# BNN BLOOMBERG MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Wednesday'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

**Kim Bolton, Portfolio Manager at Black Swan Dexteritas**
**Focus: Technology Stocks**

Your Black Swan Dexteritas (BSD) portfolio management team is very good at finding technology stocks that represent excellent value (which we sell as they approach price targets), but at this stage of the secular bull market, we also need to remain very vigilant of macro-economic developments and the price action of other asset classes, because these factors represent more than 50 per cent of the due diligence required for successful investing in the current environment.

The first half of October 2018 looked like a typical market "pull-back" (a decrease of less than 10 per cent in an index from its recent high), but in the second half of October, the Dow, S&P, Nasdaq, and Russell extended their losses to qualify for a market "correction" (a drop of 10 to 20 per cent in an index from its recent high).

If the stock markets were to extend their losses beyond 20 per cent, this would then qualify as a textbook "bear market." Bear markets do not happen often and they usually happen due to fundamental macro-economic problems: an economic recession, an asset bubble, aggressive interest rate hikes, and/or a spike in commodity prices. None of these specific reasons that have historically caused a "bear market" are available in today's macro-economic environment.

As we survey the tug-of-war between the steady factors (a strong global economic growth, benign inflation, robust earnings, consistent buybacks, and the low probability of recession) and the unsteady undertow (geopolitical concerns), we don't think the balance of risks is strong enough to topple the ongoing developed markets' expansion and the continued growth of corporate earnings it supports.

Market corrections do not last a long time, typically three months on average, and we tend to see a full recovery after another four months. This market correction started about a month ago: we likely have another two months to go. If history repeats itself, in Q1/19, we should be back to where we were before this correction started.

With this expected scenario, the following are your BSD team's strategy and tactics to handle future market volatility:

- Weather the storm with our stock portfolio of technology vendor and technology end-user leaders, while constantly adjusting our entry and price targets;
- Raise cash once those companies approach their respective price targets, and employ the proceeds into our "shopping list" of technology companies;
- Protect the stock portfolio with our proprietary hedging mode. It uses equity derivatives (various futures and options instruments) to minimize the portfolio's drawdowns, lessen the portfolio's volatility, and potentially generate alpha.

The bottom line: it is still a secular bull market in stocks led by technology as the engine of growth. It will continue until it ends, and no one knows when that will be. It will end when either the economy turns down and earnings decline, or when interest rates rise to a level where bond yields provide significant competition for stocks.

**VIDEO:** Kim Bolton 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

**WEBSITE:** **www.bsdmi.com**

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## MARKET OUTLOOK

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

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This month, markets around the globe suffered a nasty sell-off. After marching steadily higher throughout the summer and shrugging off worries about rising interest rates and a trade dispute with China, the stock market finally broke.

We can try and make up more reasons for the drop, but the truth is that sometimes markets fall after rising so fast. In fact, the S&P 500 index rose 7.7 per cent in the third quarter of this year. In hindsight, a pull-back from that fast upward move makes sense.

If you have stayed invested over the past 10 years, you have suffered through 23 drops of 5 per cent or more in the S&P 500 Index. Each drop was painful and tough to live through but, ultimately, the S&P 500 recovered all its losses and went higher for each one of those drops. Experience has taught us that the best course of action during market volatility is to stay invested. Once the volatility calms down, you may want to reassess to see if there are any changes that need to be made to your portfolios.

We believe that we are still in a bull market for stocks. But even in a bull market, no index and no portfolio can go straight up. We believe the conditions are still ripe for your portfolios to improve from here. The North American economy continues to improve, corporate profits are rising, the unemployment rate in the U.S.A. is at 50-year lows, interest rates are still historically very low, and inflation has so far been tame.

We are moving ahead with the same cautious approach we have always taken. While we remain fully invested, we will stick to high-quality corporations that have strong balance sheets, that generally have a history of raising dividends, and that have a long runway of growth for their products and services.

As a result of slowly rising interest rates, we are keeping bond maturities very short in the hopes that we will be able to earn better returns on fixed income going forward.

**VIDEO:** Barry Schwartz 45-Minute Video Interview **<CTRL-CLICK>** HERE

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Bob Weir, CFA, Director of Research

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