

# The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzone, and Sharon Mitchell  
Financial Advisors  
Raymond James Ltd. – Victoria BC

October 8<sup>th</sup>, 2021

## This week's articles and insights

1. *The Hunt for Red October*
2. *Under the Magnifying Glass*
3. *Panic at the Pump*
4. *Markets This Week*
5. *Who Panics Most?*

**“You know what your problem is, it's that you haven't seen enough movies - all of life's riddles are answered in the movies.”**

- *Steve Martin*

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	34,765	+0.04%	+ 13.59%
S&P 500	4,449	- 0.55%	+ 18.45%
TSX	20,462	- 0.68%	+ 17.37%

## The Hunt for Red October

When September is a weak month for markets, October often starts weak as well. Down markets are said to be “in the red” while rising markets are “in the black”. We’ve been waiting months for “red” weakness, and maybe this is it.

Hence, our “hunt for red October.”



In the 1990 movie “The Hunt for Red October”, based on Tom Clancy’s novel, a Soviet submarine captain defects with an ultramodern Russian submarine. In the race to get the giant vessel to America, there are chases, evasive maneuvers, and explosions under the surface. Viewers are made to feel the wrenching action and high speed turns of submarine warfare. However, the reality is a bit different. “Boomers” – the massive missile-carrying Ohio-class submarines – are as long as two football fields and can take a mile to turn around. Submariners wear rubber-soled shoes to minimize noise, so the action is quiet and slow. There is movement underwater but you never really get to see it until the vessels break the surface.

The action in the stock markets has been similar to submarine warfare: lots of churning underneath, but calm on the surface. Most stocks have been weak for months, starting with the outbreak of the Delta variant. Canada’s

S&P/TSX index and the S&P 500 in the U.S. have stayed aloft due to the “boomers” – the giants like Apple (**NASDAQ AAPL**) and Microsoft (**NASDAQ MSFT**) in the U.S., and RBC (**TSX RY**) and Shopify (**TSX SHOP**) in Canada – while the majority of small and medium-sized stocks began declining in July. September marked the point when big stocks finally joined the decline.

When the giants finally do fall in price, it tends to be dramatic and hit the headlines, as we have seen the last two weeks. Amazon (**NASDAQ AMZN**) fell 10% in just two weeks, which is a very big move for such a giant. Not to worry – Christmas is coming. Amazon will do just fine. However, something fundamental has changed.

## Under the Magnifying Glass



The technology sector has enjoyed unrestrained growth for almost two decades. We have seen social media, e-commerce, electronic payments, and software of all kinds spread around the world. The influence of the internet giants grows with every new user who signs on and adds pictures or comments, and billions did just that.

For example, Alphabet (**NASDAQ GOOGL**) analyzes every word in G-mail to refine its search engine, sell advertising data, and to test its language translation programs. Facebook (**NASDAQ FB**) runs every user through algorithms designed to hook them into more articles, advertisements, or behaviours that encourage more time on its site. Are you reading political websites that make you angry? Algorithms direct you to other articles that

will make you even angrier, something called *algorithmic amplification*. They hook you, in other words, in ways very similar to tobacco.

This week, a former Facebook employee came out as an official whistleblower. Armed with thousands of secret documents, the woman testified before Congress about what Facebook does to alter user's behaviour. The uproar is not dissimilar to what happened in China between the government and Alibaba (**NYSE BABA**) over its dominance in the payments industry. The Chinese government is wrenching power back from its internet giants, and the U.S. government is about to do the same thing.

Some have compared this moment to 1964 when the U.S. Surgeon General announced a definitive link between cigarettes and lung cancer, putting Big Tobacco on the defensive for the next 50 years. They fought every step of the way, but they were gradually forced to restrict sales to minors and to reveal the threat their products delivered.

Facebook stock fell in price as senators railed against the power of the internet giants, but there's a big difference between retreating and surrendering. The battle has only begun.

The key question is if there still is growth ahead for these companies. Governments everywhere have technology companies in their gunsights and legislation is bound to follow. Like the automobile, tobacco, and industrial companies before them, nothing grows to the sky. Companies grow big and get regulated.

Rather than being at the end of their growth phase, it is far more likely they have entered a new, *slower* growth phase. Their talent pools are as deep as that of any industry, and they have more money than most countries.

Look at what happened to the tobacco companies after the Surgeon General's game-changing report:

- They paid fines that looked expensive, but then simply raised their product prices and made even more back. Even the \$200 billion settlement in the 1990s is forgotten today.
- Increased government scrutiny made them monopolies. Who, in their right mind, would ever start a new tobacco company?

- When governments restricted advertising, the tobacco companies saved billions. These were addictive products, after all. Not unlike social media today.
- They diversified around the world and bought alcohol companies, sports teams, and paper companies, to name just a few. Today, they are buying marijuana companies.
- Fifty years after tobacco was declared harmful, tobacco stocks were still hitting new highs.

Expect to see increased scrutiny, investigations, and fines for the global internet giants. This will cause the prices to gyrate, and occasionally fall. Patient investors can take advantage of this. Charlie Munger, Warren Buffett's partner, recently purchased \$45 million of Alibaba, the beleaguered Chinese internet company. Its shares have been cut in half as the Chinese Communist Party demanded curbs on its finance arm. Munger is a sharp-eyed value buyer who obviously believes internet use in China will be more regulated, but never stopped.

## **Panic at the Pump**

Continuing the movie theme, "Jurassic Park" is a nice summary of what is happening in the energy world today. Just when we thought we were safe, old monsters rise up and cause havoc.



Photo from Pixabay

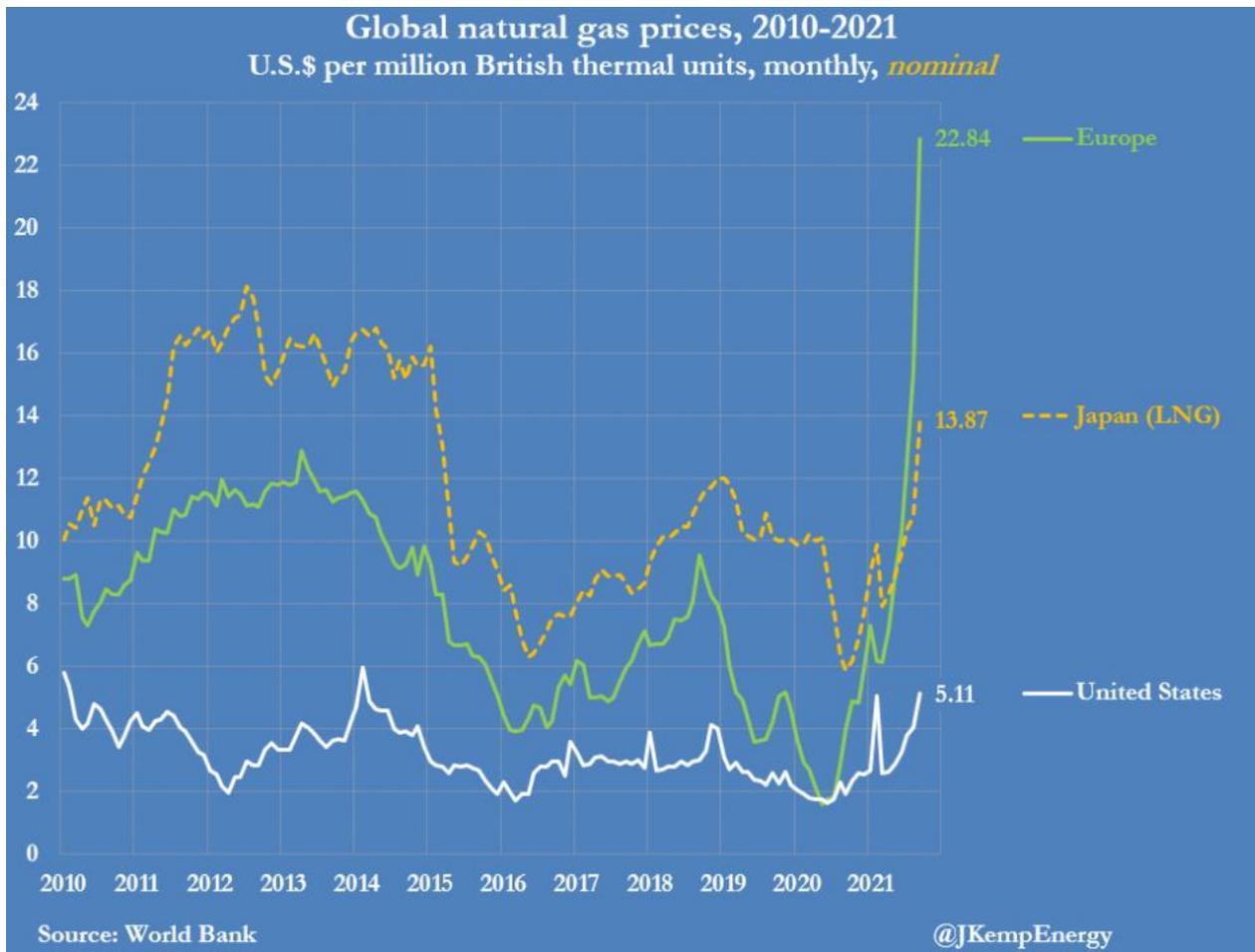
That's pretty much what is happening in the energy industry today.

In the race to go green, countries closed coal, natural gas, and nuclear plants. They replaced them with solar panels, wind turbines, and hydro dams, as well as wood waste and geothermal. Young people fled the energy business, convinced it was a “dinosaur” industry such that fewer and fewer young people are employed in resource industries. The average age of truckers to haul fuel in the United Kingdom is 55 with just 1% under the age of 25. The average age of people in the forest sector in Canada is 61. And they are getting older even faster - the pandemic sent many on-the-edge Baby Boomers into retirement, with no one left to take their places.

Thanks to many of these sudden shifts, the energy dinosaur has struck back, in a very big way.

China has a big drought, meaning its dams are producing less electricity than needed as the economy recovers. Germany’s new solar panels don’t get enough sunlight and they closed all their nuclear reactors. India stockpiled less coal than it needed, thinking the price would drop. It didn’t. The UK is short 100,000 truck drivers to deliver fuel to its petrol stations, and Europe is facing a shortage of 400,000 drivers (CNBC). Drivers are often paid less than supermarket cashiers and so many have left the industry to become Amazon drivers instead (UK Institute for Government).

And these are just a few of the examples. The world is bouncing back from the pandemic, but energy supplies haven’t. We are blessed with cheap fuel here in Canada partly because we have too few pipelines to ship it out, causing a mini-glut here. The U.S. has some of the lowest natural gas prices in the developed world, but Canada’s are even cheaper:



Natural gas prices in Europe are moderating due to promises by Russia to ship more. We will see how that promise holds out.

Markets have a way of levelling prices. European prices will likely decline, but Canada's prices are bound to rise. The reality is that the world is a very energy-hungry place. We will need every form of energy – conventional as well as renewable – to power everything in the years ahead.

And China? The country is buying coal by “whatever means necessary” at any price to keep the country warm this winter.

Who knew coal would outperform gold by 50% in the last three years?



Source: Trading Economics

## Markets This Week

Since September 20<sup>th</sup>, we have had 6 days of big declines and 7 days of sharp increases. All this movement has put us right back at the exact same spot as we were three weeks ago.

One catalyst for one of the larger rallies was a new Covid-19 pill from Merck (**NYSE MRK**) that saw its testing halted because it was so successful. The pill was administered to patients with moderate to medium cases of Covid-19, and the disease was slowed or stopped in all cases. Hospitalizations dropped sharply and deaths from Covid-19 went to zero. In other words, it worked better than hoped. Airline stocks, hotels, and everything travel related jumped in price.

It is early days for this new treatment, but it could become a significant new tool in the pandemic arsenal. For Merck itself, it could represent up to 15% of additional annual revenues, if the projections hold up. Not insignificant at all. Merck shares jumped 10% on the news.

Market “churning is often what happens when stocks are adjusting to new data. In this case, it is higher oil prices, persistent inflation, and ongoing issues with property developers in China.

The result is that sentiment among investors is at the lowest point since the pandemic of 2020.



©Copyright 2021 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/).

This is actually good news, in its own way. When everyone thinks it is time to sell, markets often do just the opposite, as my all-time favourite cartoon demonstrates:

JUST A NORMAL DAY AT THE NATION'S MOST IMPORTANT FINANCIAL INSTITUTION...



Kevin Kallaugher artwork

## Who Panics Most?

Men panic most in market downturns. Specifically, men over 45, with children, and who have experience in the stock market.

Many of us with long records in the industry know this. Women are often better long-term investors because they watch their investments less and so

don't tend to react when markets fall. A recent Massachusetts Institute of Technology study details exactly this.

Men see themselves as protectors, and when they have a family, it appears this instinct is elevated. Other research shows men react on their impulses more, and the stock market has a way of bringing this behaviour to the fore. Actions to lower risk (through selling) during downturns can have the opposite effect. We make things worse, in other words.

“Clearly, these are people who are trying to protect themselves,” said Amanda Clayman, a financial therapist in Los Angeles.

The study says women are more likely to seek confirmation through discussion before acting; whereas, men just act. This may have worked better for men when chased by lions on the savanna a million years ago, but not so much in the complex situations of today.

This study aligns with a large one done by Vanguard several years ago that showed investors who use an advisor tend to do better over time. Why? Not because we are brilliant as a profession, but because we provide a pause button to evaluate, discuss, and curtail panic urges.

“Most of us freak out way more than we think,” said Clayman.

Another male weakness...as if men needed more.

The full story can be read at:

<https://www.cnbc.com/2021/09/27/panic-sellers-during-stock-market-dips-are-often-married-men-with-kids.html>

*Thank you for your referrals this month! They are always handled with great care and discretion.*

<http://www.dividendvaluepartners.com>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

## How to contact us:

[paul.siluch@raymondjames.ca](mailto:paul.siluch@raymondjames.ca)

[lisa.hill@raymondjames.ca](mailto:lisa.hill@raymondjames.ca)

[peter.mazzoni@raymondjames.ca](mailto:peter.mazzoni@raymondjames.ca)

[sharonmitchell@raymondjames.ca](mailto:sharonmitchell@raymondjames.ca)

(250) 405-2417

### Disclaimers

The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.

This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

Amazon.com, Inc.- Raymond James & Associates, Inc. makes a market in the shares of Amazon.com, Inc.

Apple Inc. - Raymond James & Associates, Inc. makes a market in the shares of Apple Inc. Raymond James & Associates received non-investment banking securities-related compensation from Apple Inc. within the past 12 months.

Microsoft Corporation - The covering analyst and/or research associate owns shares of the common stock of the issuer. Raymond James & Associates, Inc. makes a market in the shares of Microsoft Corporation and has received non-investment banking securities-related compensation from Microsoft Corporation within the past 12 months.

Shopify Inc. - Raymond James & Associates, Inc. makes a market in the shares of Shopify Inc.

Facebook, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Facebook, Inc.

Alphabet Inc. - Raymond James & Associates, Inc. makes a market in the shares of Alphabet Inc.

Alibaba Group Holding Ltd. - Raymond James & Associates, Inc. makes a market in the shares of Alibaba Group Holding Ltd.

Prices shown as of October 7th, 2021

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at [www.rjcapitalmarkets.com/Disclosures/Index](http://www.rjcapitalmarkets.com/Disclosures/Index).

---

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.

---

This message and any attachments are intended only for the use of the addressee or their authorized representative. It may contain information that is privileged and/or confidential. Any unauthorized dissemination, distribution or copying of this communication or any part thereof, in any form whatsoever is strictly prohibited. If you have received this communication in error, please delete permanently the original e-mail and attachments, destroy all hard copies that may exist, and notify the sender immediately. Raymond James may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. The designation Raymond James, mentioned in this notice and disclaimer, refers to and include the following divisions and entities: Raymond James Ltd., a member of the Investment Industry Regulatory Organization of Canada (IIROC) and of the Canadian Investor Protection Fund (CIPF); its divisions 3Macs, MacDougall, MacDougall & MacTier and Raymond James Correspondent Services; and its subsidiaries: Raymond James Financial Planning Ltd. registered as a life insurance agency in all provinces except the province of Québec where it is registered as Financial Services Firm with the Autorité des marchés financiers (AMF); Raymond James Investment Counsel Ltd., a firm primarily regulated and governed by the British Columbia Securities Commission but registered and regulated by securities commissions in other Canadian provinces, and also regulated by the U.S. Securities and Exchange Commission; Raymond James Trust (Canada), a trust company regulated by the Office of the Superintendent of Financial Institutions (OSFI); and, Raymond James Trust (Québec) Ltd., a trust company regulated by the AMF.

---

---

Ce message ainsi que le ou les fichiers qui y sont joints sont à l'usage exclusif du destinataire ci-dessus ou de son

mandataire autorisé. Cette communication pourrait contenir de l'information privilégiée et confidentielle. Toute diffusion, distribution ou reproduction non autorisée de cette communication électronique, en tout ou en partie, sous quelque forme que ce soit, est strictement interdite. Si vous avez reçu cette communication et toute pièce jointe par erreur, veuillez les supprimer de façon permanente de vos systèmes, en détruire toute copie et en informer immédiatement l'expéditeur. Raymond James peut surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, communiquées par courriel ou dans une boîte vocale, ne seront pas acceptées, ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des instructions d'opérations boursières. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas approuvés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Le nom Raymond James utilisé dans le présent avis et clause de non responsabilité réfère et comprend les divisions et entités : Raymond James Ltd., une société membre de l'Organisme canadien de réglementation du commerce des valeurs mobilières (OCRCVM) et du Fonds canadien de protection des épargnants (FCPE), ses divisions 3Macs, MacDougall, MacDougall & MacTier et Services de correspondants Raymond James; et ses filiales : Planification financière Raymond James Ltée, société inscrite en tant que société d'assurance-vie en lien avec la vente de produits d'assurance dans toutes les provinces sauf dans la province de Québec où elle est inscrite en tant que Cabinet de services financiers auprès de l'Autorité des marchés financiers (AMF); Conseils en placement Raymond James Ltd., firme principalement réglementée et régie par la Commission des valeurs mobilières de la Colombie-Britannique mais également soumise à la surveillance et inscrite auprès des Commissions de valeurs mobilières d'autres provinces canadiennes) et est réglementée par la Commission des valeurs mobilières des États-Unis (SEC); Fiducie Raymond James (Canada), une société de fiducie inscrite auprès du Bureau du surintendant des institutions financières (BSIF); et, Fiducie Raymond James (Québec) Ltée, une société de fiducie inscrite auprès de l'AMF.

---