

The Market in Review

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This week's articles and insights

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“You can have the first 20% and the last 20%. I'll take the 60% in the middle.”

- Unknown millionaire investor, circa 1850

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	33,916	-2.52%	- 6.66%
S&P 500	4,288	-2.42%	-10.04%
TSX	21,121	-2.44%	- 0.48%

Full Speed Ahead and Damn the Torpedoes!

By 1864 during the American Civil War, the Union navy had blockaded all the ports of the Confederacy's coastal cities to stop the shipments of arms. The one city that resisted was Mobile, Alabama - the Confederacy's last major open port on the Gulf of Mexico. Cannons defended their harbor and mines floated under the surface.

In 1864, they called these mines "torpedoes."

Rear Admiral James Glasgow Farragut of the Union navy arrived with a 15 ship fleet to storm Mobile. He waited outside the mined harbor before sending the *USS Tecumseh* in first. It promptly hit one of the mines and sank.

Being a bold admiral and one who preferred surprise over planning, he blew his trumpet and uttered the famous words "Damn the torpedoes – full speed ahead!"

Miraculously, the remaining 14 vessels sailed through safely, either dodging the torpedoes or bumping ones that failed to explode. Farragut successfully captured Mobile and bottled up the Confederate nation from further resupply by sea.

"Full speed ahead and damn the torpedoes" is the root of many investment advertisements. Markets always recover, so why worry? Just plow forward, invest everything, and get rich!

2020 and 2021 were fantastic years in the stock market for anything on-line: on-line trading, on-line ordering, and on-line movie watching to name just a few. New investors stampeded into these "new-tech" stories with "damn the torpedoes" bravery.

Well...if only it were that easy. Historic military charges have as many failures as successes, even though we read more about the victories. The Charge of the Light Brigade, where horse cavalry charged guns and cannons with predictable results, is one such doomed example.

With the pandemic now all-but-officially over, Covid beneficiaries like Netflix (**NASDAQNFLX**) have fallen over 70% in price as people went

back to work and stopped watching. Netflix lost 200,000 subscribers in the last quarter.

Sometimes being cautious is the better strategy. Markets usually take months to fall and even more months to “bottom out” before rising again. And some sectors finish falling long before others, so it pays to wait and observe, or take small positions initially.

"I never buy at the bottom and I always sell too soon."

- Baron Rothschild

Markets suffer a 10% decline once every two years (source: Capital Group), so what we have experienced so far in 2022 is actually somewhat average.

- The S&P 500, America’s largest index, is -12.4% so far in 2022.

Of course, some years go on to even bigger declines.

- NASDAQ is -20% this year.

As we have discussed in previous letters, there has been no shortage of bad news in 2022 to sour the investment landscape. However, stocks know this and so have discounted this bad news with lower prices.

While we are not ready to go to “full speed ahead” – we do mind the torpedoes - we grow more optimistic. The war in Europe will end, and interest rates can only go up so much.

The Road Ahead

We are now leaving the **Seasonal Best Months** for stocks, which begins every year on November 1st and ends on April 30th. Since 1950, investing during the winter has trounced putting money to work over the summer.

In recent years, however, this has been turned on its head. The November through April period has been negative in five of the last seven years since 2015.

So much for historical patterns.

The road ahead continues to be bumpy:

- Interest rates are going higher in the months ahead.
- Stocks have corrected sharply in the last six months.
- Putin is preparing Russia for a longer war.
- China now has over 350 million people in some form of Covid-19 lockdown. This is larger than the population of the U.S.

As a result, most investors are more cautious than excited right now.

In a contrarian sense, this makes us more optimistic. Many sectors, such as railways, autos, and real estate are already reflecting a deep recession, and are becoming far more attractively priced.

The May 1st to October 31st period has been the best half of the investment calendar in five of the last seven years. It may be shaping up that way once again.

Electric Cars = Energy Security

You can't pick up a newspaper or visit a website these days without some mention of electric cars. They're **great** because they cost less to run and they don't pollute. They're **terrible** because they can't be recycled and mining the battery metals is very polluting.

Either way, the Electrification Age is not slowing down, and here's the real reason:

Energy Security.

Specifically, you control your own energy when it comes from your own backyard.

In Europe today, we are seeing oil and natural gas weaponized in the war over Ukraine. Canada and the U.S. have already banned Russian oil. Europe is figuring out how to cut Russia off by the end of the year.

In retaliation, Russia announced Tuesday it will cut off natural gas supplies to Bulgaria and Poland. Germany knows it could be next. Little countries like Cuba and Sri Lanka with no stake in the war are caught in the middle.

If these countries could produce all of their own electricity through their own wind and sunshine, don't you think they would want to? Especially right now?

Electric motors have approximately 10% of the parts of a gasoline or diesel motor. They are quieter and certainly produce less emissions.

Fossil fuel engines have their own advantages, such as reliability, safe and easy energy storage, and availability. They will be around a lot longer than people think.

But energy security...

It didn't matter when everyone got along. Now that the world is getting a bit hostile again, energy security is a Big Deal.

Having your own energy source in your own backyard means you decide your own fate. And since most countries don't have access to oil and gas like Canada and the U.S. do, electrification is going to increase because people want their own power where they control it - not being dependent on some autocrat bent on world domination.

Petrochemicals are marvelous compounds. About 15% of every barrel of oil goes to such products as medical supplies, paint, make-up, asphalt, sealants, waxes and inks. These amounts will only rise in the decades ahead because even electric cars need plastic parts.

Perhaps the biggest sin is that we burn these compounds as fuel, and then find ourselves hostage to such countries as Russia, Saudi Arabia, Iran and Venezuela. There are good guys in this mix, like Canada and Norway, but neither belong to OPEC.

The Electric Age is all about a cleaner environment on the surface, but it is also about energy security underneath.

Victoria's Blossom Season



We are nearing the end of Victoria's blossom season.

Sad, but true.

Victoria has one of the most temperate climates in North America, with few below-freezing days in winter, plenty of rain, and warm summers. Our foresighted city planners peppered the city with flowering trees a hundred years ago, trees that flower in sequence from December through May.

“Outside of Japan there are few areas of the world that can boast of a more beautiful display of flowering cherries and plums than Victoria.”

- W. Herb Warren - *Trees of the Rose Family in Victoria, B.C.*

Like stocks, different trees bloom at different times.

- *Autumn Cherry* flowers as early as November, right through April. They are pale pink.
- *Spring Cherry* is next to bloom in late February and March with beautiful bright pink blossoms.
- *Yoshino Cherry* trees are the most widespread and famous, and they come in many varieties of white to pale pink starting in March.
- Blossom season ends in April-May with the most spectacular *Kwanzan*. This Japanese flowering cherry with its “softball” double pink flowers are shown in the picture above.

Not to be forgotten are the paler flowering plum trees that open in March. Less spectacular than the cherries, plums often have a lovely fragrance where flowering cherry trees have almost no scent.

Victoria’s horticulturists were very far-sighted when they first planted these saplings starting in 1910 through 1930. Some even got creative, as displayed in this spliced *Kwanzan* pink and *Great White Cherry* tree:



There is always something to look forward to.

After blossoms come the fruit!

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Prices shown as of April 28th, 2022

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

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