BNN BLOOMBERG MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Friday's BNN Bloomberg Market Call Newsletter.

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

MARKET OUTLOOK

Mike Philbrick, President of ReSolve Asset Management
Focus: ETFs

We have recently seen a meaningful increase in exposure to safe assets, like bonds, while maintaining risk on assets, like stocks. This is diversification at its best.

This is due to the combination of the attenuation of the down-trend in bonds and the varying effectiveness of bonds to diversify the portfolio. That is to say, bonds look to be asserting a meaningful negative correlation to risk assets in the portfolio whilst establishing a more constructive positive trend.

Further, this is one of the core strengths of diversification. It is not about one or another asset class in isolation, but rather constructing a maximally diversified coherent portfolio based on more relevant observations of return, correlation, and volatility estimates.

We cover the core tenets of this in our piece Skis and Bikes: The Untold Story of Diversification. Here is an example of how diversification can work its magic.

Above, we have two uncorrelated assets with equal expected return, volatility, and Sharpe ratios. Note how much better the combo portfolio does.

Expanding on this, here, are five uncorrelated investments with equal expected return, volatility, and Sharpe ratios. Note how the portfolio of these investments achieves the same return with less volatility, a higher Sharpe ratio, and a lower maximum drawdown (only 8.70 per cent versus over 25 per cent for all of the individual investments).

That is the magic of non-correlation and diversification. Further, the journey counts: many investors are shaken out of investments during the periods of loss (drawdowns), thereby experiencing the risks of the investment/strategy, but not the returns.

VIDEO: Mike Philbrick 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

MARKET OUTLOOK

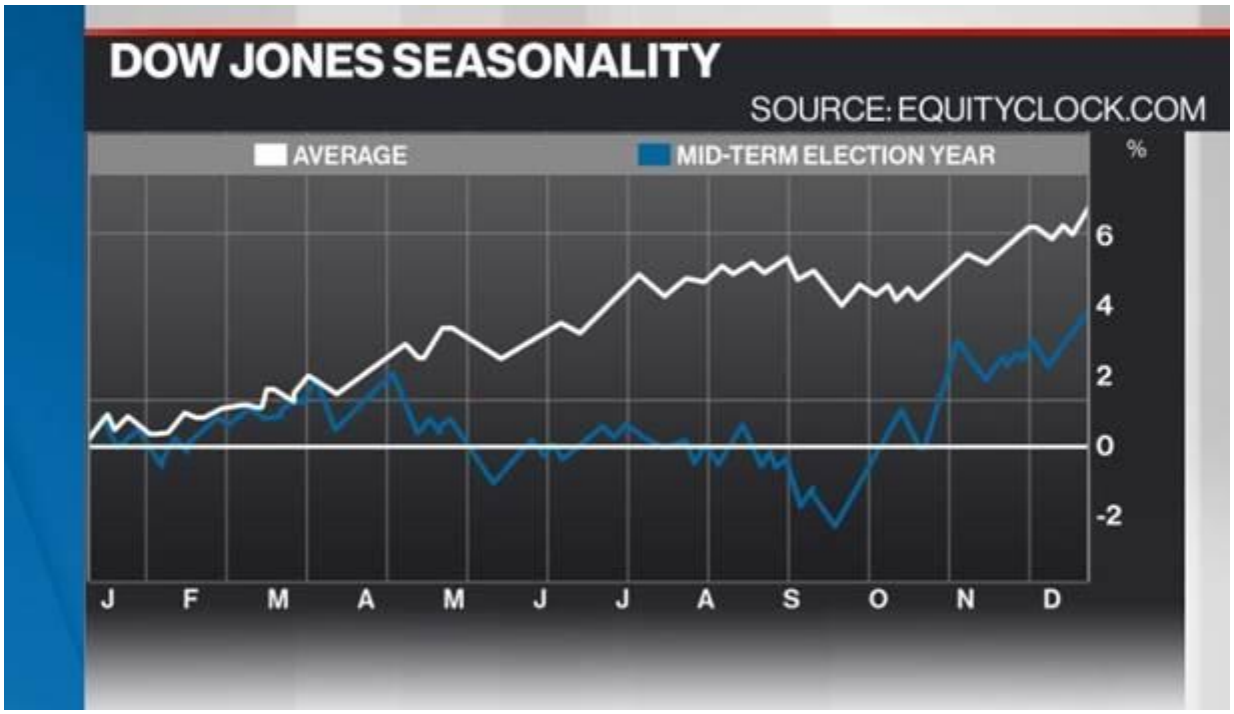
Jon Vialoux, Research Analyst at CastleMoore Inc.
Focus: Technical Analysis and Seasonal Investing

So much for "sell in May and go away." The total return of the S&P 500 Index is over 10 per cent since the start of May and volatility that is common for this time of year has been largely absent. This despite headwinds pertaining to tariffs, turmoil in Turkey, legal worries for the U.S. president, weaker-than-expected economic data, mid-term election uncertainty, and commodity market weakness. The equity market has stayed afloat as investors remain focused on the solid corporate fundamentals. The value proposition for stocks has improved since the last all-time high charted in January. According to FactSet, the 12-month forward P/E for the S&P 500 Index now sits at 16.6, around the five-year average at 16.2. The level is down from around 18.5 recorded at the height of the market in January. Expected earnings per share continues to trend higher, which supports a positive bias for stocks.

But before you think that we are in the clear for summer volatility, seasonal headwinds may grow in the final month of the third quarter. September has been the weakest month for equities, on average, over the past 50 years. The S&P 500 Index has shed an average of 0.6 per cent, with 44 per cent of Septembers showing a negative result. Losses tend to be dominated by the last two weeks of the month as investment managers reallocate portfolios ahead of the end of the quarter.

Between September 19 and the last day of the month on September 30, the S&P 500 Index has lost an average of 0.91 per cent with 31 of the past 50 (62 per cent) periods showing a decline. The period has typically been the ideal reset to reduce elevated equity prices, allowing investors to add to positions for the strength that is common through the fourth quarter.

Cyclical sectors tend to get sold off the most during the approximately two-week stretch, but this has historically created opportunities in the financial, industrial, consumer discretionary, and technology sectors.



On the economy, much of the data continues to show growth that is above average, fueled by the tax cuts that were implemented at the end of last year. However, one area is raising concerns: housing. The year-to-date change in the sales of homes in the U.S.A. is running below average through July and inventories are running well above average as the high price of housing keeps buyers to the sidelines. The inventory of existing single family homes is up by 32.6 per cent through July, double the average increase through this point in the year of 16.1 per cent. Prices are at risk of adjusting to a new equilibrium. Typically, weakness in the housing market has been a precursor to a recession, therefore the trends in the housing market warrant further monitoring.

VIDEO: Jon Vialoux 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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