Delta variant & investor implications

Announcer: Welcome to The Empowered Investor podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Keith: Welcome to The Empowered Investor. My name is Keith Matthews. And today, I'm joined by my co-hosts Marcelo Taboada and Ruben Antoine. Guys, welcome to today's show.

Ruben: Thank you, Keith. I'm so happy to be back for a podcast episode with both Marcelo and yourself. It's been a while.

Marcelo: It's going to be a great episode.

Keith: Today's episode, we're covering the Delta variant and, in particular, implications for investors. There's a lot going on right now. We're in the month of September, we're going into fall, and I think it's really important for investors to reflect on the do's and don'ts regarding the Delta variant. So let's jump in and go over some of the basics. Ruben, what is the Delta variant?

Ruben: Yes, the Delta variant basically is a new mutation of the COVID-19 virus that is not only more contagious but is spreading around the world. We all know that vaccinated people can also get and spread the Delta variant, but the people that are more at risk are the unvaccinated people.

Keith: And so when did the Delta variant start? How did it begin?

Ruben: It was back in December 2020. It was identified in India, and soon after, that strain of the virus started spreading in Great Britain and the U.S. Right now, the Delta variant accounts for approximately 93% of the new COVID-19 cases in the U.S., so it's really becoming a big issue.

Keith: And so we've gone through multiple waves. People are discussing this as the fourth wave. The investment climate was such where people were starting to think that we'd gone through the most challenging parts and everything was just going to be positive, and all markets and economies were going to be lifted. But why, Marcelo, is this becoming an issue now?

Marcelo: I think it's a few things, right? I think a lot of us were seeing the light at the end of the tunnel. We had strong vaccine rollouts. I still remember the day when the vaccines were announced; I was so excited. And I told my wife, it's great that everything's going to slowly come back to normal. We started seeing a lot of recovery in the economies, people were going out again and spending, and restaurants started doing well. So everything was looking like it was going to become normal again. But then we started hearing this news, and now there's a lot of concern and stress about what this Delta variant may mean. A lot of the businesses that were thriving during this initial recovery are now getting concerned about what this may mean. Like, I'm talking about restaurants, consumer spending companies. So that's where we're at right now, and that's an issue because people had foreseen already different than what it is now.

Keith: It seemed like it was full steam ahead, and now all of a sudden we've got some bumpiness. We're seeing that bumpiness in economic statistics that are coming out. The Canadian GDP in the second quarter was actually negative, and that surprised a lot of people. And we're already seeing in the U.S. Morgan Stanley and Goldman Sachs have reduced their growth forecasts from this incredibly rapid pace of six, seven, eight percent. They're reducing it down to three or five percent. Still very strong, no doubt, but not quite as strong as what people had originally thought. Ruben, any comments on why this is an issue? Why has it become an issue again?

Ruben: I think Marcelo says it well. People are being worried about the impact. We all experienced a lockdown last year, and we have concerns about if this is going to happen again. So the biggest worry is the emotions and the concern of the people. And when they are driven by emotion, they may make some very bad decisions because they're not well thought out. And it can be on the investment side but also in their personal life. So I think that's an issue.

Keith: Yes, you touch on a very important issue: emotions. And emotions in investing are not a great cocktail. So as we get on, we're going to go over this stuff. But Marcelo, we spoke about three different areas that we want to take a look at from an economic and an investment perspective. We wanted to touch base on the economy, the bond market, and the stock market. So Marcelo, why don't you give us a little bit of an update on the economic front?

Marcelo: So the economic update is the numbers we got lastly showed that the U.S. consumer sentiment had dropped to its lowest level in six months, which is big news because, like I said, if you look at from November of last year when the vaccines were announced, there was a lot of euphoria in the market and people were happy to be able to go out again and see their families and consume and go out to restaurants. A lot of that has changed. Almost disappeared now. Small business confidence has trended downward over the past few months. Entrepreneurs are becoming more anxious about the reopening, and yeah, the variant is causing uncertainty because even though we're familiar with how things went during the first lockdown, we do not know how this new variant will affect things.

Keith: Yeah, you're right. And the markets are always forward-looking. So the economy is open, restaurants, businesses, manufacturing, everything is working again. However, there is a concern and a worry about what might happen in the next month, two or three, or the winter. That's what you're speaking to. Absolutely. And how is the bond market reacting? A lot of people tend to look at the stock market as the sort of gauge as to how the economy is doing, but the bond market is also a very important gauge. What's it telling us? What's it suggesting?

Ruben: You have a good point, Keith. The bond market gave us some signal as well. So because there are uncertainties in the markets and increased fears, people, when this happens, they tend to move to what we call safe-haven assets such as government bonds. So because of that, the yields, the 10-year yields, have dropped from 1.79 to 1.20%, which is one of the lowest points since February.

Keith: Yeah. So we had this in some of the earlier podcasts that we had done. We talked about the economy heating up and inflation, and the bond market was actually suggesting the opposite. It was saying that there's going to be an issue, there's going to be a slowdown. And so bonds are going to become more attractive. And that's essentially what you're saying, Ruben, got priced into bonds.

Ruben: Exactly.

Keith: Yeah. What about stocks?

Ruben: Yeah, stocks are tricky because I get a lot of questions from clients saying how come we are hearing news that certain people interpret as maybe bad or storms are coming and the stocks are rising, for example. But when we go into the details, what we are seeing is that if you remember last year, Keith, during February to March and the whole crash, there were some stocks that were doing well, what we call lockdown stocks, such as tech stocks or all the tools that we've been using, the Zooms, the Uber, the Amazons. Those companies were doing well. And there were some other sectors that were not doing that well, for example, traveling, the service sector, etc. So since last fall, we were seeing some good growth from the reopening stocks or what we call the services, the traveling, etc. And the growth stocks were experiencing some slowdown. But right now, there's been another rotation to lockdown stocks. So it seems that the market, which is basically millions of investors voting, is saying that they think that there may be some kind of, I don't know, lockdown or not lockdown but something that may affect the stocks that were starting to see the light at the end of the tunnel. So they are going back to those growth companies, those tech stocks in terms of investing. So that's the one that is doing better right now.

Keith: Yeah. So what you're speaking about is a rotation back to growth stocks. So we've seen in the last 18 months, Ruben and Marcelo, we've seen a lot of rotations in the market. Rotation for our listeners is when investors move away from a certain style into another style. So they rotate out of a sector and into a sector. So at the beginning of the pandemic a year and a half ago, everything rotated towards growth and lockdown stocks and rotated away from value or cyclical stocks. And then come vaccines, we had a massive rotation back to value and away from growth. And Ruben, what you're talking about is there's been almost like a third rotation here back from value towards growth. And all of this is in the last two months.

Ruben: Exactly. Exactly. Let me ask you a question to both you, Keith and Marcelo. Why do you think with all what we are mentioning, uncertainties, and people are saying that there may be some volatility coming in the market, why do you think the stock market as a whole is still going up? Just to get your views on that?

Marcelo: Obviously, we're speculating. Nobody has a crystal ball, but I think my personal take is that human beings and the stock market, in general, hate unpredictability. And this time, it's not like we know exactly what's going to happen, but we already went through a lockdown. We've been in the pandemic for a year and a half. So I think even though the variant may cause some lockdowns to release some pressure in the medical system, I think everybody knows and the situation has been a bit normalized. So I think that's driving the stock market and people saying, you know what, even though it's going to get bad somehow, we're going to get through this, and it's going to be fine down the line. So I think that's like mixing in there. This is not like a crisis like 2008 where the whole financial system and the credit system collapsed. The next recession is not going to be like that. So I think this pandemic, you remove that uncertainty, and we're almost living the same thing, but we've been used to it for already a year and a half. So I think that's causing it, but again, that's just my opinion.

Keith: Yeah, but I'd go as far, Marcelo, I don't think we can ever determine what kind of a next recession we're going to have and what it will look like. These are the most unpredictable things out there. I think you raised some good points. I think, Ruben, to your question, the stimulus that came through in the governments, the extra money in the system, the very low interest rates are keeping market valuations fairly high. To me, the analogy is this is a little bit like a duck. We've spoken about this before, the duck going across the pond. What we see is a duck gliding smoothly across the water. But what's actually happening is the feet are moving at a thousand miles an hour. And I think the same thing is going on in the stock market right now where you have huge amounts of movements and rotations from certain companies back to other companies. You had companies that were at all-time highs coming down dramatically and losing significant valuations. All of this is going on while the market is slowly moving up.

Ruben: People are not necessarily getting out of the market. They are jumping from one sector to another. That's what you're saying.

Keith: They're jumping from one sector to another. The market's moving up slowly. The valuations are being pushed by extremely low interest rates, extra money in the system. And the reality of it, you guys all know that we don't predict any market movements. It's not part of our investment philosophy. We don't think that's a winning approach. But suffice it to say, what the Delta variant I think is doing is it's creating a lot of emotions and it's getting people to think about things and react. And they're reacting financially with certain moves. That's affecting the way stocks are being traded, the way bonds are being traded. And I think it's worth discussing. At the end of the day, we still have our philosophy that we subscribe to, and we're not going to let anything get in the way of that. So with that, let's move towards what investors should do. So let me ask either one of you a question. Should investors try to say, let me get out of the market, I think there's some danger coming, or there's some volatility, should I sell the stock market and go to cash? What do you guys think?

Marcelo: I have heard, and I could see how some investors are asking themselves the question, should we be doing something like getting out of a sector or moving to cash? And that's very tricky because you got to be right twice. And even though we know we may be going through a lockdown, we don't know how long and how bad it's going to get. So for that reason, it's really a bad idea to time the market based on the information you have today because it's so unpredictable.

Keith: Yeah, but you're also suggesting that there's a lockdown. Most governments are trying their very best to not ever do another lockdown. I'm not saying that's going to be the case, but that's what they're trying with a lot of the passports and a lot of the different initiatives that are being put in place. It's so that there isn't another lockdown.

Marcelo: Sure. But the information is so volatile, day to day, it changes so quickly that I have heard that if the variant gets to a point that it's affecting people who are vaccinated, we could see a situation where the medical system gets saturated again.

Keith: Yeah, you're right. You're right.

Ruben: It's definitely one of the scenarios. There may be some best-case scenarios, mid-case, and there is the worst-case scenario where we may come back to what we experienced last year. We don't hope that, but it's basically a scenario if things get out of control.

Keith: Correct. Fair enough. You're right. So Ruben, what are you sensing from investors as they ask questions? What kind of questions do they ask right now?

Ruben: I think this question is a classic, right? Pandemic or not, there's always some investors asking the advisor or just wondering if they should get out of the market. Sometimes it's another reason, like the market is too high even when everything is going well. So it's always that one thing to protect capital. So I do sense that as well, especially with all the uncertainties and people wondering if they should get out and come back. But to that question, I'm with Marcelo. I remember last year if an investor were to get out when things were going very bad towards the end of March and they were waiting in cash, they would have missed the recovery and they would have regretted it. So you can see that, of course, last year was not what we usually see, like a really quick crash and a quick recovery, but still, it's an example that shows that the best strategy is to stay invested. And I always say if you're on a boat, for example, and there is a storm and everything is working and you have waves, of course, you could say I will jump in the water and try to swim to shore, but that's not the best strategy, right? The best strategy is to stay on the boat. It might be a bit rocky, but you have the best chance to reach the port. So that's the example I always give to my clients. And that's what I would advise to all investors is to stay invested.

Keith: You know what? That's a great analogy, Ruben. I love that. It made me think of my sailing days. There was a rule basically if your boat ever capsized, even in big waters, even on big boats, you never leave your boat.

Ruben: You stay on.

Keith: You stay on your boat and you wait to get rescued because you can't swim out.

Ruben: Exactly. Exactly.

Keith: So how about the next question? Should people change investment styles? Should they try to say things like I see all this rotation going on, let me jump from one sector to another sector and see if I can make money doing that?

Ruben: We just discussed it earlier. We are going to our third rotation, and you can see how fast these things happen. And each time we couldn't know that we would be going from value to growth and growth to value and back and so on. So I think this style rotation, if someone would like to do that strategy, is really hard to time. And it's really hard to know exactly when to get in and out. It's similar to what Marcelo was saying with getting out of the market to cash and getting back in. I just don't think they can be predicted.

Marcelo: Yeah, it's incredible. How many years in a row we've heard reports from like value is dead and value getting hammered in the media, and it culminated in the pandemic with growth really outperforming value. And then vaccines were announced, and then value bounced back really well. So nobody could have predicted that. So sometimes the swings are violent, and they just happen quickly. And as we've seen, Keith and Ruben, some of the value outperformance that we saw after the vaccines were announced was one of the best we've seen in years, and people were calling it dead. So to me, when you're timing the factor sectors, it's just so hard.

Keith: Yeah, and the timing of factors or chasing, it's all the same. Chasing performance is often driven by emotions, and it can get people into real difficulties. We've got two live examples. One is with our colleague Lawrence who's selling his secondhand car. Either one of you know the story behind that and some of the outcomes that he's seeing.

Ruben: He bought a secondhand car. So Lawrence was on our last show for the robo advisor. He's one of our associate portfolio managers. He bought a secondhand car four years ago. I think it was a nine-year-old Toyota Corolla and used it for a bunch of years. Now he's selling it for more money than he originally purchased it at, and there's a bidding war for his car.

Ruben: Crazy.

Keith: I've never heard that before in my life. But this is this insatiable appetite that Canadians have for cars. Now obviously, there's a chip shortage and the new cars are not rolling off, but everybody wants more cars. Now they want the car. So they're bidding up secondhand cars, and they're doing it in a way that you've never seen before. In cottage country, people are chasing pontoon boats. Pontoon boats were these boats that you put, I don't know, five to 10 people on. You go out in the lake and you'd have a beer or cocktail maybe, and you'd hang out in the sun. And right now, three or four-year-old secondhand pontoon boats are almost going for the same price as a brand new, if not more, depending on people's insatiable appetite and emotions to want something right now. And the same thing is going on with stocks. So if it's going on with cars and pontoon boats, the same kind of emotional chasing is going on in the stock market. So what would you guys say for somebody who wants to chase? Obviously, it's the same thing. Don't chase.

Marcelo: Yeah. For me, it's you've set up an investment philosophy, stick to it, stay consistent. I think we've discussed it many times on the show before, Ruben and Keith, that some companies are celebrity companies now like Tesla, Zoom, Amazon, Google, and they tend to deviate sometimes the attention from the actual returns. And just because a company's famous doesn't mean you're going to get good returns. So I think you set up a process, you stick to it, and you stay consistent. And then you try to not do anything too crazy. That's what I would do.

Keith: Those are great comments, Marcelo. What are the pitfalls we want individuals to avoid? What would we recommend? Stay away from this trap.

Ruben: One pitfall that is really important is what you were mentioning before, Keith. People need to check their emotions. You give the example of secondhand cars and pontoon boats, but the same can be said for dogs, cottages, and people buying pools, especially when it's based on just because we're in a pandemic and we are staying home. So people need to check when they are making an investment. Is it being motivated by emotion? And there's two main emotions that they need to be careful about. It's the fear. So when they want to get out of the market because they think that the Delta variant will cause some kind of storm in the future. Or the greed, if they want to jump on those story stocks that Marcelo was mentioning, they just want to be on that train and make money because they heard their cousin make money on Tesla, for example. So they need to be careful about those two emotions that can cause trouble in the future.

Keith: You're absolutely right. So you're absolutely right, Ruben. Our list of pitfalls to stay away from, I'm just going to read a few of them out. These are some of our classics that we always subscribe to on the podcast and in the way we conduct ourselves. No speculative moves, no market timing, stay away from predictions. Do not build portfolios based on predictions. Do not chase ideas or stories. Essentially, you end up paying way too much for a security, which then doesn't perform very well thereafter. And then the biggest one is check your emotions. Like you said, Ruben, that's a fantastic one. Check your emotions at the door and stay disciplined long-term. So as we wrap up the show here, this is supposed to be a short, concise sort of commentary for clients and listeners around the Delta variant. What are your takeaways? What are your best words of advice here, given all of the media coverage and the health issues that are going on?

Marcelo: I think I mentioned it in my comments before, and I can't stress it enough. It's the importance of having an investment philosophy that adds some checks and balances when you want to be fearful when you want to be scared when you want to go chasing. Going back and checking in your investment philosophy is my takeaway. And if you have one and you've set yourself on one, just remind yourself that you're in there for the long-term and you're not supposed to be doing short-term things that may hurt you financially.

Keith: That's a great takeaway, Marcelo. Fantastic. Ruben, what's your takeaway for today's show?

Ruben: I will add on to what Marcelo was saying. I think after a year, a bit more than a year now, what we are learning is that the world economic recovery and that war against COVID that we want to win will not be linear. So I think basically there will be other variants, to be honest. They are already talking about the new variant. So we just need to be sure that we are being resilient. Those other variants and those other challenges would come and test us as people but also as investors. So we need to be aware of that. And we just need to hold tight and stay on track.

Keith: That's so true. Yeah, great perspective, Ruben. That's fantastic. I concur completely with both of you: investment philosophy and keep perspective. Those are two great takeaways. The one I'll add in is stay away from the pitfalls. They will get you into trouble and check your emotions. And with that, guys, thank you for both being on today's show. Oh, and we have a last announcement. Ruben, you're going to be switching gears in a couple of weeks from now. You got one or two more interviews left, but then you're going to be launching the new French podcast. Tell us a little bit about that, Ruben. So exciting.

Ruben: Yes, I'm really excited about that project because now we've been doing the English podcast for, was it a year or more than a year, almost two years. We are getting to two years now.

Keith: We're a year and a half. We've done 40 episodes now.

Ruben: Exactly. So it's been a great experience and we have learned a lot. I myself really enjoy being a host on that podcast with you guys, but we thought that it would be great to have the French equivalent. So basically, the French would be called *L'Investisseur Transformé* that we are looking to launch at the beginning of the next year. So yeah, it will be basically the same philosophy, the same approach, but maybe slightly different subjects or sometimes very similar subjects. And I'm really looking forward to being able to reach the French-speaking audience as well and share our knowledge and our perspective.

Keith: That's an amazing initiative, Ruben. I know you're going to do incredibly well. We've got a lot of individuals with a lot of different languages, and you're trilingual. So the fact that you have been able to do the English one has been amazing. You've been a great co-host. Really fantastic to have you on. Looking forward to encouraging and supporting you, doing everything we can to make sure that the French podcast is a big hit. Marcelo, you're not going anywhere. You're not doing the Spanish podcast.

Marcelo: Not yet. Who knows? If it keeps going well, you may have to do the Spanish podcast.

Keith: I think we're up to probably 10-11 languages in the firm spoken by our entire group. So it is fantastic to see the diversity. It's amazing to see the culture that's built here internally. I'm so proud of being a part of everything. And so Ruben, listen, on behalf of Marcelo, myself, and all of our listeners, you've got one or two more shows left, but this is our last trio. Good luck, and we'll be watching that progress. I'm sure it'll be amazing.

Ruben: Thank you. Thank you. And thanks for the support and yeah, stay tuned. I'm really looking forward to it.

Keith: And to our audience, thank you so much for tuning into The Empowered Investor episode 40. We hope that it's been a good learning experience for you, and we look forward to hearing and speaking to you in the future. Bye.

Ruben: Cheers.

Announcer: You've been listening to The Empowered Investor Podcast hosted by Keith Matthews. Please visit TMA-invest.com to subscribe to this podcast, learn more about how his firm helps Canadian investors, or to request a complimentary copy of *The Empowered Investor*. Investments and investing strategies should be evaluated based on your own objectives. Listeners of this podcast should use their best judgment and consult a financial expert prior to making any investment decisions based on the information found in this podcast.