Hello all,

What a great time of year! Only a few weeks left until my favorite time of year, Christmas!

Globally, the world is trying to decide if President Trump is on the naughty or nice list. In past newsletters, I have joked with you that President Trump’s 3 A.M. tweets from his outhouse while he is doing his paperwork were influencing the investment markets in the short term but simply background noise over the long term. Recently JPMorgan Chase completed a study that confirmed those thoughts are true.

In fact, they created an index call the Volfefe index to gauge this effect. ‘Volfefe’ is a reference to the great ‘covfefe’ debacle of 2017. In the middle of the night the president took to twitter to complain about the media. Trump was attempting to tweet ‘constant negative press coverage’ when in fact he tweeted ‘negative press covfefe’. He must not have been quite awake. Therefore, the ‘Volfefe’ Index is Wall Street’s silly attempt at a joke towards the president.

Source: CNN, Chris Cillizza, June 1, 2017

Here are some of the conclusions of the J.P. Morgan study:

1. The index shows that the president’s tweets are having a statistically significant impact on Treasury yields (interest rates).
2. Words such as ‘China,’ ‘billion,’ ‘products,’ ‘democrats,’ and ‘great,’ are most likely to affect prices.
3. “A broad swath of assets from single-name stocks to macro products have found their price dynamics increasingly beholden to a handful of tweets from the commander in chief.”
4. At the start of 2016 the president has averaged roughly 10 tweets a day. Since his inauguration in 2017 he has tweeted over 10,000 times. Recently his activity is accelerating.

The president’s behavior illustrates vividly that we all handle stress and self-medicate in different ways. Some methods are healthy, and some are not.
Bank of America Merrill Lynch completed a similar study and concluded that negative Trump tweets produce negative returns of .9% on average. Days with fewer presidential tweets tend to see positive returns of .5% on average.

However, due to common sense tax cuts and other Trump initiatives, as of November 4 the United States stock market (S&P 500) is up more than 44% since Trump won the 2016 election. The Canadian stock market is up 13% since the United States election. As I have discussed with my sons, “Stop listening to what President Trump says and instead watch what he does”. It is fortunate that the leader of the free world has business savvy, but it is unfortunate that he is not a gentleman and is ill mannered. However, history shows that if the United States only elected gentlemen with high morals they would not have elected many of their past presidents. That begs the question, is it better to elect a good brain or a good image? Food for thought indeed. In my hockey days, we never touched the guy on the ice that we thought was a bit crazy. Maybe that is the President’s game.

A lot of the growth of the United States stock exchange is due to tech stocks like Apple and Microsoft. So why would we not just simply invest in those two stocks? The answers are simple.

Both are trading at over 20 to 27 times earnings. To put this in perspective only owning these shares would be like paying $30 million for a Tim Horton’s restaurant earning $1 million per year. When the recession finally does show up such stocks usually are hit the worse.

At present Apple and Microsoft combined are equal to the total value of the Russell 2000 United States index. That is a staggering statistic. The last time in the history where there was wealth was so concentrated among a small group of companies and business owners in America was in the late 1800’s during what the history books call the gilded age. Due to rising wealth disparity among voters, companies this size were easy targets for politicians and were eventually broken up. Elizabeth Warren and Bernie Sanders are discussing this exact idea on their present campaign to be democratic leader.

Due to the market cap of Apple and Microsoft being so large, some ETF investors will be heavily concentrated in these shares. The next stock market drop will expose that fact and will not be a good day at the beach.

“Only when the tide goes out do you discover who is swimming naked.” - Warren Buffett

Source: Richardson GMP Launch Pad, October 25, 2019

Let’s hit the bad news we see at present in the economic world. I will then leave you with nothing but good news.
The Bad News

Commodity prices are at all-time lows. We often blame Calgary's problems on no pipelines or other factors. Although that is a major problem, it is not the only contributing factor to the slowdown in this great city.

Source: Richardson GMP Launch Pad, August 20, 2019

Global economic growth has been slowing for the last 2 years.

Source: Richardson GMP Quarterly Update, October 2019
In all major exporting countries, their GDP forecasts are falling much faster.

A recession in global manufacturing started approximately 14 months ago. Most people think that tariffs are the cause. However, studies show that tariffs only represent a .2% decrease in global GDP.

The confidence of presidents of corporations has been dropping. The main thing holding up the economy at this point is a very strong consumer.
As a very accurate economic indicator, we also watch the manufacturing indexes around the world. When a manufacturing index is above 50 it means the economy of the country is expanding. When it is below 50 that means the economy is slowing or contracting. The below chart shows that suddenly only 3 countries are in expansion. That change over the last year is breathtaking.

One of the great bell weathers for the future of the stock market is the number of people who are rushing into the IPO market. Initial public offerings are new issues of stocks like the stationary bike company peloton who recently went public on the stock exchange. I know I am a simple farm boy in many ways, however, why would someone pay a monthly membership to ride a bike that goes nowhere? Sadly, we continue to move more and more towards isolation from our neighbors, however, I digress. As you can see by the graph below the public has reduced their desire to purchase IPO’s. This often is a leading indicator that investors are getting more cautious. Remember, the stock market is often a leading indicator for the economy.

As I have said before, this bull market (upward stock market) is being driven by two things:

1. A healthy American consumer
2. Central bank stimulus (namely quantitative easing and low interest rates).

I suspect this upward stock market will continue if these two stimuli are in place. That is the good news. The bad news is that over the long-term, healthy stock markets rise due to rising corporate earnings of the great companies of the world listed on the stock exchange. This makes sense. If earnings of a company are rising, then the company is worth more,
as reflected by the price of its stock. The bad news is shown below in the Citigroup Global Earnings Revisions index graph. This graph shows corporate earnings compared to the United States S&P 500 stock index. The line is diverging as stocks rise in price and corporate earnings are dropping. Ignoring a tiny positive point in April, earnings revisions have been downgraded for nearly 14 months in a row. So bottom line folks, this stock market is voraciously feeding on the crack cocaine of government stimulus and an American consumer that is spending. To have this bull run long term we need to see rising corporate profits.

![Graph showing earnings revisions and S&P 500 index](image)

Source: Richardson GMP Launch Pad, September 30, 2019

Forecasts for 2020 are looking positive but no one really knows for sure.

![Graph showing earnings growth in various regions](image)

Source: Richardson GMP Launch Pad, November 11, 2019
The Good News

I have never met a successful pessimist. That is because I cannot make a good investor out of a person who is fundamentally afraid of the future. So, let's concentrate on some of the good news. One chart my team follows is the sentiment index (The AAII Bull-Bear index). In July this graph was showing a lingering distrust of the stock market. That quite often is a contrarian indicator that is indicative of a stock market that is about to do well. This graph remains in negative territory (-10). However, it has ticked up after reaching a low of -26. Typically, whenever the difference between the bulls and the bears reaches -20 or greater, this represents a near-term low in the market.

![Sentiment still subdued](image1)

Source: Richardson GMP Launch Pad, September 9, 2019

The money market index (mutual fund industries alternative to a bank account) is showing that record amounts of cash is heading to the sidelines. That last time we saw $3.5 trillion head into money market funds was close to the stock market bottom in 2008. Is this a signal that the stock market has further to rise? Only time will tell. The below graph vividly illustrates the foolishness of market timing as the herd mentality is often wrong. When pretending one has a crystal ball it is sure easy to leave the stock market. However, to re-enter the market you must be Kreskin twice. No one on the planet can have that perfect timing. I bet my younger clients are now googling “kreskin”. Bottom line, stock markets typically stop rising when we run out of stock buyers. There is a massive number of buyers on the sidelines who have no started buying yet.

![Cash is on the rise](image2)

Source: Richardson GMP Launch Pad, September 24, 2019
As compared to other years the economic surprise graph is signaling a strong finish to the end of the year.

![Economic Surprise Graph](image)

Source: Richardson GMP Launch Pad, August 21, 2019

There is a lot of negative talk in the press about President Trump globally as we now head for impeachment hearings. However, Americans on the street are thriving and very happy. Consumer confidence has pulled back slightly but is still at all times highs.

![Consumer Confidence Graph](image)

Source: Richardson GMP Launch Pad, September 26, 2019

The United States Consumer is extremely strong. They have lowered their household debt and are enjoying wage growth of 3%. Unemployment is at 52 year historic lows. The U.S. economy is in fact what they call a cinderella economy.
When my friends who are fellow geologists, engineers or resource company presidents are exploring for hydrocarbons they look at hundreds of data points to make decisions. When I make an investment decision my team and I do the same. Below is one very positive data point. It shows that investors are becoming bearish and feel that the stock market is going to drop. This is a strong contrarian leading indicator that often indicates that the stock market is going to rise.

We also track 33 leading indicators to help us make our investment decisions. I attached this chart to my previous newsletter as well. Currently, only 4 of the indicators we watch are bearish. While that is an increase of 1 bearish indicator since my last newsletter, the chance of a recession at present is extremely low.
Central Banks are lowering interest rates which is very good for the economy. This is more of that ‘crack’ that I discussed the stock market is feeding on.
Housing starts are continuing to rise which is a major component of a healthy economy. I think you get the idea. The American economy is humming right now.

Fed cuts & lower yields have injected growth back into housing

Source: Richardson GMP Quarterly Update, October 2019

The United States economy beat the predicted GDP number (economic goods produced). The great news is that number was beaten on the backs of a very strong consumer. This United States consumer accounts for 70% of their economy and 45% of the world economy. As long as they remain strong it is likely that we will avoid a recession. As an investor, it is very dangerous to assume Mr. Trump’s intelligence is as low as his manners.

Source: Richardson GMP Launch Pad, October 30, 2019
I often get asked about currency from my friends and clients who live in the United States and Mexico. I follow currency changes daily as I do place Canadian/US dollar hedges in your portfolio. Our internal studies show that the United States dollar is overvalued against most currencies. We are using ‘purchasing power’ as the measuring stick to build the below chart. This means the Canadian dollar may be on the rise, or maybe it will simply rise because our prime minister has nice hair. I will stop there as I am not qualified to make hair jokes.

Source: Richardson GMP Quarterly Update, October 2019
Employee of the Quarter
Karen Rowell

“There aren’t many of my rare breed, “born and raised in Calgary and still living here”. I graduated from the University of Calgary majoring in Management at age 20, married age 21, widowed age 31, and was the first in Alberta history to suddenly own my late husbands’ General Insurance Agency when I wasn’t even licensed. The Alberta Insurance Council granted me an exception and I took a 1-week crash course to earn my license.

My career has meandered from Management and Management Information Systems to General and Life Insurance, to full time Mom until my baby daughter from my new husband reached grade 1. My 2 sons were so happy to have a little baby sister join our new family!

So, time to go back to work and as I had been brokering Directors and Officers Corporate Liability Insurance while I was at home with my daughter, I decided to get more education and enter the Investments arena. I earned my Canadian Securities License new designation on September 1 of 2001 and hit the streets to land a new job. Then 911 hit and we all know what happened to the stock markets. Having never had to work hard to get a job in my life, I then journeyed through over 50 job interviews. Talk about a learning experience! My new job lasted 3 months and then I was fired, the first time for that too.

I then enjoyed 8 years as Branch Administrator for National Bank Financial Ltd and I had the job of hiring and firing!! Managing over 100 people was also very interesting and challenging.

Time for a break to enjoy completely renovating our family home with my 2 now adult sons, and we redid the entire 5-bedroom home from ceiling to floor, all the plumbing, appliances, light fixtures, even down to the plugs and switches. All that lovely brass magically changed to brushed nickel!! I thoroughly enjoyed taking my hammer to the tiles in the bathroom and boy the pieces flew; my sons just laughed their heads off. I was even given my own hammer as a gift on my birthday and I cried because my sons said I had definitely earned it and knew how to use it.

Then I met Brad. It was a time that he was looking for a team manager and after many meetings to ensure we had a great match, I joined Brad’s team. That was 13 years ago now and the best business decision I have ever made. Brad and I have become great friends and we have learned that the most valuable thing in the practice is our team, so that we can help and protect our next most valuable thing, which is our clients. We have an absolutely fantastic team, and I enjoy coming to work each day.
Another of my favorite things to do is to be a Grandma to my 4 wonderful grandkids, ages 7, 5, 3 and newborn, all from my eldest son’s family. They live 3 hours north and my husband and I spend as much time with them as we can. Kids these days know technology and I get face-timed from the older ones when they sneak Mom’s phone, just love it!

On Wednesdays after work I volunteer at the Peter Lougheed Hospital in the NICU and I get the wonderful opportunity to snuggle little babies! This snuggling gives the preemies a better chance to thrive and the parents really appreciate the snugglers when they cannot be with their wee ones. I love the chance to give back. One day I went to work, then to the NICU, then to my aged mothers Long Term Care facility. Seeing the struggle to start life and the struggle to finish life in one day was overwhelming. Now I do that on 2 different days.

My favorite part of my job here with the team is being the hostess to the meetings and I really look forward to seeing each of you when you come to the office. Please tell me about the babies and grandbabies in your lives and please send me pictures to make my heart smile!

Thank you to Karen for her guidance to the team. She is indeed a mother to many of them and is for sure my ‘work wife’ who points me in the right direction each day. She is a dear friend who I trust 100%.

As always, my dear friends, it is truly a great time to invest and be alive.

Sincerely,

Brad Gustafson, B.Sc., CFP®, CIM®

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