Capitalize on Uncertainty

The final quarter of 2019 resolved some important uncertainties. The Canadian Federal Liberals won the election but lost their majority. NAFTA II (USMCA) has been accepted, and Great Britain finally has a definite timeline to leave the EU. Still, there are some worries in the outlook.

Right now, the economy doesn't look to be one of them. Many pundits are predicting a North American recession, maybe late 2020 or early 2021. Some of them were also predicting a recession for 2019. Central to their fears seems to be that we haven't had a prolonged downturn in the economy for more than a dozen years, like a weatherman predicting rain because we haven't had any lately. They should realize that predicting an abrupt change in trends is brave but often hazardous.

Personally, my main worries about the Canadian economy are the shortage of skilled workers and insufficient infra-structure to export our energy assets to the world. Also worrisome is that Canada is weak at producing patentable technology that will produce revenue from abroad. Both the U.S. and Japan have positive trade balances in this area while Canada's balance is steeply negative. Canada's support program for technological research is largely based on support for university research. This does not seem to be working, possibly because universities do not engender the entrepreneurial instincts needed to take research programs to financial success.

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But these are old concerns, ones fairly familiar to regular consumers of the financial press. Shorter term, what happens if the Democrats choose a leader too far left to assure a victory over Trump? If Trump wins a second term, it will surely mean a continuation of his primitive trade strategy of "tariffs, maybe more tariffs, unless…".

Geopolitical dislocations notwithstanding, there is a good case to be made for healthy financial markets for the period ahead. The economy is sloshing in money, credit is cheap, and the stock market has proven itself to be the best place to invest. However, markets are trading near all-time high levels, and apart from resource stocks there are not many bargains to be had. That puts a premium on anticipating dislocations and being confident enough to buy the dips in the market when and if they occur.

Technology looks to remain the best destination for new money in the market. Every industry is being affected by technology. Bricks and mortar banks are mortuaries, and data shows online shopping growing at a rate of 15% a year. Years ago, technology took over record-keeping and some diagnoses in healthcare. Now it also performs some of the most delicate surgeries. For investors, technology is the primary path for companies to grow or at least remain competitive. Companies producing or benefiting from technological advances remain uniquely promising places to invest.

Strangely, technology, for all its wonders, doesn't yet look ready to be a great investment practitioner. Artificial intelligence applied to stock selection remains unimpressive. Even when these big techno-brains mull over all the information available from all the sources, its decisions often disappoint and disappoint even more often the longer the program is used. The only explanation is that the world of finance is constantly shifting, growing, pausing and shrinking in patterns that don't repeat themselves sufficiently often. Possibly similar to so many other complex human activities.

It doesn't look likely that investor grey matter will be put out of business anytime soon.

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