RANDOM GLEANINGS

Stock markets are volatile. A statement of the obvious, obviously, but the market action of the past five months surely cements this fact in the minds of investors. 2018's fourth quarter was the worst in years, with prices down 10%+, but 2019 has followed up with the strongest start in decades, with 12% gains prevalent. This is head-spinning territory but at least it comes with hope for repetition of this historical factoid: a strong start has usually led to an even better year.

The **cryptocurrency** market is volatile too but, to put it gently, has been all downhill lately. The total value of over 1,700 currencies peaked out just over a year ago at US$830 billion and has since plummeted to $130 billion, an 84% collapse. This includes a big Bitcoin bust (50% of the total, down 80%), but we aren't sure where our Canadian disaster, Quadriga, fits these days. Buyer beware.

Do you know what your CLV score is? You might get a hint from your treatment the next time you call customer service since CLV stands for **Customer Lifetime Value**. Increasingly, companies selling everything from cable TV to credit cards are ranking customers by their value added and adjusting service levels accordingly, meaning your CLV score could determine wait times and perks offered. Good luck on that upgrade request.

When you think of the word **icing** you probably conjure up something to do with hockey, cakes or windshields; probably not parking issues. This latter usage is pretty new and derives from internal combustion engines (ICE) and their owners' penchant for parking in handy spaces that are meant for electric vehicles. Thus 'icing' and the parking rage that tends to follow. Likely just the beginning.

You might have heard of **'ghosting'** a digital friend or even a real friend by suddenly disappearing from their lives. Apparently that phenomenon has migrated to the business world where a surplus of job opportunities has encouraged workers to ghost their employers without notice or forward address. A principled practice? Hardly.

Ghosting could be rampant in the **trucking** business. There, the shortage of drivers is so severe that Walmart USA, apparently the gold standard of driver quality, has gone from a multi-week training program and a 5-10% acceptance rate (hello Harvard) to 3-day training and 80% acceptance (hello state college). Plus a near $90,000 starting salary with attractive benefits. Ghost on over.

Worker scarcity and today's birth dearth are substantial concerns in much of the world. Recognizing the negative implications for long-term economic growth, Hungary has come up with a plan that other countries could well emulate in future. The Family Protection Action Plan would provide attractive tax benefits for big families (up to zero tax), subsidies for those families to buy larger cars and homes and preferential loans to married women under 40. Go forth and multiply.

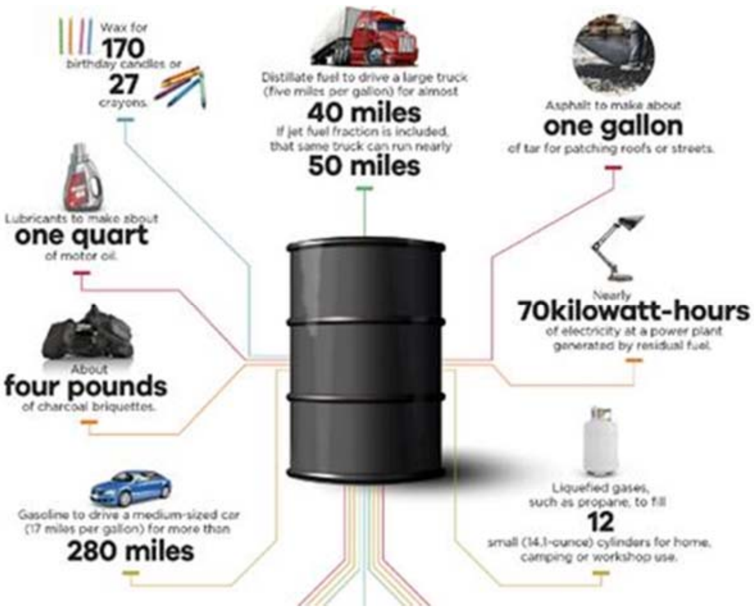
Another answer to the economic impact from limited labour is **productivity** improvement. Often we think of productivity related to manufacturing widgets, and that's important, but farmers have been major contributors for decades in areas such as crop yields and milk production. The Economist magazine has featured another example, this time by comparing broiler-chicken weights at 56 days old over time. The graphic is startling as it moves from 0.9kg in 1957 to 1.8kg in 1975 and all the way to 4.2kg more recently. More McNuggets, please.

There's certainly no shortage of ex-**Blue Jay** players around the league. In fact, the team has been so generous in spreading around the talent that they are paying two former stars, Martin and Tulowitzki, a reported $35 million combined (in US$ of course) to play for other teams this season. Really. This amount roughly equates to the total the team will pay their own top four earners who actually play for the Jays. Beware of long-term contracts.

THE LEARNING CORNER

What is in a barrel of oil (besides 159 litres)?

This question has probably not kept you up at night wondering about the answer. But it is easy amidst all of the political and environmental controversy to lose track of what all that barrel of oil is actually used for. This self-explanatory diagram neatly shows where the bulk of the refined products end up. It does not include the petrochemicals that could be processed into 2,000 small plastic items the size of, say, toothbrushes or drinking cups… plus 39 polyester shirts if you are interested. All for US$56 today, quite the bargain.



CHARTING OUR TIMES

Volatility Personified

In the first section of this newsletter we commented on the dramatic volatility levels evident in stock markets recently. But that was nothing compared to the chart below. The chart shows the price movements in shares of Tesla, the electric vehicle manufacturer, for the full year 2018. It makes the overall market movements seem calm and if it looks at all like your latest ECG you might be in trouble. This is extreme volatility as exemplified by the 17 times it moved up or down more than 10% and the 9 times more than 20%. The movements are explainable by many factors, including its shifting production and sales levels and its uncertain financial position, but the way investors alternately attack and support the stock is remarkable.

At the RaeLipskie Partnership we preach patience and investing in stocks for the long term, the opposite of market timing. But IF (a big if) someone was really smart and lucky enough to time the ups and downs of Tesla, the returns from last year would have been stunning. There is no such person, but in the impossible exercise of buying at the bottom and selling at the top every time, a cool $million start would be worth nearly $7 million at year end. In Ludicrous Mode, something like Tesla's, where you get the price action both up and down (short sales), the year-end figure would be $32 million. Of course, anyone actually attempting this gambit probably ended up in the red, so don't try this at home.

IN THE OFFICE

The end of February a bunch of us braved the frigid temperatures for an evening at Chicopee Tube Park. The recent crazy weather mix of snow and rain made for a fast slide on the slope and everyone had a great time.

We warmed up after in the Lounge with hot chocolate and chicken wings. Yum!

We are:

Ken Rae, CFA

Brian Lipskie, CFA

Ted Brough, CFA

Taylor Echlin, F.C.S.I.

Jim Harper, FCPA, FCA

David Martin, CIM

Andréa Miljkovic, CFA

David Paleczny

Derek Rae, CIM

Rick Vandermey, CFA

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Alex Stoody, CIM

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The RaeLipskie Partnership provides discretionary "fee-only" portfolio management for high net worth individuals, endowments and charities.

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THE BIG PICTURE

It was one of the better investors of the early 20^{th} Century, Jesse Livermore, who said that "it was never my thinking that made me money, but rather my sitting tight." And after enduring the past three months, we couldn't think of a more appropriate quote. After all, December's -9.2% return for the S&P500 was the worst December since the Great Depression and the return for the TSX wasn't much better at -5.8%. Not exactly the Santa Claus rally we were looking for…

While there is no denying that December was ugly and comfortable, we continue to remind our clients that volatility is the price we must pay for superior long-term returns. December's decline was uncomfortable, but we ask ourselves what really changed? In our opinion, stock markets around the globe simply overshot the political and economic reality. This tends to happen when the word "plunge" is plastered all over the media. However, when examining the reality, the global yield curve remains positively sloped, Leading Economic Indicators index (LEI) for North America remain positive, and Purchasing Managers' Indexes are growing. If we were in a recession, as the market seemed to be pricing in, it would defy a nearly 60-year history of no recession while the LEI is high and rising. Maybe the market came to realize this as January saw the TSX rise 8.5% and the S&P rise 7.9% while February (as of the 25^{th}) has thus far seen both indexes rise nicely at another 3.7%.

This is not to say variables that could cause deep economic problems are non-existent. We are acutely aware that China could botch their stimulus efforts, the Fed could restart Quantitative Easing in the U.S. and potentially invert the yield curve, a second Brexit reform could occur, and more. However, the commonality among these, and many other variables is that they are not predictable. If we get out of stocks while waiting for these, or any other non-predictable factors, we risk locking in losses and making the longer-term goals of our clients that much more difficult to achieve. The investors that sold out in December may have gained some momentary comfort, but at what cost? In investing, there will never be an "all clear" signal that everything is ok and markets are primed for a sustained push higher. Investing can at times be uncomfortable, but when it is uncomfortable, we urge our clients to "sit tight."

QUOTE of the DAY

"He knows nothing; and he thinks he knows everything. That points clearly to a political career."
— George Bernard Shaw, [Major Barbara]