Royds Report
May 2026

Subjects in this Newsletter:
- Markets so Far in 2026
- Nothing Lasts Forever
- Following the Crowd Could be Getting More Dangerous
- A Letter with Insights on Markets and Investing

Markets so Far in 2026

March 31st statements were not pretty. If you looked at your account values online on April 30th however, you would have seen a very pleasing difference. Here's the Coles Notes on the stock market behaviour in the first 4 months of 2026: Gold and silver started off the year very strong. Market leadership shifted to energy and fertilizer, thanks to shortages caused by the Strait of Hormuz problems. Software companies took a kick, when developments in AI made the future of software companies less secure. Private debt ran into a few problems, and then the threat of higher inflation hurt public bonds prices. At the same time as riskier equities (mostly high priced tech companies) fell. This meant that in March, bonds failed to counterbalance falling stock prices. (Increasingly, we are seeing stocks and bonds moving in unison, with bonds not providing their traditional diversification role.) While many tech companies retreated from October to the end of March, non-tech companies, which were ignored last year up until October, led markets up to new highs. We've seen massive gains in alternative energy companies and anything related to defence. Some aspects of the AI buildout, like companies that are helping build more energy supply or providing chips for data centres or providing cloud services, large language models and connectivity, are also doing well. Application companies aren't leading the charge at the moment, perhaps because which companies will be the winners is unclear. The expectation for other, non-AI, corporate profit growth this year is still quite strong, so forecasters are looking for the year to end well for markets, despite energy supply shortages and massive geo-political uncertainty. All in all, volatility has been far higher than normal.

Even as market leadership has bounced between tech, energy, value companies, gold and defense, nothing about our investment approach has changed. We like, more than ever, active management and investing in growing, quality companies selling for less than fundamental research indicates their projected profit should be worth.

Read on to find out why we're actually worried about passive index investing, where stocks are being bought and prices pushed up with no attempt to figure out how much the stock should actually be worth.

Nothing Lasts Forever

In the 1960s and 1970s the talk of the market was the Nifty Fifty. 50 fast growing large companies which seemed to be unable to do anything wrong. There were companies like IBM, Xerox, Sears, GE, McDonalds, Walt Disney, Kodak, and Polaroid. Many of those companies lost their market leadership. Some did not survive to today. Years later the market darlings were the WATCH: Walmart, Amazon, Target, Costco and Hope Depot. One of those companies is facing financial difficulty now. There was also the Chinese BAT: Baidu, Alibaba and Tencent. And Europe had 11 star companies called the Granolas. And we all remember FAANG: Facebook, Apple, Amazon, Netflix and Google. Last year just about all investors spoke of was the Magnificent 7 (Apple, Amazon, Alphabet (Google), Meta (Facebook), Microsoft, Nvidia and Tesla). Those 7 behemoths seemed unstoppable, although a Chinese EV company is certainly giving Tesla a run for its money, Nvidia alone has a market capitalization (which means the total market value of all its shares) that is $4-5 Trillion big which makes it worth more than the Gross Domestic Product of every country in the world except China and the US. Nvidia's market value is often larger than the economic output of the G7 countries of UK, France or Canada, and sometimes bigger than that of Japan or Germany. Nvidia alone is worth more than all stocks on the British, German and French stock markets put together. Is it reasonable that one company should be worth that much? Is Nvidia unstoppable?

Even the Magnificent 7 may be a thing of the past? The latest darlings are being called the MANGO: Microsoft, Anthropic, Nvidia, Google DeepMind and OpenAI. Some debate that the M and A may be Meta and Apple instead. Amazon and Tesla seem to have gone by the by as market leaders. Nothing lasts forever. Source: Wilde, Jamie (2026, Mar 15). Will MANGO Inherit Magnificent 7's Market Dominance?, The Daily Upside.

Change is inevitable. Innovations and economic growth march on, and market leadership evolves. And you can be sure, the fund managers are keeping their eyes open for new opportunities.

Following the Crowd Could be Getting More Dangerous

Often a stock goes up, because it has been going up. People get excited about gains, chase returns and buy in thinking gains will continue on. Similarly, people may sell a stock because it has gone down, thinking there is a reason other people have sold or fearing that the stock price will continue falling. Such decisions to buy or sell are basically following the herd and are not based on fundamentals related to profitability and worth. Of course, we know that is dangerous behaviour, leading to buying high and selling low.

There's another behaviour, namely index investing, which some people think of as the safest course of action which may turn out to be quite dangerous. It has become popular to just "buy the index" or "buy the market", that is to invest in a basket of all the stocks that make up the index, and hold them in the same proportion as their weighting in the index, which is proportion to the market value of the businesses. This is totally passive investing, buying everything, the good, the bad and the ugly, just because the stocks are in the index. This strategy worked well last decade, when high tech companies were soaring in value and the index climbed strongly too.

Index investing is usually done through ETFs (Exchange Traded Funds). ETFs own shares of the companies in a specific index in the same proportion as the companies' weighting in the index. Each ETF units offer fractional ownership in that basket of the stocks. People buy and sell these ETF units on the stock exchange, but it isn't the same as buying regular company shares. When there is demand to buy more of these ETF units than people currently are offering to sell, the ETF issuer steps forward to create new units to satisfy the demand. To do that, the ETF issuers must purchase more of the stocks in the index in the same proportion as they are in the index to back up the new units. The price of an ETF unit therefore doesn't depend on the demand for the ETF units, but on the price of the shares held by the ETF. Similarly, when people sell more ETF units on the market than there are currently buyers for, the ETF provider buys up the extra ETF units and then sells a proportionate amount of the underlying shares owned by the ETF. This keeps the price of the ETF moving in lockstep with the index, adjusted only for the cost of the ETF (but excluding the purchase and sale transaction costs).

The investment in ETFs is expected to reach $25 Trillion by 2030. Money has been flooding into index ETFs for a few reasons. First, some people like the idea of owning some portion of all the companies in the index, because it seems an easy way to get broad diversification. Secondly, index ETFs have lower management costs than mutual funds (because there is no research cost or skilled managers to pay for with ETFs). Thirdly, ETFs did well last decade when the index rose steeply, and people like to chase performance and buy whatever has performed well recently. And now, people can practically trade these ETFs at any time of the day or night, 7 days a week

Because a few companies in the S&P 500 index have become extremely valuable, the index has ended up with only 10 stocks making up about 38% of the index. This is the largest concentration in history. So, an investor holding a basket of stocks that mirror the index might think they were diversified, owning part of 500 different companies. In reality, the fate of only 10 large stocks would control about 40% of their returns. So, when there is high demand for index ETF units, the ETF providers must buy up a lot of the top 10 companies in the index. Conversely, a massive selling of index-based ETFs would cause a massive sell off of the underlying stocks, particularly the 10 largest.

Now that passive investments (index ETFs and rules-based investing with no human decision making involved) control 64% of US stock investments, inflows to ETFs can really drive up the prices of the stocks to totally unreasonable levels, when there are big inflows into ETF, or conversely, when there are massive outflows from ETFs, prices of the biggest stocks in the index can spiral downwards severely, because the shares have to be sold no matter how much it drives down their price. A massive downward spiral in stock prices of the heavy hitters in the index would spook the market all the more, leading to even more sell offs and bigger price drops. Having so much money in passive investments, with substantially fewer buyers and sellers in the market bothering to figure out what stocks are actually worth, based on fundamentals, can lead to huge price dislocations and volatility. That's why now it is particularly important to invest with active managers who buy undervalued stocks based on their fundamentals. That way you have a better change to avoid hugely overpriced stocks. If you stick with undervalued stocks, their prices would not need to fall far, before those who understand the value of the underlying businesses would see the stocks as too great a bargain not to step in and buy. Perhaps even another company would buy up the shares in order to takeover the company. The fundamental worth of the undervalued companies should protect their shares from falling too much, whereas the shares of stocks with prices inflated only by passive demand through ETFs, can fall immensely before anyone sees them as too cheap to resist buying. This could lead to huge losses. Sources: Hallez, Emile (2026, April 13). A Bitcoin ETF Party, All Day and Night, The Daily Upside. Taylor, Robert (2026, April). Revisiting the new playbook, Canoe Financial.

How Helpful is AI for Investing?

The U.S. National Bureau of Economic Research just published a research study on how well the AI models Gemini, ChatGPT, Claude and Grok did when they made recommendations on investors should buy to make money. Apparently, they didn't do too well. When asked how they chose the stocks they recommended, they cited the volume of mentions a company had in the media as a major factor in the choice of a stock. While media mentions may be an indicator of momentum, it's a far cry from fundamental research to estimate future profitability and therefore worth of a company. So maybe it's not time to let AI steer the ship yet. Source: Langton, James (2026, May 4). AI is a lousy fund manager, Investment Executive.

On the other hand, one of our favourite funds relies on AI very heavily, but only as a tool. The fund manager determines what criteria to look for in choosing stocks. He actually developed and refined the criteria over a 12 year period. Then the manager puts AI to work scouring the internet for news each day, listening and interpreting podcasts, and reading and assessing company reports every day to find the latest information on 20,000 stocks/companies. The AI then uses the fund manager's criteria to interpret the data and rank each company's likelihood of increasing in value. But AI doesn't get to make the actual decisions as to what to buy for the fund. It's the fund manager, using the daily data and analysis from AI AND his own judgement, who determines what to buy. Mackenzie tells the story of how AI recommended loading up on Russian stocks, because they were so cheap. The fund manager knew there were 100,000 Russian troops amassed along the border and decided not to overweight Russian stocks. This turned out to be a good call. The fund has done well with high return for the level of risk taken. AI turned out to be a great tool, but only when carefully directed by an experienced and clever person, and when its output and recommendations were tempered by that man's judgement. We're starting to hear of more fund companies making use of AI too, but only as a tool. Time will tell, what impact this will have.

A Letter With Insights on Markets and Investing

29 years ago, when Elaine started as a Wealth Advisor, she got to know some very successful fund managers who practiced Growth At A Reasonable Price (GARP) investing. They've stayed active in the industry, founding the company Cymbria where Edgepoint funds are managed. Recently these managers just released a pretend letter from a sister to her brother who had been handling her money for her. In this letter, she talks about market truths which her brother forgot to consider. It's a bit of a long letter, but we think there are some very valuable points and facts in it, and it's an entertaining read. If you're interested in learning about investing and the market, you might want to give this a read. The link to this letter is here: https://cymbria.com/article/2025-annual-report-commentary/

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