A View From Here - December 2018

"It would be wonderful if we could avoid the common setbacks with timely exits." - Peter Lynch

Ebb & Flow

It wasn't until the start of the 4thquarter that North American market indexes began a dramatic retreat as the large US technology companies (as well as Cannabis companies in Canada) declined from recent all-time highs. What has not been previously emphasized is the almost daily increase in the value of those popular investment themes prior to October. It should stand to reason that when the value of anything goes exponentially, we should accept that there is going to be a corrective phase to follow. While most of us acknowledge the reason in this reality, lower prices tend to make us feel apprehensive toward future prospects, especially when it comes to our capital. Even more challenging is that media and online forums wheel out all the usual culprits: possibility of a slowing economy, higher interest rates, trade wars, tariffs and one of the longest running bull markets in history. Fear is a strong motivator and yet another reason that the more you think about it, to be invested, someone involved in the process better have a good idea as to why we own anything. The 'greater-fool theory' of buying a trend in hopes of selling at higher prices works best in a rising tide. It is when it goes back out, most get scared out of our bathing shorts, inducing fear and perhaps, making the wrong decisions.

It feels a whole lot better when markets are increasing than when they go down, even for the investments that we own that have yet to join the party. But when a setback grows in momentum as it has, it brings on a version of ultimate fear: permanent loss. Watching the ebb of one's wealth can't be easy even for the most reasonable or seasoned of us. One of Warren Buffett's most poignant quotes is that investors should "Be fearful when others are greedy and greedy when others are fearful" has a hard time making sense when the price of things are going down. The reality of this environment is that the investment themes that have been dominating headlines (tech and cannabis) are pretty much the only thing that had been working for investors over the past year while the broader market has seen a very sharp consolidation. We have been told, and it has absolutely proven to be true, in my career that human nature in the public markets has always moved the crowd in the pathway of least resistance, which is to pile into what is working, and discard anything else. This realism has never been more pronounced than it is today, perhaps creating a significant opportunity to be where others are not.

"There seems to be an unwritten rule on Wall Street: If you don't understand it, then put your life savings into it." - Peter Lynch

In the ebb and flow of public markets, we have learned that these periods are fleeting and are likely forgotten 6-months from now. Investing can be cruel, especially to those who have been playing a trend, or making bets on things they don't understand until one capitulates and sells at any price in case this is the 'Big One'. There is a lot of talk that the market strength in the US has been nonstop since the major low set in March of 2009, marking either one of or the longest sustained market advance in history. This in itself may be a call to arms, or maybe it is the theory that interest rates had been artificially low leading investors to seek their fortunes in the stock market instead. You decide...but we must understand that there are not many other more anxious individuals than stock market participants. As such, all of this information is factored in on a moment-to-moment basis leading to my belief that what really affects change is not what is currently factored into its overall valuation. That is what happens in every mini or major panic/advance that we've ever seen. The one thing we can take comfort in is that corrective periods tend to be short and it is when we come out of it that returns really take on greater meaning.

Opportunity?

What has been the real challenge for investors, particularly in Canada, is just how dreadful the broader market has been. By broader market, I am referring to all the other things that aren't related to what is currently popular investment themes (again: technology or cannabis) and perhaps some other growth businesses that have previously withstood the wrath of investor fear. We have been fortunate to own some of those 'other' names (FirstService, Colliers and Constellation Software), but they too have not been immune to the recent wrath and hence the 3-month decline in our investments from all-time high valuations.

But what is most important is our returns over the long-term and I believe we hold the right assets to achieve my lofty goal of securing a better financial future for us. The track record is there, but the road is never straight and easy. While the 3-month slide in the value of our accounts is not the prettiest of sights, we remain until the end of November, ahead on the year for most accounts.

I believe we are in good hands.

Thanks for taking a look,

And as always,

All Good Things,

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