A View From Here - January 2018

30th Anniversary

On the first Tuesday of January 1988, I arrived at the offices of Merit Investment Corporation for a job interview in my only suit and socks I borrowed from my father's drawer. After being led into an office and asked a few innocuous questions, I was instructed to walk around the office to see if I liked what I saw as my interviewer picked up the telephone and started calling out. On about the 10th trip around, I started peaking in his office, but saw he was still preoccupied, so I continued to wander the office until I saw that he was off the phone. After tapping lightly on the door, I told him that I liked what I saw and he said, "Great, put your coat in the closet around the corner and get me a coffee. I like it black with one sugar." And that's how I was unceremoniously hired in the financial services industry. The better part of the next year was spent procuring lunches and doing personal errands for the CEO of the firm, which included all kinds of crazy things from changing flat tires to getting his toupees cleaned. I remember seeing friends from university while I carried a big box of other people's lunches, in my hand.

Even though the firm had no formal training program, there was the opportunity to work in different aspects of the brokerage firm as they sent me where I was needed including the securities cage and the floor of the Toronto Stock Exchange. In the fall of 1988, I began to work with one of the senior advisors as an assistant and then two individuals as their associate in mid1989. These mentors had taken me under their wing and showed me a more exciting world of options, trading and faster money and as much as I enjoyed that experience, I found trading securities without any understanding of a business akin to gambling. We had our first success in a company called Counsel Corporation, which was sold when the company announced, (but ultimately didn't follow through with), an offer to take the company private. I attended a presentation about hedging bonds in early 1990 that ultimately led me to another firm that focused on this investment in late 1991. As with every career move, it was a bold one that led me to think about investments in a deeper, more holistic way. I was learning that in order to achieve success, one had to have an almost obsessive and focused deep dive into understanding specific companies. This meant knowing as much as possible as I could about the companies we invested in and proved to be a road that I have only augmented since. I tried different strategies from using options and servicing clients who traded on 'hunches', which had lousy results. This was because they really didn't know what they were doing, and I felt more like a dealer in a casino than an advisor. Despite these ongoing changes, one thing remained constant; our investment success was based on our deep commitment to our holdings. This involved knowing as much as possible and having the patience and confidence to see it through to the end. But our long-term returns have suggested that what we do, very few have been able to achieve. For those who have been with our practice for a long time, think about all the companies we have owned that have been taken over in the past 30 years and ask if this is just a coincidence? Here are a few names to consider; Counsel Corp, Terragon Oil & Gas, Viceroy Homes, Rio Algom, Cominco, Sherritt Inc., Pet Valu, Softchoice, Glentel, and Journal Media.

While the industry practices and investment products are forever evolving, there is something that never changes; excellence comes from hard work mixed with caution, patience and humility. It's just not enough to work hard because that is a given, we have to remove ego and understand each value proposition so that we are best equipped to handle the curve balls that are thrown at us.

As I start my 31st year, there are a few things that I believe deep in my investment-advisory soul:

1. Know what you own and why, so that you can understand how to deal with adversity when it comes; and it shows up in every investment, even the most successful ones.
2. The investment manager should have their skin in the game by owning the very same investments that they are recommending.
3. Diversification does nothing for you. It's like buying a whole lot of different food at the supermarket. I don't know of anyone who has built long-term wealth in a diversified portfolio.
4. Most professions will earn us a living. Wealth is built through investment.

5. Most professionals do not have your best interests at heart, as they are too busy worrying about their own. It's hard to find the minority, but it doesn't mean that they are not out there.
6. In financial advisory, it is all about long-term investment success and anyone who tells you differently hasn't achieved it and it is a dark secret among financial professionals.
7. Financial planning as it is offered today is about finding more products to sell. Except for extremely wealthy individuals or special situations, all one needs to have a successful financial 'plan' are registered accounts (RRSP, RESP, TFSA) and some insurance to protect us in the event that something unforeseen occurs.
8. Our clients who have retired are generally in good financial shape and there is a scare tactic among financial writers and institutions to force us to worry about our futures.

2017 was a transition year

The strong performance of 2016 extended into 2017 taking our accounts to all-time highs by the end of April, only to begin a steady retreat that did not see reprieve until October. Accounts were held up on the strength of FirstService, Colliers & our investments in Constellation Software, which were collectively lower by over 5% in 2016. However, in 2017, they did the heavy lifting and kept accounts within the low single digits. What has remained a challenge is that we established new investment positions and augmented existing ones that continued to consolidate. Some of our most passionate holdings are in retail, oil services and news media, which have brought up questions in regard to their long-term validity. However, when comparing their valuations to peers and the apathetic view in which the general market views them, I see excellent potential rewards that will serve us well in the future. Part of what made 2017 so challenging for value-based investors that we fashion ourselves to be, is that high-speculation investments have become significant outperformers. This includes marijuana and blockchain related securities. Add to that the all-time highs from the U.S. markets in names we all know too well such as Google, Apple, etc. and we have an anxious group of investors. But successful investing is never a totally a warm and comfortable place to be and needs patience, caution and humility.

2017 wasn't all that bad. Accounts still achieved growth as we set up for what I believe is an outsized future return...at least that is how our investment performance has been achieved over the long-term - and I see no reason for that to change.

Thanks for your continued commitment to our strategy and let's hope that the next 30 years offer the same returns. Our future is worth more...
All Good Things,

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