

November 2, 2022

Dear Friends,

On June 15th of this year, I wrote (and hopefully you read) that for the second time in as many years we had another “Start the Car” event. Specifically, I stated the following:

Blue Light Special on aisle DJIA

I don’t say this very often. In fact, it’s so rare that I’m a bit shocked to find myself writing a letter like this twice in the same decade. The last time I wrote about the markets being a great buying opportunity was on March 16, 2020, with a follow-up a couple of weeks later on April 2. Back then I wrote:

*While it’s always possible they could go down further, I believe **we are at or near the bottom and equities are on such a deal that investors should load up as much as they possibly can. This is a “START THE CAR” kind of sale.***

I’m happy to share that the investors who took my advice then and added to their holdings were handsomely rewarded. Since then, the Dow has increased by about 50% — and that’s after accounting for the recent drops.

Dow Jones Industrial Average	
March 16, 2020	20,188
April 2, 2020	21,413
June 14, 2022	30,364
Total Gain	50.41%
Average Annual Return	19.99%

We are being given another rare opportunity to buy stocks while they’re on sale. Take a leaf from IKEA’s book —**don’t miss out** and “Start the car!”

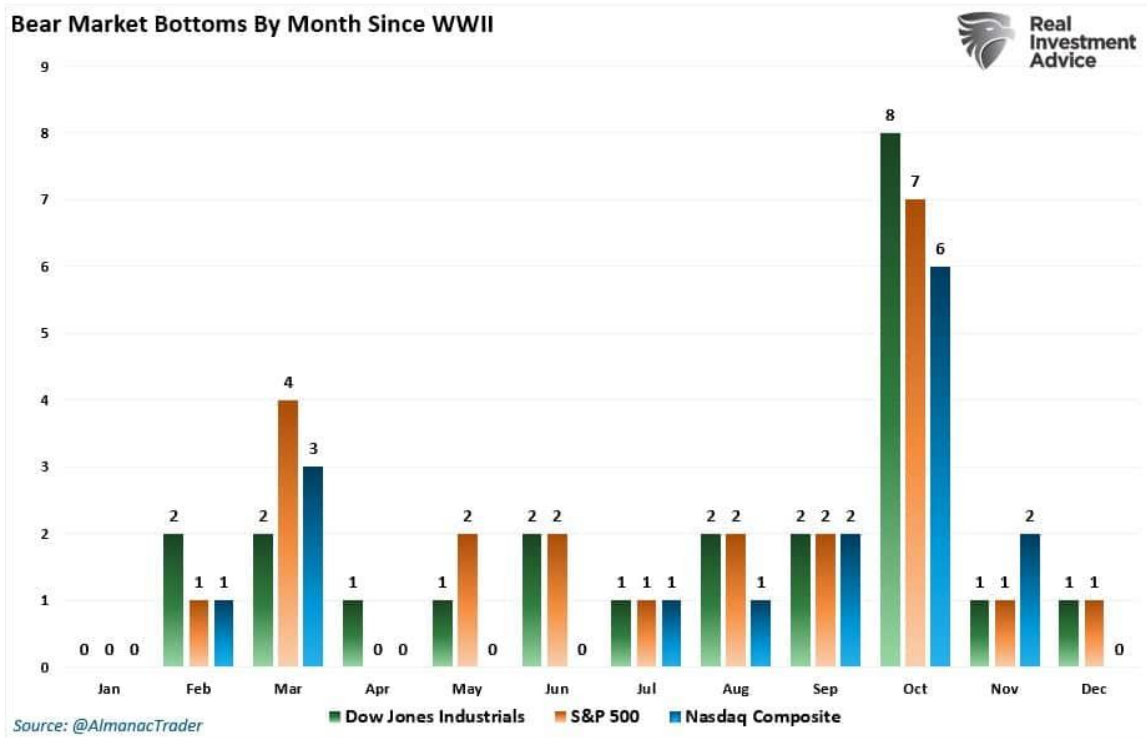
That was earlier this year and, to be fair, I made the call a bit early (markets did indeed decline a bit further following my call), but I am happy to say that as I write this the DJIA is hovering around 33,000 (about a 9% increase from when I wrote the above in June 2022 and about a whopping 63% increase from when I wrote in 2020).

Now, I’m not going so far as to say it’s likely to jump up immediately from here. In fact, in my opinion the most likely scenario is that markets will float around this level for a few months (probably 3 to 6, maybe longer) before the next big bull market brings us to new highs. There is still a small chance that it could drop further, but the most likely outcome is that it will float. Having said that, there is a decent chance that we could get some positive surprises and it could take off much sooner than I anticipate.

Regardless, I am exceedingly confident that in a few short years from now (likely even just 12 months from now) we will all be wishing we had invested more.

Why do I think that?

Partly history. October has been the beginning of a new bull market (or the bottoming of a bear market, depending on how you want to say it) more often than any other month. Check out this chart from an article on Investing.com.



Partly current valuations. I place a lot of trust in the fund managers that we use, but someone wise once told me it's best to adopt a policy of "trust but verify". I recently took the time to review some share price valuations (to verify what I was being told by fund managers), particularly in the Canadian Value/Dividend space, and was surprised at what I found. I shouldn't have been. I already believed that stocks were relatively cheap, but upon doing a deeper dive, I was surprised at how cheap they really were.

And finally, partly because there is a tendency for markets to look into the future and react long before recessions or recoveries occur. Think of it like the seasons of the year. As winter ends, we anticipate spring, and we know that summer isn't too far behind. In the same way, markets have a tendency to start rising BEFORE things improve as they anticipate the coming recovery.

Even if the worst happens (Putin drops a nuke, China attempts to take over Taiwan, or an all-out housing market collapse leading to mortgage defaults), as unlikely as these events are, in my opinion markets will initially fall further (probably significantly). It might take more than my initially expected year or two

for things to get back to normal, but it wouldn't be much longer than that. Stocks are so cheap that their profits and dividends will prop them up in relatively short order.

Again, the above is what I would refer to as some worst-case scenarios (we call them fat-tail events in the industry). Things that are exceedingly rare, but you can never completely rule out. Personally, I might peg the odds of that happening at around 1% (and even that is probably being far too pessimistic).

Much, much, **much** more likely are the other two scenarios I pointed to: either a consolidating phase where we trade around where we are for a while and then things jump up (most likely – I'd peg it at a 75% likelihood) or a rapid increase from here (less likely but a definite possibility – maybe a 25% likelihood).

At the end of the day, I am begging you, I implore you, add as much as you can into markets as soon as you can. I've done that myself and I stand by it.

Please reach out if you want to discuss this or any other matter. We would love to hear from you.

Best regards,

Arnold Machel