A View From Here - January 2021

20-20 Hindsight

With the closing of the year 2020, we take a brief look backwards at a 10-year performance figure that despite three 'soft' years, (2017 - 2018 - 2019) shows double-digit long-term returns - something we are very proud of. For this January note, we take a brief look back at each year and highlight the events which shaped our accounts. Despite the immense political, economic and health challenges currently facing the world, we are optimistic that we have entered into a growth phase for our accounts. Thank you for your continued commitment to our unique offering.

2010: A great year for our accounts to all-time highs by November: The world was still reeling from the financial crisis but what might be just as astonishing was the rise out from the ashes. In March, we noted that accounts were within 15% of all-time highs last seen in October 2007, that was achieved by November, led by strong showings from holdings in FirstService, Softchoice, and Methanex and a new investment in alternative lender and rent-to-own company called Easyhome. My father passed away that February and while it's been 11 years, I still miss his steady hand and benevolent guidance.

2011: A step backwards: Continuing to build on our investment holdings, we paved new highs for our accounts through April but we were not immune to a market sell-off in the 4th quarter. Specifically, a natural gas investment that had to be sold at a loss and a late December sell-off in Easyhome. Given that we manage a more concentrated group of investments, a consolidation can have a larger impact more than most 'diversified' portfolios. What was interesting about our oil natural gas investment was that it taught me that there are always new ways that things can go wrong. Expect the unexpected was not an investment acumen prior to 2011, but was afterward. However, the seeds we continued to plant set us up for gains to follow as we committed more funds to existing positions. We'd just have to wait just a bit longer to harvest. It was also the year where our favorite investment book was published, called 'The Most Important Thing' by Howard Marks.

2012: A fantastic year - Flint Energy part two: Our most passionate holding from 2001 through 2006, Flint Energy Services made a second appearance to our portfolios in 2011 and was taken over for $25/share in 2012. We had previously held the shares from $11 through to $70 during the first run (2001 - 2006), but in a message of just how markets value businesses at different moments, we re-initiated a position in 2011 at the $12 range only to receive a takeover offer at $25. That is almost a third of what we sold it for in 2006. There was a prevailing fear of the re-do of the financial collapse of 2007-2009, but we believe (perhaps as we do today) that as long as investment fear is prevalent in the investors psyche, it is less likely to be as large an effect. It became apparent that surprise, not consensus is what moves markets. Our holding of Leon's Furniture made the announced acquisition of its 50% larger peer, The Brick, a rare David buying Goliath. Despite the efficiencies from this merger, Leon's still remains one of our largest investment holdings in 2021, as the company has more than doubled its size and profit margins have never been higher.

2013: Softchoice is acquired: We are advocates of value investing where our passion for companies that are inexpensive relative to their peers and Softchoice was one of our all-time favorites. After spending almost three years in the $8 level, Softchoice shares spiked early in the year only to receive a $20 takeover offer and provided exceptional year-end returns. We also sold half of our initial investment in Easyhome and established our first purchases of Reitman's (oops).

2014: Powerful year augmented by Glentel: After less than a year of accumulating shares in cell-phone retailer Glentel at $12 and lower, we received a late November surprise takeover at $26.50 after accumulating a position since February. This speaks to our value-based investment strategy that when something gets too cheap, sooner or later, someone is going to notice. Enamored with the company, I took a trip to Kelowna, BC to visit the company. I'll never forget that phone call as I was coming up the escalator saying, you're not going to believe what I'm about to tell you. Never spent that much money at the steakhouse that night. It's also the year we established our initial position in Lee Enterprises and sold our second tranche of Easyhome.

2015: Continued strength in core holdings: This year turned out to be quite a volatile year, but it was also one which we saw yet another takeover in the form of local media company, Journal Media in November which made for one in each year since 2012. We would see more buyouts of our investment holdings in the future but at a less impactful rate than in previous years. Much to our surprise, FirstService broke into two entities, Colliers was to focus on being the worlds' 3rd largest commercial real estate entity, while FirstService continued as a building management and franchise business and the split led to significant returns in the years ahead. It also reminds us that great businesses might need to pruned from time to time, but that sometimes the hardest thing is to continue to hold investments despite powerful run-up in share prices. In November, I published my book, All Good Things, Building Wealth For My Clients which was a lot of fun to write. I hope to do another one day.

2016: Our last double-digit Return until 2020: Following a 6-year run that saw accounts more than double, 2016 was a strong performance as we established Constellation Software as an equity position after taking a position in their bonds in the previous year. It's also the year where we saw a continued surge in the newly separated FirstService and Colliers.

2017: Reeling election results, markets begin tech dominance: Following a change in administration that brought in a market surge in big-tech, almost everything else was left in the dust. More and more large companies entered the major indexes which helped propel them to new highs, masking the deterioration of what lied underneath go mostly unnoticed. The best kind of market environment (which we are currently seeing) is when we see wide participation of publicly traded companies. 2017 would start a 3-year collapse of anything except a few choice growth entities. Thankfully FirstService, Colliers and Constellation made the cut. Further, we saw the emergence of Cannabis companies in Canada, only to collapse by 2019 in ongoing scandal. We established our holding in SmartCentres which we continue to hold today.

2018: Almost everything that isn't tech got scorched: Despite limping into the year with a low single digit returns for equity-based accounts, 2018 was the year where value collapsed. Many companies would see valuations start a prolonged decline that picked up steam throughout the year, into 2019 but reversed course in the ashes of the darkest moments of 2020. It was in 2018, where many investment managers closed funds after struggling to beat the market indices, leaving fewer of stewards of value-based, concentrated portfolio managers. Quarterhill makes its first appearance as one of our holdings. It was also the year, that we received yet another takeover of our investment in Aveda Transport.

2019: It's all about tech and a few growth companies: A trio of challenging performance years wasn't about to let go of us just yet, as we augmented existing investments and introduced Stelco and Algoma Central to our portfolios. All said, we somehow exited the year with a small return. It was getting especially taxing given the pride we take in our long-term track record of success, which had slipped from double back into the high single-digits for equity-based accounts, although balanced accounts (fixed income and equity) continued to see reasonable single-digit returns on the strength of Constellation Software debentures.

2020: Pandemic, big-tech goes exponential but value revival takes us to all-time highs: Nothing speaks louder to the saying, 'expect the unexpected' like 2020. We entered the year with two versions of our accounts; continued strength from Constellation Software, FirstService and Colliers which overshadowed our other holdings, most notably Lee, Algoma, Reitman's and Leon's which might have had some questioning their faith in our offering in the first place. In late January, Lee offered us a glimpse of what it could achieve after purchasing Berkshire Hathaway's local media assets, that

Warren Buffett personally financed, only to weaken beyond its pre-pandemic valuation. While its safe to say that there was nowhere to hide as February began an epic sell-off, some companies such as Reitman's found themselves in a unique liquidity situation that could have seen it run out of cash with only its online offering as a sales outlet. As such, they sought creditor protection which provides us with an opportunity to potentially profit from a potential resurgence when it likely emerges stronger in 2021. From March onward, we began to peck away at investments while holding large cash positions in the belief that our 'hedge' to an improving environment would be recovery in the investments we held. Light began to shine through by summer's end leading to the most incredible recoveries our accounts had ever seen, by taking most accounts to all-time highs. Who would have thought that was in the cards? Expect the unexpected.

Thanks for taking a look, and hopefully a fantastic year awaits us....bring on the roaring 20s!

All Good Things

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