



A View From Here - February 2022

Where do we go from here? The planet is a gunboat in a sea of fear -

Radiohead

Market's Got "The Bends"...Oh No!

"The Bends" occurs when a scuba diver ascends too quickly, causing fatigue in muscles and joints but for investors, it's fear that we have begun a descent into economic turmoil. It's also a fantastic song by Radiohead.

January took fear to extremes as daily market swings culminated into the worst performance for the major indexes since March, 2020. Given what was happening at that time, that is saying something. Perhaps we've been spoiled during Covid as markets ascended month over month since April 2020 making investors a little too comfortable. Our accounts navigated this environment well given that we had come off of a particularly strong December as well as two events that had a positive effect.

On the first trading day of the year, Dorel closed the sale of its sports division earlier than expected and announced a special US \$12/share dividend (\$15.20 CDN) that has been paid in early February and Reitman's emerged from creditor protection. Given the concentrated nature of our investments, these events helped mitigate the backward market forces on some of our other holdings. Market volatility mostly targeted positions we don't own such as big technology and the Covid high flyers that have come down to earth.

Markets are contending with the Omicron variant that has delayed economic growth, enhanced supply chain issues, inflation, potential for three or four interest rate hikes and the possibility of war in Ukraine and Taiwan. As these became headlines, investors digest the potential effects and move in a 'shoot first and then ask questions' kind of way.

As such we should understand that these well-known fears are for the most part discounted into current valuations and until these concerns are put to rest or more typically, forgotten by investors, investor fear could remain elevated leading to large swings in the markets. There have been a few well-known investors who have sounded the alarm recently which only puts gasoline on the fire, but in all fairness, they don't know either.

It's all about valuation of each investment, and for the most part, things are not that overvalued, except maybe yesterday's market heroes.

I believe that in business, pessimism is luxury that few can afford and for all of my career there are those who instill fear into the world with predictions of dire consequence. While those kind of words touch a pit in our stomachs, one should look at their track records before losing sleep.

Nobody has a track record of consistently calling economic and market outcomes, but they still try because we want to know. I have two books by famed author in the 1990s and early 2000s named Roger Dent. He made a call in the 1990s about the boom ahead...he was right. Speaking engagements followed and people lined up to hear him pontificate. He's been wrong ever since and his next book called for financial doom following the financial crisis that never transpired. I don't know of any wealthy pessimists.

Those who do not have a good grasp on the fundamentals of an investment will spend their life reacting to the headlines. The stock market as it is, is a leading economic indicator of future economic activity and a forward-looking mechanism whereas most investors look backward. Corrections can be long and deep, but should not be confused with pending economic collapse. I believe we are in a long-term bull market where corrections are normal and healthy as it helps to cleanse the excesses which provide a sounder footing for the bull market to continue.

Hence, we are going to try and refrain from joining the crowd as we maintain focus on the individual investments we hold as we have cash reserves to take advantage of what opportunities that emerge. For what it's worth, I believe the secular trend is in our favor and perhaps a good time to bring up this over-used Warren Buffett quote: "Be fearful when others are greedy and be greedy when others are fearful." Investors are certainly not greedy now as they are gripped with fear.

Lastly - It is RRSP Season and I will be reaching out in the weeks ahead to be sure we've all had a chance to make our contributions.

Thanks for taking a look, and as always,
All Good Things,

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