

Issue 14

BUFFETT JOINS THE GOLD RUSH

The stock market had another good week, with the S&P 500 index finishing up 0.6% to 3372.85; the Dow Jones Industrial Average rising 497.54 points, or 1.8% to 27,931.02, and the Nasdaq Composite gaining 0.1%. The S&P 500 is up 50% over 100 trading days, taking it to the edge of a record high on February 19th, making this rally the strongest in history and, by some interpretations, ending the shortest bear market ever. In other words, if you went to sleep on February 19th and woke up on August 14th, you would think that nothing had happened. Based on some tactical, calendar and sentiment indicators, this powerful rebound is looking mature and prone to slow down or slip back in the short term. The sharpness and speed of the downturn – and the immediacy of the overwhelming liquidity and fiscal response from the Federal Reserve and Congress – forestalled the kind of grinding, purgative action of typical bear markets, which brings out excesses and resets valuations lower. There was also not the shift in market leadership that usually occurs in the crucible of a bear market.

Assuming that the S&P 500 does trade at a new high, it would be the fastest recovery from a bear market on record. It wouldn't even matter if the S&P 500 took its time as the previous record was 310 trading days from the bear-market low on February 9th, 1966 to May 4th, 1967. Retail investors have been less willing to trust this comeback rally in the face of severe economic stress, yet even here, a nearly \$5 billion net inflow into domestic equity funds at last report was the highest in nine weeks. Coming just as Apple ran to the cusp of a \$2 trillion market capitalization and Tesla soared anew on the fundamentally substance-free announcement of a 5-for-1 stock split, it all suggests an emerging complacency that could make further easy upside difficult and leaving the broad market ill-positioned for any adverse surprise.

The market is being led by companies that have gotten stronger because of the coronavirus, can offer growth at a time when the Federal Reserve has pushed interest rates well below the level of inflation. A trifecta of inflation numbers came in hotter than expected this week, with consumer prices, producer prices, and import prices for July all rising at faster paces than economists anticipated. Notably, consumer prices-excluding the more-volatile food and energy categories-rose at the quickest clip since 1991. As David Rosenberg, chief economist at Rosenberg Research, puts it, the inflation that's coming down the pike carries a big asterisk. "Inflation because of surging demand is almost benevolent," he says, but what we face is more cost-driven inflation, or stagflation, which occurs alongside weak economic growth. "Stagflation is a nefarious inflationary backdrop," Rosenberg says, adding that while the Federal Reserve has been eager for inflation to rise, stagflation isn't the version anyone welcomes.



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MARKET SUMMARIES

(at Friday's close)

S&P/TSX Composite **down 0.09%** at 16,514.61 (**down 3.22% ytd**)

S&P/TSX Venture **down 0.50%** at 737.65 (**up 27.72% ytd**)

S&P 500 **down 0.02%** at 3,372.85 (**up 4.40% ytd**)

Dow Jones Industrial Avg. **up 0.12%** at 27,931.02 (**down 2.13% ytd**)

Nasdaq Composite **down 0.21%** at 11,019.30 (**up 22.81% ytd**)

Metals

Gold: \$1951.70

Silver: \$26.49

Copper \$2.88

Energy

Brent Crude Oil: \$44.89

WTI Crude Oil: \$42.44

Natural Gas: \$2.347



Earnings season continues to roll on throughout August, and for the week ahead we expect to see reports from Home Depot (HD) AND Walmart (WMT) on Tuesday. On Wednesday, we expect Target (TGT) and NVIDIA (NVDA) to report earnings. Both Walmart and Target were early beneficiaries of the shutdown because they didn't have to, well, shut down. Their recent investments in online efforts have been viewed as advantages because they allowed the companies to ship direct, or let customers come in for a curbside pickup.

A newsmaker this past week was Warren Buffett's Berkshire Hathaway Inc. putting its gilded name behind one of the largest gold-mining firms, adding to the list of big-name investors making wagers tied to the precious metal at a time of significant economic uncertainty. Berkshire late Friday disclosed that it held a \$565 million stake in Barrick Gold Corp., the world's second-largest gold miner, at the end of the second quarter. The stake makes Berkshire the 11th-largest shareholder in Toronto-based Barrick.

In Canada, this past week the S&P/TSX Composite fell 0.2% to close the week off at 16,514.61 remaining down year-to-date. The S&P/TSX Venture dropped 0.3% this week, yet it continues to outpace gains made by major indices on both sides of the border.

WHAT'S AHEAD

Stocks could hang at record levels, but gains may be capped until Congress agrees to a new stimulus package to help the economy and the millions of unemployed Americans. There is a concern that Congress will not be convinced to provide a big enough package when it does get to work again on the next stimulus round because recent economic reports look stronger. In the pandemic era, some troubling aspects have further amplified the disconnect between the stock market and the real economy. An unprecedented surge in liquidity from the Federal Reserve contributed to the rapid stock market recovery. Growing belief that the pandemic will alter the way we live, work and entertain, and the expected windfall from such a fundamental shift for Big Tech and a few other "winners" has caused the stock market to become top-heavy. While there are rational explanations for the normal level of disconnect between equity returns and economic performance, the current historically wide gap suggests the presence of significant distortion as well as heightened levels of uncertainty.

Our quote of the week is from the CEO of Berkshire Hathaway, Warren Buffett.

" The stock market is a device for transferring money from the impatient to the patient."

FINANCIAL PLANNING TIP OF THE WEEK

Common Elements of an Estate Plan:

- Ensuring all adult family members have a valid and up to date Power of Attorney
- Evaluating insurance coverage (e.g. do you have enough coverage?)
- Reviewing ownership structures (e.g. which assets will pass through your estate or outside your estate?)
- Updating beneficiary designations on registered plans and insurance policies;
- Planning for taxes at death
- Evaluating advanced estate planning opportunities (e.g. the use of trusts)





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