stock market's correction. We continue to view the bond market as weak, and see it as getting weaker over time. We think that any investments trying to copy the bond market will suffer, and any investment benefiting from the growth in rates will outperform. From the election of Donald Trump until now, yields have climbed from 1.40% to 2.80%: a doubling. We see rates continuing higher.

We don't see ourselves changing the investment layout of the portfolios. With a backdrop of rising interest rates, we will first focus on safety. The first approach is to ensure the balance sheet is clean and debt levels are low. If you owe nothing, rising rates will not impact you, so you can focus on other more important aspects of your portfolio.

The second approach is growth. Companies with bad balance sheets are stuck in defense over the next few years, so we are focusing on the good balance sheets and the offense. The best balance sheets in the market are in the tech sector and so are the best growth prospects. Many companies have revenue growth of over 20 per cent, which means they double in size every five years or less. The stocks may dance up or down but, with that backdrop, fundamentals are great for longer-term holdings. The next beneficiary is still financials: if you owe a lot of money, and money becomes more expensive, the bank will make more going forward.

When bonds sell off, bond proxies with high dividends struggle, as they are proxies for bond investments.

Here is the 10-year yield over a year versus the utilities index (yellow line):



Conversely, many assets are completely uncorrelated to bonds and don't struggle in this environment.

**VIDEO:** Rich Stuchberry 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

**TWITTER:** [@stuchberrygroup](#)

**WEBSITE:** [wellington-altus.ca](#)

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## MARKET OUTLOOK

Barry Schwartz, Chief Investment Officer at Baskin Wealth Management  
Focus: North American Large Caps

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In the two-year period from January 2016 to January 2018, the S&P 500 Index had only one month in which it dropped as much as 1 per cent. That is a remarkable and unprecedented record of stability. During that time span, the market rarely moved either up or down more than 1 per cent per day, and for the chart-watchers, never once dropped below its 200-day moving average price. This was not normal.

Investors have forgotten that “normal” is a correction every 18 months and three to five drops a year of 3 to 5 per cent. As Warren Buffett famously said, in the short term stock markets are voting machines, but in the long term, they are weighing machines. By this, he meant that reason and analysis always take a back-seat to rhetoric and headlines on a day-to-day basis, but that the daily noise becomes insignificant over time.

Major corporations have begun reporting their earnings for the first quarter of the year. That is when the weighing starts and when the signal becomes louder than the noise. We expect to see strong gains in both revenues and earnings in the most recent quarter, and we believe that this is the information from which we can best calculate the value of the stocks we own.

We expect a very solid year for corporate earnings, especially in the USA. Corporations are expected to be very generous with their share buy-back and dividend payout programs. We don't know what the markets will deliver this year, but we believe it is a great time to be a long term shareholder.

**VIDEO:** Barry Schwartz 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

**TWITTER:** [@barryschwartzbw](#)

**WEBSITE:** [baskinwealth.com](#)

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Bob Weir, CFA, Director of Research

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