

Extra! Extra! Read All About It! | October 2016

“The man who reads nothing at all is better educated than the man
who reads nothing but newspapers”

Thomas Jefferson

Every day we are bombarded with a barrage of news, delivered to us at breakneck speed. In theory, all this access to information should leave us more informed and better equipped to make decisions. But as the Trump campaign has reminded us, theory and practice are two very different animals.

Take for example the research done by psychologist Paul Andreassen in the late 1980s. In his experiments, investors without access to financial media earned higher returns than those that did. The group following the news closely was guilty of overtrading and overreacting to the latest headlines, thus impairing performance.

Fast-forward to today and some argue that the information overload is just too much. And in the pursuit of speed and brevity, veracity and quality have been sacrificed. Whether you ascribe to these theories or not, the reality is that it's very difficult to get an accurate view of the world through headlines. This is because the media is limited to reporting what happens and what is newsworthy. We have yet to see a special report on a company performing as expected or another peaceful day in the city.

This is why, as Newt Gingrich put it, people ‘feel’ the world is a more violent and unsafe place despite the facts indicating otherwise. As sociologist Barry Glasner notes: “Between 1990 and 1998, the murder rate in the United States decreased by 20 percent. During that same period, the number of stories about murder on network newscasts increased by 600 percent.”

Similarly, ask anyone what they think is a more likely cause of death, shark attacks or lightning strikes. They will probably be shocked to learn that it is lightning and by a factor of 30 to 75 times. With a little analytical thinking this makes sense. Shark attacks can only occur on the coast, whereas lightning can strike anywhere. But sharks make for exciting stories and great movies, making them easier to recall.

On top of delivering us the news, the media also like to trot out expert panels to opine on everything from the price of oil to tomorrow's hockey game. Not only are there many studies showing how simple algorithms can provide better predictions than the experts, but there is also evidence that media fame reduces the accuracy of their forecasts. This is usually attributed to overconfidence and the need for these personalities to have extreme and definitive views. After all, nobody is tuning in to hear that the price of oil could be between \$30 and \$70 next year or that their team has 50/50 chance of winning.

At the end of the day, we must remember that it's not the media's job to make us better investors and voters. They get paid for clicks and eyeballs. Sadly, sound financial advice and deep political analysis are boring, repetitive and don't always fit in 140 characters or less. We will keep this in mind no matter who becomes the 45th US president.

The Fund

Heading into October, we were quite concerned with the hype surrounding Deutsche Bank and opted for a fairly conservative posture. When Deutsche was able to find buyers for \$4.5B of 5-year senior unsecured bonds, the markets calmed considerably. We reacted quickly to re-establish positions exited in September, generally at cheaper levels. In particular, we took advantage of the widening that had occurred in bank and insurance subordinated debt to enter at favourable prices.

After the OPEC production cut on September 27th, oil prices started firming. We stepped back into one of our favourite names in the oil space and bought CNQ bonds. This position performed extremely well, generating 10% of the monthly return. With Deutsche Bank off the radar and a lower-than-anticipated new issue supply, credit spreads generally narrowed. This coupled with the carry led to October's solid performance of 1.86%.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	0.19%	1.49%	5.32%	3.51%	0.60%	0.54%	1.73%	1.63%	1.01%	1.86%	-	-	19.27%
2015	-	2.29%	2.51%	1.27%	2.46%	0.25%	0.73%	(0.25%)	1.68%	1.71%	1.37%	0.87%	15.86%

The Algonquin Debt Strategies Fund LP was launched on February 2, 2015. Monthly returns are based on 'Series 1 X Founder's Class' NAV as calculated by SGGG Fund Services Inc. and are shown in Canadian dollars, net of all fees and expenses.

Credit

If new issue supply remains light, credit spreads ought to grind narrower in November. The lack of investment grade product is putting portfolio managers in a real “damned if you do, damned if you don’t” situation. Those who reduce exposure now, risk not being able to buy corporate bonds should Clinton prevail. If Trump is president, given the market's disdain for uncertainty and his views on NAFTA, the potential for a “sell Canada” trade to materialize is a real possibility.

Positioning portfolios ahead of next week's election will be a tricky proposition. The key will be to maintain as much flexibility as possible to react after the event. As such and because of the asymmetric risk/reward profile, we have chosen to err on the side of caution and position the portfolio more conservatively.

Rates

The press has made a lot of noise about yields moving higher, and indeed it has been a lousy month for bond holders. However, fixed income funds are still up approximately 4% on the year.

Investors are becoming a little more nervous that the ECB and BoJ won't increase their quantitative easing programs. Furthermore, it appears that the Chinese economy may be stabilizing, which in turn could lead to higher growth in other parts of the world. The drift to modestly higher yields may continue as people adjust their economic expectations.

The Bank of Canada has managed to confuse people with their language around the prospects of another rate cut. After the dust had settled, expectations gravitated back to the Bank doing nothing for many more months. The Federal Reserve continues to prepare everyone for a rate hike. Barring an unexpected data disaster (and yes, President Trump may qualify) we expect the Federal Reserve to hike rates 25 bps in December.



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