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SPEAKERS

Pat Bolland, James Gauthier

Pat Bolland 00:30
James, great to see you again.

James Gauthier 00:33
Happy New Year.

Pat Bolland 00:34
Happy New Year to you, too. Hey, listen, in the introduction there. I was saying how tough the year 2022 was. But how did you feel about the year?

James Gauthier 00:44
Well, there's no question. It was a tough year. Anyway, you look at it. People don't like negative numbers. I don't like negative numbers. And that's all that was available. So no matter how you look at it, or slice it, it's it's a tough year to try and find positives to take away. But it's only one year. Well,

Pat Bolland 01:02
good point. But look what happened in the past year, you had COVID, the continuation of COVID, you had Ukraine come up. You had inflation and interest rates. I mean, it's kind of a perfect storm, isn't it?

James Gauthier 01:16
It is there's a lot of negative headlines. And and they all come right after three solid years of appreciation. So that really does set the stage for people to get nervous people to panic and a mass exodus. And that's probably what we saw in the first half of the year, when when the tides turn when central banks started raising interest rates, that's when people started heading for the exits. And it was a rollercoaster ride for the for the second half of the year. But net net, I mean, things were actually positive in the second half, but nowhere near enough to offset the decline in the first six months of the year. So you know, take the good with the bad, but overall, it was it was a down year.

Pat Bolland 01:58
And the traditional thinking and this is very traditional is that you know when stocks go down, and they have a difficult time, a safe haven is bonds. But that didn't seem to be the case this year, they went down together. And we've seen that recently in some of the catastrophes but how common is it?

James Gauthier 02:17
It's not very common. Historically speaking, there are very few years very few calendar years where both bonds and equities go down in the same year. I mean, we spend a lot of our time analyzing correlation between different asset classes and bonds and equities is probably the most important correlation to look at. And if you look at numbers over time, they're actually uncorrelated. So that means they move independent of one another. But, you know, they can move up together, they can move down together. But it doesn't always happen that way, it's usually pretty rare to have them both doing the same thing, especially going down together. That's exceptional a couple of times in the last century. That's it,

Pat Bolland 03:00
you manage a lot of portfolios, you manage a lot of money. And I venture to say there's a lot of portfolio managers out there that had horrible years. And yet, yours wasn't all that bad. You outperformed the vast majority of your peers. How did you do it?

James Gauthier 03:19
Yeah, I mean, there's not much you can do when everything's going down, you can't, you know, turn magic and make things go up. When everything's going down, the best you can hope for really, is to beat your competitors. So even if it's by marginal amounts by one or 2%. If you do less bad than others than then you've done well, from from a comparative standpoint. And that's really what we, we hope to do. We are, you know, I'm pretty competitive as nature. So I want to beat everybody else and do better for our clients. And we did manage to do so it's, you know, we have kind of the same conversation last year, we got some pretty good reviews when we hit our five year history, and we were the top performing online portal. Manager area last year at this time, we were coming off, you know, very strong performance in the markets. So usually, if you're a strong performer or a top performer and markets are going well, you're usually a weaker performer. When markets are going down, that's just a factor of, you know, risk that you're likely taking in the portfolios. So the fact that we did well in a down year compared to competitors is something I'm pretty proud of. And a lot of it goes back to where we positioned our portfolios in 2016. So we've been very patient. We've been very nervous about rising interest rates for a long time, and it took a long time for it to happen, but the way we position the portfolio in 2016 allowed us to do better, while interest rates stayed kind of stable at a low rate. And then when they did finally going up, because we were positioned for that the fixed income components particularly did well, compared to how a lot of other investment managers were positioned. So we finally got the payoff from that. And hopefully we can continue to outperform everyone going forward to

Pat Bolland 05:17
Yeah, you've provided tremendous downside protection is what they call that in the industry. But at the same time, we're seeing the stock markets look like they want to try to rally. And that's even as interest rates, as you point out, are heading higher. What do you make of stocks right now?

James Gauthier 05:37
Well, that's always a difficult question. What is what is the current value? You know, if I knew the answers and knew how to position it, I, I own the entire world. But that's very unlikely. And it's tough to say, I mean, we've actually seen, like I said earlier, you know, a bit of a roller coaster, we've had some ups and downs in the second half of 2022. So call them false starts fake rallies, whatever you want to call them, they were quickly offset, what I would say is, we still have a very nervous and undecided market. So interest rates are still going up, inflation is still high. And that leaves uncertainty about when it's going to end. I think everybody is now at the point where they're comfortable that eventually the central banks will get back in control of inflation. And they can ease up on the ratcheting of interest rates, and perhaps even start reversing that if economies do suffer too much, because of the higher interest rates. So I think people are comfortable that it will change course, but the timing of it is still quite uncertain. Is it going to be early this year, mid this year, late this year? 2024. Nobody knows. And as long as that uncertainty is outstanding, you know, people are going to change their minds quickly. And that could lead to morph, you know, rallies that are offset quickly declines. You know, it could be volatile for all of 2023 Potentially.

Pat Bolland 07:05
Well, good point, how do you handle that volatility? I mean, you talk about roller coaster ride, you talk about false rallies? Do is your more turnover in your portfolio's? Or do you stick with something and just ride it out? How do you actually handle that?

James Gauthier 07:21
Yeah, we're pretty patient. Patience is one of the few things that is rewarded in investing. And And conversely, chasing markets does not work. So we're not going to gamify our clients portfolios, we're not going to go shifting things back and forth, hoping that we guess, right, with our clients money, we know the comfort level that people are willing to take with risk in their portfolios. And we keep you know, on track with that, we have rebalancing to bring things back on track when when the markets get a little wonky. So there are lots of controls and mechanisms to make sure we stay disciplined and keep people's investments aligns with how we know things are going to work in the long run, the long run is is fairly stable and predictable. The short run is completely unpredictable. So we're not going to get caught up and try chasing things.

Pat Bolland 08:14
How much do you focus on macro? And I'm not talking interest rates. Let's reference, for instance, the earnings season that just went through a couple of months ago, because corporations had in many cases, especially the tech sector, they had some pretty bad earnings. And then all of a sudden, it's almost like the companies woke up and they said, Whoa, folks, our earnings are not good. We're gonna fire some people, we're going to let some people go, we're going to consolidate our operations. And lo and behold, the stock market actually rallied because they liked what they saw. So does that play into your macro view?

James Gauthier 08:49

Yeah, we're not gonna get too swayed by individual company announcements or even entire sector. We're a country. You know, we expect that markets are naturally cyclical economic cycles are cyclical, we're going to have periods of growth and periods of recession, we're going to have periods of robust employment growth and periods where companies are cutting back. I did find it interesting that it took some time for companies to finally admit that the outlook perhaps is not as rosy I was surprised that outlooks and forecasts were as rosy for as long as they were before action started happening. So I'm very reluctant to believe anything that a CEO says about their company. Remember that they're cheerleaders for their own company and their own stock price. So they're always going to come out and say positive things, and why you should invest in their company and why you should be upbeat and etc, etc. There's, there's a political aspect to what CEOs or CFOs will say about their company, and for that matter, even central bankers, there's very few central bankers that are talking about a recession. They don't think a recession is going to happen. Well, something's gotta give I mean, you can't keep Raising interest rates and expect inflation to go down while the economy doesn't suffer, one one thing has to give or the other. So either inflation will not come down, or economies will go into recession. So for central bankers to say, you know, we're not going to cause a recession, yes, you are, or you're not going to defeat inflation. But I'm getting a little off track. The companies, the CEOs, when they come out and give forecast give guidance, I, you know, I put very little credibility into those numbers, because again, they're cheerleaders, when they take actions by announcing layoffs, actions speak louder than words. So this is something to pay attention to. And it might be just, you know, primarily in the tech sector right now. But that, to me, is the start of what we can expect economically, to proliferate globally. And if you know, central bankers are doing their job, this is what should be happening, companies should be cutting back. And when investors see that companies are being responsible and committed to profitability, that shouldn't be cheered. So the fact that markets rebounded, perhaps when when negative earnings announcements were coming out, not that surprising to me.

Pat Bolland 11:12
Okay, I'm not going to make you have a prediction for 2023. In the stock markets. I don't think that that's fair. But I will ask, given that you've kind of described your waste, worst case scenario, a recession, what do you see as a best case scenario for 2023?

James Gauthier 11:31
Best case scenario, yeah, be early evidence that inflation has been contained. So this would be economic data and economic data is released that a lag, right, so they'll, you know, we're in 2023. Now, the next reports we get for inflation will probably still apply to 2022. But as soon as inflation appears to be under control, people will have the confidence that central banks are not going to inflict any more pain by continuing to increase interest rates. And once that happens, there will be I believe, a large rally in both bonds and equities. That's the best case scenario. And you know, what, I'm pretty sure that scenario will play out at some point, it's just a matter of when nobody can time the market. You know, we know that's the fundamental tenant of investing. But inevitably, I think that has to happen. It's just a cyclical component of, you know, Central Bank's economies, that the whole everything is correlated and involved together. So when it does happen, I think there is going to be a strong rally in both bonds. So in equities, so it's going to be nice to have that boost. But we don't know when that is hopefully best case scenario. It's early in 2023.

Pat Bolland 12:50
Are you positioned for that? Or are you being a little bit more defensive? Do you think right now?

James Gauthier 12:56
Well, we did make some changes in 2022, to our portfolios, which, again, we're long term thinkers. And we don't we don't make a lot of changes to the portfolios, but we positioned the portfolios for a more growth oriented outlook. And that means we're seeing past what's currently happening. So the increasing interest rates, the the slowdown in economies were positioned for a growth economy. So if things do pick up so when I say pick up if central banks become less aggressive in raising interest rates, when that term comes, you know, our clients should benefit from that.

Pat Bolland 13:38
James, great to chat. Maybe we'll check in with you halfway through the year.

James Gauthier 13:43
Sounds good, Pat, I hope I have good news for you. I do too! James Gauthier is the Chief Investment Officer at Justweath Financial.