A View From Here - April 2023

"Sometimes buying early on the way down looks like being wrong, but it isn't." — *Seth Klarman*

There is always something to worry about

Following the financial crisis of 2007-2009, little attention was paid to how powerful stock markets recovered because investors were waiting for the next shoe to drop. This is reminiscent of the aftermath of the stock market crash of 1987 as many predicted it to be an indicator of a dire economic future but was followed by a raging bull market throughout the 1990s.

The pandemic was also a harbinger of great unknown challenges to come but again markets reacted by going higher.

Tell that to someone in late October of 1987, 2008 or February of 2020. It seems that each major crisis has the power to bring on the next great depression, so much so that even what might turn out to be a minor challenge is met with worry that it is only the beginning of the new thing that will bring us to our knees.

There are plenty of pundits out there who predict that the spy balloons will lead to World War III and only a month later, it is no longer talked about and replaced by the fall of Silicon Valley, Republic Bank and Credit Suisse leading to a new set of concerns of local and international banking.

Once again, we are led to believe that this is just the start of a sinister reality that will lead to our economic demise. Think about it - we live with some version of this all the time with one concern replaced by another…and so on. Its all noise and that the most important thing is always going to be, on some level or another - the long-term performance of your investments.

I recently saw an interesting interview with a Canadian investor, Ira Gluskin. He was the chief investment officer for investment firm Gluskin Sheff for over 25 years, and he said what I believe to be true (I paraphrased it):

"For 25 years, all I ever said was trying to worry about these big issues was a complete waste of time and that all that mattered was trying to find good companies and good stocks to invest in. So then when I became a family office, I started spending more time trying to see if I could figure things out. It is now confirmed that it is 100% a waste of time and it is absolutely random, and most observers know and believe this but it's what sells. People love to talk about these big issues."

Click here to view interview.

There were some excellent comments on the recent demise of Gluskin Sheff which I found to be extremely relevant about the financial services industry. These are things I believe deeply in my investment soul. That part of the interview can be seen here.

We are investors in businesses that we believe the market has overlooked so that when our variant perception of today's view becomes reality, it will lead to substantial profit. And over time, we have been able to achieve that goal as evidenced but the long-term returns that our investments have accomplished.

In my opinion the most important thing is return; whether it is conservative or aggressive. Somehow this gets lost in the nonsense of services such as estate and financial planning and structuring investments are emphasized to meet goals that are rarely, if ever, achieved. Financial planning is the easy part, the focus needs to be on achieving return. Because most have marginal-at best-track records, attention is diverted to the big issues. One of my favorite quotes is “that the truth of a man is in what he doesn’t tell you.” Ya know?

Inflation & interest rates

In the face of recent banking challenges, the U.S. Federal Reserve held firm by increasing interest rates in an ongoing attempt to right-size the pandemic rate lows and to curve high prices in what has become at present, the current inflationary period.

The desired effect is to bring down the cost of things but as I write this, there seems to be a standoff between buyers and sellers. In Canada, interest rates have held steady at 4.25% while south of the border, they continue to increase, albeit at a decreasing pace. Interestingly, the yield curve is predicting lower rates going forward as evidenced by GIC figures over a five-year period which are highest on one year money only to be lower in each subsequent year over the next five. The bond market is telling us, and it’s usually accurate, that rates will be lower over the next five years. However, it should be noted that challenges from this tightening cycle is seeping into the economic fabric as we adjust to higher costs of all things, perhaps most importantly, servicing debt.

If the current banking situation is indeed a harbinger of things to come, I believe that the stock market would be substantially lower than it currently is as the circumstance back in late 2008 - early 2009 that is still fresh enough in the collective minds of investors to keep us cautious.

I have learned that all things market related move on surprise, not consensus. This goes from a macro sense of how higher interest rates affect corporate cash flows and expectations that work into the valuations of the market overall.

In a micro sense, in terms of a specific company reporting better or lower than expected results or a specific corporate event leads to an adjustment that they did not previously factored in. Investors, at least for now, have valued in most of the known unknowns such as banking, geopolitical fears, war, inflation and economic outlooks we are facing.

Perhaps it is telling us, that it is a tempest in a teapot and can be championed. We must have an open mind to the reality that it can change if things surprise us in either direction. It remains a fool's game to predict such random events, but it's what sells…

Our accounts remain positive on the year

2023 started off with an incredible month of performance that has given some back throughout February and March. We have been addressing these things by rebalancing our holdings to take advantage of what we see is excellent value despite some deep consolidation.

However, from 30,000 feet, the accounts are doing very well, especially when you consider the growth as far back as we started working together. Our unique offering of owning a concentrated portfolio of disparate investments has the long-term performance that few have been able to achieve.

However, it also has a history of not being that volatile either. We are proud of our results and I've rarely been as optimistic about our opportunities then I am right now despite consolidation in some of our names. Our future is worth more.

Thanks for taking a look, and as always,

All Good Things,

P.S. I wanted to give a shout out to our band that I have been so lucky to be a part of for the past three years - Porch Jam. Back in the summer of 2020, a good friend asked me to bring out my small drum kit to his porch where a group of musicians were performing some social distanced sets of music for his neighbors. Over the next two years it took on a life of its own and as restrictions eased, we were asked to play live dates including milestone parties, bars and even a wedding in 2022.

One of our clients asked if we would be willing to play a charity event that he has been a substantial part of at the the famed El Mocambo on March 1, 2023 for Megan's Hug for pediatric brain cancer. We were awestruck to be playing such an important event at a storied venue and lucky enough to get a professional souvenir video of our short sets which you can view here:

Adam Hennick

Vice President, Investment Advisor
Research Capital
199 Bay Street
Commerce Court West
Suite 4500
Toronto, Ontario M5L 1G2
ahennick@researchcapital.com
T 416-860-6848
C 416 802-6848
F 416-860-7671
Toll Free 877-860-6848

To contact your advisor, email info@researchcapital.com.

Research Capital is a national investment firm with offices in Vancouver, Calgary, Regina, Toronto and Montreal.