HIGGINS INVESTMENT GROUP INC.

October Market Analysis

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The Markets

	October	Change in Month	Year –To-Date
S&P TSX	23998	0.7%	15.3%
S&P 500	5762	−1.0%	19.6%
Dow 30	42330	−1.3%	10.8%
Oil	$68.22	1.4%	−3.4%
Gold	$2654	3.6%	32.7%

It is good I do not write these before the end of the month as the gains for the month were erased on the last day of October. This was the first month the S&P 500 had a negative performance since April. Earnings announcements by some of the tech heavy weights pulled the market down at the end of October. It was a month where things did not play out as expected. Isreal bombed Iran and oil prices sank 5% in one day, as investors had previously feared Israel might bomb Iran's energy infrastructure. The markets are focused on the US election, which at the time of writing appears to be a coin toss. People can't decide who will win and if either party is better for the economy. By the time you read this we might know the answer, so no predictions from my end.

Lower interest rates combined with global uncertainty continued to support the price of gold and the gold stocks. The Gold subsector was up almost 6% in the month and contributed to the 4% increase in the Materials sector of the TSX. Despite mid-month volatility, oil finished in positive territory in October and this led to more than 5% increase in the equally weighted Oil and Gas subindex. The rally in these 2 commodity sectors allowed the TSX to outperform the US markets. An increase in interest rates in the bond market caused a decline in the interest sensitive sectors. The Bank of Canada controls short-term rates and took decisive action to lower them but the bond market responds to other factors. The interest sensitive sectors gave back most of the gains from the previous month. Leading the losers were the real estate income trusts (REITs). Banks, Utilities and Telecommunications (the phone companies) all had negative performance in October.

The chart on the next page presents the performance of the S&P 500 and the S&P TSX for the last 6 months.

6-Month Performance S&P 500 and TSX

TSX, S&P 500 source google.com/finance

Economic Indicators

1. Economic announcements

Most economic announcements over the past month will be overwhelmed by the discussions of the US election and the US Federal Reserve announcement 2 days after the election. I will save some paper and return to the normal format next month.

Reflection

Talking out of both sides of their mouth

There are always 2 sides to every discussion. Sometimes one newspaper has articles that critique the government but have different points on the same problem.

There was a detailed article detailing that recent university graduates could not find employment. Three pages later employers bemoaned the reduction in the level of immigration, as it was difficult to fill positions with qualified people. The first article interviewed recent grads who were either underemployed or unemployed. The article indicated that foreign students had a harder time finding positions due to a lack of Canadian experience. The second article reported that companies could not find qualified people in Canada to fill the positions. The recent reduction in temporary foreign workers would cause them grief. At the same time, we are presented with the problem that people educated in Canada cannot find jobs while employers indicate they can't find qualified people. Either way it is the government's fault.

I read an interesting article that almost taught me not read articles in the first place. They ran a study where people were presented with headlines from a newspaper and asked if they would have bought or sold the stocks in the article. How many times have you heard that if you could only see tomorrow's paper today you would be rich. The study found only about 50% of the decisions were correct. Obviously, the headlines did not include takeovers.

Just have a look at TD. The shares dropped 10% the week the US announced penalties for TD's complicit actions in money laundering. TD had previously established provisions that covered the financial penalties. The announcement of the fines should not have been a surprise to anyone. What was more startling was the government read out texts and emails that indicated the people involved thought it was a joke, lol. The real news was TD had significant restrictions placed on its growth in the US. Take a step back and think if this should have been a surprise. TD is a foreign bank in the US, the T stands for Toronto and the D for Dominion as in the Dominion of Canada. If you are a regulator and want to make an example of a bank, wouldn't you choose a foreign bank to show you are tough on crime. Even if TD were a US domestic bank you should consider Wells Fargo operated under growth restrictions since 2018. I do not know how the restriction was a surprise but the market let us know it was a surprise. If you think this is all doom and gloom you could take a longer look and you would see that the TD has a positive performance over the past 6 months.

I have a great investment. Artificial Intelligence is hot and the top server company is a great investment, or not. Super Mico Computers is the company. It began the year at $28.55 and ran up to $118 in March. Just like NVIDA, I.A. has a life of its own. Unfortunately, the stock pulled back to $49 by October. Still up by more than 70%. Then the surprise, the auditors resigned. The stock is at $26 today. Even after the auditors resigned the stock is close to where it began the year. So is it an AI diamond waiting to be rediscovered or is it something to be avoided just like its auditors want to distance themselves? Two sides to the investment story.

Technically this is a November story. As we were putting the finishing touches on this commentary, we looked at the markets and saw BCE had declined 10% in one day. Let's go back a month or two. BCE sold its holdings of the Raptors and Leafs to Rogers for more than $3 billion. This addressed investor concern about the debt levels and the security of BCE's dividend. Management took the steps investors wanted to hear. Then on November 4th BCE announced a $5 Billion dollar purchase of a US fiber communications company trading at a higher multiple than BCE's. So, they spent more than they raised and purchased something expensive. The thesis that management had fiscal responsibility seems to be shattered. They showed some responsibility by announcing that they would not cut or raise the dividend after this purchase. The company has a history of annual increases in dividends. We are examining the company and question whether the lower stock price fully reflects the new focus of management. This could be attractive now it is lower or it could be expensive given the uncertain strategy. We will keep you posted.

Summary

"We do not have government by the majority. We have government by the majority who participate." - Thomas Jefferson

Although the opening quote refers to the US election, we do not offer any opinions on the election. You cannot know for sure which party will win and more importantly whether they will follow through on their election promises. It is appropriate that our reflection section discussed how the same facts could be taken to mean different thing to different people and result in different investment outcomes. Take TD bank, the stock dropped after restrictions were placed on their US expansion, given other US banks have received a similar penalty this should not have been a surprise but it was. Despite a 10% decline in a week the stock is still provided investors with a positive return over the past 6 months. Don't even think about the benefits to the economy of immigration and the problems created by immigration. Depends from which side of the street you are looking.

We try to look past short-term events. Despite the recent rally in the stock market, we still find attractive investment opportunities. For instance, the price of many oil and gas companies do not reflect the current price of the commodity. We try to create portfolios centred on dividend paying stocks but we do include some stocks with no yield or lower yields so we create a portfolio and not just a collection of stocks with high yields. We will have to see how the US election and the Federal Reserve decisions impact the market. Who knows, this may create new opportunities or help the stocks in the portfolio reach their potential.