

### PORTFOLIO ACTIVITY

Aside from rebalancing trades, in December we sold rail operator Union Pacific in DM Foreign Equity and used this capital to open a new position in Methanex Corp.

### FEATURE STOCK

#### Microsoft Inc. (MSFT)

MSFT shares made another big contribution to DM performance in 2021, gaining more than 50% for the year. The company handily exceeded analyst estimates for both revenue and earnings in all reporting periods, helped in particular by strong growth in its cloud services division, Azure, and by a surge in sales of PC-related products. At the beginning of this month, MSFT also laid the groundwork for one of the biggest deals in tech history, when it announced plans to purchase gaming giant Activision Blizzard for \$69bn. This move not only highlights the strength of MSFT's balance sheet and the flexibility that a \$131bn cash hoard provides, it reveals the nimbleness of management – with other potential buyers such as Facebook occupied with legal and anti-trust troubles, they likely calculated that a bidding war could be avoided. The addition of Activision will provide MSFT with a massive catalogue of games and subscriptions and will catapult the company into 3rd spot in the rapidly growing space. Though it's not certain that the purchase will be approved by regulators, its consummation would mark an impressive progression from the humble beginnings of the Xbox.

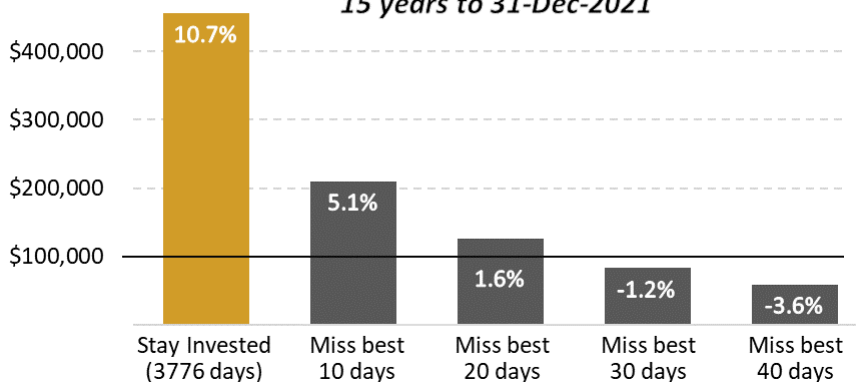
### MARKETS WOBBLE TO START THE YEAR – WHAT TO DO?

After an unexpectedly strong 2021 campaign, stocks mostly limped out of the gate in January. It's impossible to say whether the blame lies with inflation, that's become decidedly more persistent than transitory; central bankers, who finally seem poised to reign in liquidity and raise interest rates; or simply the weight of probability, which would suggest that a nearly uninterrupted rise is probably due for some type of reset. Whatever the case, broad indices have fallen to start the year and the damage within the benchmarks has been even more acute. For example, while the NASDAQ has now slumped by 10% from its recent high, 70% of its constituents are down by 20% or more and 40% have been cut in half.

When portfolios retreat, the impulse to "do something" can be powerful; unfortunately, though, acting on this natural instinct is almost always more harmful than beneficial to one's wealth. To illustrate this conundrum, we updated an exercise that's been presented numerous times in the past, in which we assumed that \$100,000 was invested in the S&P 500 a decade and a half ago and then either left alone or put on the sidelines for short intervals. As you can see, the "forget-about-it" portfolio would have more than quadrupled over the 15 years and generated an annualized return of nearly 11%, a remarkable feat considering the account was launched in the midst of a horrible decade for stocks, and then hit two of the deepest market declines of the post-war era. On the other hand, if an anxious investor had mis-timed his or her move to cash and been out of the market for the best 10 trading days over that period, the realized return would have plunged to just over 5% and, as you can see, being uninvested for the top 30 sessions would have actually resulted in a loss of capital.

This shows that, even in recent years, equity performance tends to come in big, unpredictable lumps and that the chance of inadvertently missing these surges with a market-timing approach is significant. In fact, many of the biggest daily gains over this period happened near the financial crisis and pandemic bottoms, times when investors would have probably been least inclined to be fully invested. As a market sage once said, "think of your portfolio as a bar of soap – *the more you touch it, the smaller it gets.*"

**S&P 500 annualized returns for various periods**  
*15 years to 31-Dec-2021*



Source: Bloomberg