



Financial Letter  
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## Introduction

Hello everyone,

The three months ended on September 30, like the previous two quarters, gave investors a rough ride. A number of macroeconomic factors were aligned, including inflation that was higher and more persistent than the major central banks had anticipated.

That being said, active portfolio management may be rewarding when the unexpected occurs. In other words, when volatility is low and markets are rising, a traditional passive approach may prove effective despite its inherent risks.

We continued to favour a defensive approach while keeping a lookout for opportunities, which unfortunately did not materialize. As a result, our portfolios currently contain a high ratio of cash along with equities whose fundamental value is high in our view.

And the results speak for themselves. For example, while the S&P 500 lost 9% in September, our traditionally managed client portfolios remained virtually neutral and the Rivemont Alpha Fund posted a 5.6% gain.

The main purpose of this newsletter is to give an overview of the equities we acquired to differentiate ourselves in the current market. As usual, we will wrap up with our market outlook and an outline of our top positions.

Enjoy!

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*“We believe that a dynamic allocation to equities is important.”*

*“Selling the American technology stocks was beneficial to the portfolios.”*

## Private Wealth Management

We often read in the financial literature that it's important to use market downturns to seize opportunities and buy undervalued stocks. Other voices argue that it's better to stay invested at all times because no one can predict the future. Clearly, these two statements cannot be true at the same time. Seizing opportunities requires cash, which means that a sale has to have been made previously.

Another major benefit of selling certain equities is that the stocks retained in the portfolio are often more robust and able to weather tougher times even though diversification has been reduced.

As a result, our “growth” strategy showed a positive return of 1% during the quarter and posted a decline of only 3.7% year over year. Similarly, equities as a whole in our portfolio returned +5.3% for the quarter and +6.1% year over year.

To learn more about these returns, follow this link:

<https://rivemont.ca/en/performance-private-wealth>

Here is how we achieved these results.

First, we cleared our portfolios of all U.S. large-cap IT equities, which we felt were highly overvalued. I'm referring here to the Amazons, METAs, and Facebooks of this world. Amazon is the stock we held on to the longest before finally getting rid of it in this difficult market.

During last July's rally, we tried to start replenishing the portfolios by adding KBR (engineering) and Boralex (renewable energy), two companies that we had been following for several months. It was a bad move. This rally was actually a brief and minor so-called “*dead cat bounce*.” We jettisoned those shares right away and were left with the substantial cash position that we currently hold.

To give you a glimpse of the carnage we avoided, here's how the Nasdaq performed in recent months:

*“The NASDAQ had a dismal performance since the beginning of the year.”*



In fact, our only mistake this year – because even we slip up – is that we failed to provide our portfolio with an exposure to energy, which has been rising steadily since November 2020 and obviously benefited from Russia’s invasion of Ukraine. However, even this sector has recently shown worrying signs of weakness.

### Bonds

For the first time in 12 years, we are now fully invested in bonds. Interest rates are now high enough that this contribution is not insignificant in the portfolios. Bond prices may well drop again, particularly for corporate issues. However, in the medium term, interest rates should be able to at least cover these potential declines.

*“With most of the increases in interest rates behind us, bonds becoming attractive again.”*

### The Rivemont Alpha Fund

As many of you know, I have been a columnist for *Les Affaires* for a year now, writing articles for a section that focuses on alternative investments. As I like to repeat, all well-constructed portfolios should incorporate an alternative portion that is not correlated with traditional assets. At Rivemont, we use the Rivemont Alpha Fund to achieve this goal.

Since the start of the year, the fund is up 2.2% and its annualized return has stood at 6% for almost three years. As such, it has fully achieved its objective of reducing portfolio volatility in a period of declining markets, which is reflected in the traditional strategy returns that I outlined above.



*“The Rivemont Alpha Fund  
post a positive return in a  
correction period for  
markets.”*

If you have not entrusted your portfolio to Rivemont, but instead to another portfolio manager, you can still access this fund through the pan-Canadian Fundserv platform. Please feel free to speak with your advisor.



## Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Underweight in stocks.	Rates should continue rising over the coming months, but at a slower pace.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	Canadian equities are becoming attractive again.	Rotate from a growth approach to a value approach.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Bonds are becoming attractive again.	We recommend a combination of government and corporate bonds.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	U.S. assets remain just as essential to portfolios.	The U.S. dollar is expected to remain strong relative to the Canadian dollar.



## Favorite Securities

You will find below a list of the individual securities with the largest weight in our "growth" portfolio. These stocks were selected based on their respective potential to outperform the stock market. You will find a short description of their activities, the annual dividend, if any, and the total return since their first inclusion in our portfolio.

As of October 25<sup>th</sup>, 2022

1) Symbol: CTVA

Name: **Corteva**

Description: Agri-food products

Dividend Yield: 1.0%

Total Return: 26.6%

2) Symbol: IFC

Name: **Intact Financial**

Description: Casualty insurance

Dividend Yield: 2.1%

Total Return: 117.0%

3) Symbol: SANM

Name: **Sanmina**

Description: Electronic parts and systems

Dividend Yield: 0.0%

Total Return: 24.2%

4) Symbol: NTR

Name: **Nutrien**

Description: Potash producer

Dividend Yield: 2.3%

Total Return: 11.2%

5) Symbol: RY

Name: **Royal Bank**

Description: Financial services

Dividend Yield: 4.1%

Total Return: 68.9%

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## Conclusion

If you have not yet read some of my articles in *Les Affaires*, or would like to learn more about alternative investments, go to the following page right away:

<https://www.lesaffaires.com/auteur/martin-lalonde/2371>

You're also welcome to follow us on Facebook, LinkedIn and Twitter.

Finally, and most importantly, if people in your circle have incurred significant market losses in the past year, don't hesitate to put them in touch with us. It will be a good move for them, and for Rivemont.

Sincerely,

Martin Lalonde, MBA, CFA  
President

# RIVEMONT

The information presented is dated September 30<sup>th</sup>, 2022 unless otherwise specified and is for information purposes only. The information comes from sources that we deem reliable, but its accuracy is not guaranteed. This is not financial, legal or tax advice. Rivemont Investments is not responsible for errors or omissions with respect to this information or for any loss or damage suffered as a result of reading it.

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