SELLING IN MAY MIGHT BE THE PLAY WITH ELECTIONS ON THE WAY

Instrument (Inception)	April 2019 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund* (March 2006)	**2.0%**	**9.7%**	**11.4%**
Venator Income Fund (August 2008)	**0.9%**	**4.9%**	**10.8%**
Venator Select Fund (September 2013)	**2.0%**	**17.4%**	**16.0%**
S&P/TSX Total Return (March 2006)	3.2%	16.9%	5.7%
Russell 2000 (March 2006)	3.4%	18.5%	7.5%
S&P Toronto Small Cap (March 2006)	-0.3%	10.4%	1.6%
S&P 500 (March 2006)	4.1%	18.2%	8.8%
Merrill Lynch High Yield Index (August 2008)	1.4%	8.9%	8.1%

**** Venator Investment Trust is also available as an extension of the Founders Fund strategy; its monthly performance mirrors the Founders Fund, and it is eligible to be held in both registered & non-registered accounts***

April was another strong month in an overall torrid start to 2019 (after a historically bad finish to 2018). With markets up 15%+ through the first third of the year, one wonders how much gas is left in the 2019 tank. We would also note that corporate bond markets have been particularly strong as well. The US economy is healthy, and while international economies may be weak, they don't appear to be worsening. After a ten-year bull market, current economic conditions support the idea of remaining bullish for at least a little longer.

Upon closer review, even weak areas of the US economy have been, in part, caused by strengths. For example, periods of cyclical weakness in energy have been more a function of abundant supply rather than a lack of demand. Conversely, recent declines in housing volumes in the US appear to be more of a function of a shortage in affordable housing, rather than a lack of demand. Perhaps the only sign of genuine weakness in the economy can be found in auto sales, which have struggled in recent years and seem to be indicating a near term decline. There have been several theories put forth to explain this weakness (ride sharing being the most prominent), and indeed, valuations are low across the sector in terms of earnings multiples. However, the automotive sector is exceptionally cyclical, and is worthy of the warning that "cyclical stocks tend to look cheapest when they are most expensive". An area of relative weakness in the market has been US healthcare, which has come under enormous pressure this year despite continued efficiency in cost management and obvious demographic tailwinds. The culprit of the weakness appears to be politics, which has undue influence on this sector as the government sets the economic standards with Medicare, while the rest of the chain adjusts to the beat of the Medicare drum.

The healthcare sector may be the canary in the coal mine, setting up some interesting swings in the market as the US prepares for its next Presidential election. Indeed, the accepted explanation for the weakness in the sector has been Democratic candidates trying to one up each other on how "free" they can make various healthcare services, culminating in Bernie Sanders' Medicare-for-all campaign promise. We believe that the market is overestimating Bernie Sanders chance of both getting elected, and getting this project through Congress, but the market will always be perfect in pricing in what it thinks is going to happen, even if those predictions don't often come to pass.

In any case, it's worth watching the progress of the Democratic nominees as their campaign pledges, to the extent the stock market views them as executable, will undoubtably affect the near-term share prices of consumer technology (break them up), education (free for all), banking (regulate them), healthcare (free for all) and housing (more affordable) stocks.

Here in Canada, we have nearer term election issues. While our two most economically important provinces (Ontario and Alberta) swung from hard left to hard right in their recent elections, the left-leaning Federal government is facing elections in the fall. Oddly enough, the Trudeau government, which ran more on a social reform platform rather than an economic one, has fumbled the ball on that front many times over in the last several months, while their track record on the economy has been as bad as people initially expected when they were elected. Much like what we saw in the Ontario, Alberta, and the last Federal elections, it would appear the challenging party might be able to sit back, not say anything controversial, and effectively win by default.

It's also been interesting to see the Canadian markets keep up with its partner to the south for the first time in years. Perhaps this is largely founded on the hope of more business friendly, and energy friendly, policies being put in place going forward. That said, we don't believe that nationwide housing stagnation and difficult logistical challenges within the energy sector are issues that can be quickly solved. As a result, we continue to favour US markets, in general, over Canadian markets.

If there is one item to keep an eye on in the coming months, it's the flood of hot-IPOs that we are seeing in the market, particularly in "new economy" type names. Watching Lyft, Uber, Slack, Zoom, Pinterest and WeWork jump through the bull market portal at the same time is an interesting development worth noting. In the past, there have been criticisms that these "unicorns" were waiting too long to go public as they were well past their "hyper-growth" stages and were destined for negative growth revisions in the quarters post-IPO. Fitbit, GoPro, Sonos and Snap are prime examples, while the jury is still out on Spotify. The post-IPO performance of this new wave of hot-IPOs will tell us if the VC's know something that we don't; namely, that things are getting a little frothy out there.

As always, we reserve the right to change our mind!

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