December 31, 2018

Market Ethos

The latest market insights from the Richardson GMP team

Top 8 Ethos of '18

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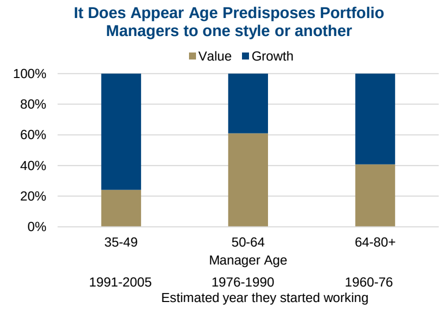
In the final edition for 2018, we have decided to take a walk down memory lane and highlight our favorite Market Ethos of the year. Naturally, we like them all, but we tried to select editions that were more timeless and will continue to encourage thinking outside the box. Click on any of the titles to see the full report.

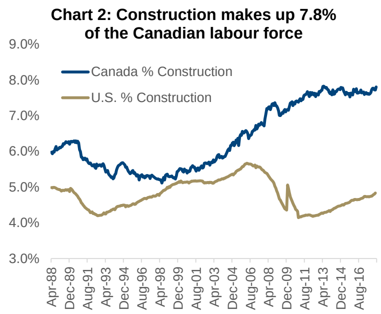
Growth vs Value and your Age (January 22)

After growth trounced value investing in 2017, this report highlighted how growth typically does best late in the market cycle. This trend continued in 2018. Most interesting was how it seems a portfolio manager's age dictates their style. This appears to be a function of whichever style is dominant when the manager starts their career.



Cracks in the foundation widening (April 10)

This Ethos took a stab at a topic that hits home for most Canadians: housing prices. With housing prices starting to show some cracks, the report highlights just how levered both the Canadian economy and banking sector is to this key industry. With interest rates on the rise, this remains one of the big risks for Canada on multiple fronts.



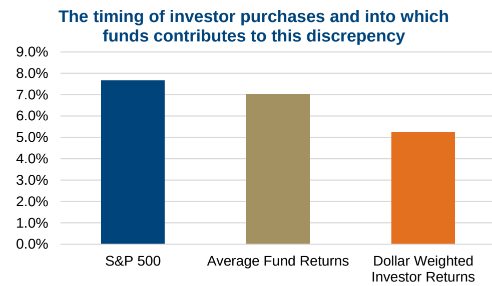
Past reports

Whatever you do, don't look now There is Value Out There Bull vs Bear Tug-o-War Asset Allocation Decisions Under Risk

Sign up here if you do not already receive the Market Ethos directly to your inbox.

Behavioural Finance – Active Management's Next Frontier (June 18)

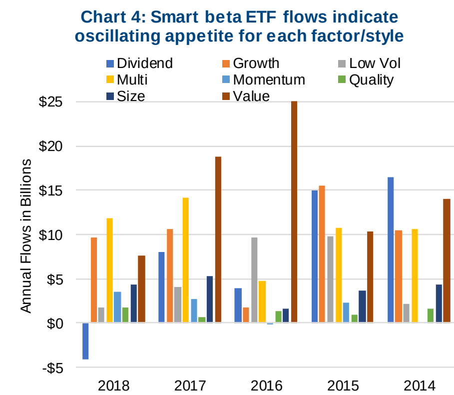
Active portfolio management continues to evolve, gaining more tools and a changing environment. The rise of low-cost passive ETFs certainly showed the vulnerability of managers who were closet indexers. Now with the rise of factor-based ETFs and quants, portfolios can be easily constructed to capture certain styles such as value, growth or dividends. This report highlights that the next frontier may be behavioural finance, attempting to capture from mispriced assets caused by other investors behaviour.



Source: Richardson GMP, Dalbar, S&P SPIVA, Bloomberg

Countering Investor Behavioural Biases (July 30)

Behavioural finance has been gaining traction in the investment community over the past few years. In this Ethos, we highlight a number of key findings in this new discipline, including how loss aversion and performance chasing can lead to mistakes and hurt performance. Understanding how investors make these mistakes can help you avoid making the same in your portfolio.

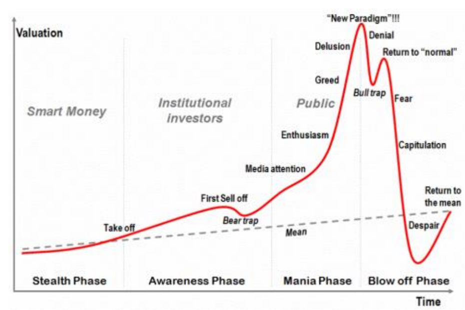


Style drift & the rise of the generalist (September 4)

There was a time when portfolio management style drift was viewed as a negative, representing a lack of process if a value manager tilts too close to growth names or vice versa. But with the increased availability of factor or style-based investment vehicles, the decision of which factors or styles to have exposure to is taking on increased importance. In this Ethos we argue that active managers should be active, tilting their portfolios more or less to certain factors based the market environment. Active management should not be a set-it and forget-it approach.

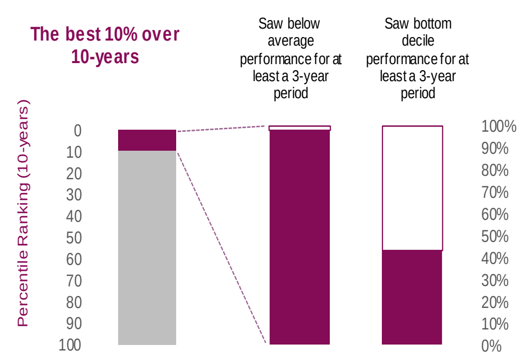
The Anatomy of a Bubble Revisited: How High? (September 17)

Whenever I go on my annual vacation to some place exotic (Tuscany this time), Chris Kerlow writes an Ethos on market bubbles. His timing has been impeccable, nearly timing the top in crypto in December 2017 and, in this instance, marijuana. The report highlighted other bubbles and how the Canadian marijuana bubble fits the mold. The chart to the right is from Wikipedia and is the anatomy of a bubble.



Halloween Corrections are a Little Scary, Debt is Scarier (October 29)

While this Ethos did discuss the bout of market weakness, most of the content was devoted to something scarier: the rise of corporate debt. Rates being ultra-low for such an extended period of time, coupled with easily accessible debt markets has led many companies to go on a debt issuing binge. How this unfolds when the economy slows may very well separate the winners from losers. It also highlights why we are paying extra attention to defaults and credit spreads.



Whatever You Do, Don't Look Now! (December 10)

Prospect theory finds that we feel the pain of a loss roughly twice as much as the pleasure from an equal sized gain. Transposing this to investing, the report highlights that checking on your investments too often can be emotionally draining given how we feel about losses vs gains. Checking too often can also encourage performance chasing, one of the most damaging behaviours for investors.

Charts are sourced to Bloomberg unless otherwise noted.