A View From Here January 2025

"A ship in harbor is safe, but that is not what ships are built for." – John A. Shedd

The Most Important Thing

By any measure, 2024 was a very successful year for our investment accounts. In fact, since 2020 we have seen particularly strong results with many accounts more than doubling in value. We have been asked how we stay in our investments as they move higher, and the answer is simple: Valuation. I have long believed that holding a relatively concentrated portfolio of disparate investments makes us better equipped to make decisions in times of adversity and just as importantly, in times when they flourish. If the valuation of a business remains attractive, we are prepared to stay committed, selling part of the position to protect the portfolio from potential overexposure. Even if we still see viability of increased future value, it is important to prune and protect our portfolios because the future is unknown. While no process is perfect, the numbers don't lie. I am steadfast in my belief that performance over the long term remains the single most important measure of any investment advisor or portfolio manager. All the rest, service as well as the attention to individual needs, is a deliverable that each client should expect from any professional. I also believe that our returns can stand up on any stage in the world. Those are the words I want to be able to share beyond private conversations with individual clients.

Pay as You Go

The financial services industry has been moving to a recurring income model which is best achieved by a fee-based approach. Clients pay a flat percentage fee based on the dollar value of assets managed. The intended purpose of this approach is to align client interests with that of their investment managers. It makes sense on the surface, as clients don't have to worry about the costs associated with purchase and sale of securities, and the advisor and their firms create a recurring stream of income which can ultimately be sold to another manager. It is a sort of retirement plan for the adviser/manager which, ironically, is achieved by creating retirement plans for their clients. All of this is ok, if the single most important measurement is achieved. We have found that most investment managers fail on this front and believe that pay-as-you-go in the form of a commission per transaction is indeed in the best interest of the client. It comes at a cost to us though as we have been told on more than a few occasions that potential clients express concerns of our model largely for two reasons, i) because they don't like paying commissions and ii) because they have become so accustomed to a lack of satisfactory results, they have a hard time believing our success.

Pay-as-you-go for each transaction in the form of a commission charged is often cheaper than one pays in a fee-based structure on an annual basis. Further, it keeps us engaged to look for new avenues to create value, rather than just collect as we pass go while we're on the golf course. This way, if we do not transact for months or years, you do not pay a fee for the right to own something. And though our fee is not cheap, we see it as a bargain. The only one I know of who didn't charge a fee while showing outstanding performance was Bernie Madoff. I suspect that few expressed concerns as to why there wasn't any fees.

Markets Climb a Wall of Worry

Given our performance, we have moved in the direction of building up a larger than usual cash position. These are held mostly in treasury bills and money market funds and one corporate bond. This isn't because we believe the market is set for a large consolidation, but rather valuations of potential investments do not strike us on a level of making new commitments. We don't mind holding cash because since 2022 rates in the safest investments such as GICs and Treasury Bills have been attractive. In fact, they have been higher than pretty much any period over the past 15 years, so we've locked in returns exceeding 5% in some cases, even though rates have come down recently to just over 3%.

There seems to be a view that markets might have gone too high and that we want a bit more of a defensive stance. It is important to note that markets tend to go to places that we did not anticipate both on the upside and downside. Predicting the future is simply grasping at straws but suffice to say, optimism is a key to long-term success, and we view pessimism as a luxury that few can afford.

If I would have told you in January of 2020 that we were about to go into a global lockdown, would you have thought to make investment commitments which in the end would have been the right thing to do? We had a few accounts sell everything in anticipation of a depression…and it worked for a few months and then the market took off. Nobody predicted that we would see such a strong upward trajectory and that it would remain unabated, except for 2022 where markets consolidated on fear of inflation and the damage higher interest rates would bring to the economy. Perhaps the only thing predictable is that the pundits and naysayers were wrong … again.

My whole career has been full of fears of the next wave downward and what we should do to circumvent it. Unfortunately, there are so many false alarms going off all the time that it is hard to figure how to react as it is only in hindsight that it all makes sense. Far less so while it's occurring. The only thing that is a constant is that if everyone's already worried about it, it is likely priced into the markets. We felt that way in 2022 as the overriding concern was inflation, interest rates and the damage these two things would do to the economy. Once markets absorbed these fears, they went higher.

It's always important to remember that markets are forward-thinking organisms that take in all information on a constant basis and react accordingly. They are aware of geopolitical strife as well as the effect of inflation and higher costs. They factor in war, potential dangers and all the unresolved and potentially damaging occurrences that can challenge our economic and political freedoms. Many pundits are adept at putting negativity into a sellable package that touches that place in the pit of our stomach, which amplifies our fears. This results in many individuals reaching out to ask what they are doing to be protected from those fears. They hope the investment manager can get them out of the market before such events play out. It is pretty much impossible to do so.

I worked beside a team who in early 2008 took the stance that we were on the verge of something terrible and removed their clients from the market exposure except for their favourite investment positions. For what it's worth, I respect anyone who takes a stance and while we all went down 50% or more during that period, they saw only a 20-odd percent decline. However, as the world re-emerged a year later, they were caught in the doomsday scenario of the next shoe dropping and missed out of the success achieved in the subsequent period. This is a prime example of pessimism being a luxury that few can afford. Most often, a great deal of wealth is created coming out of those periods. We just need the strength and conviction to commit to investments when all looks dire, because sooner or later, sleeves get rolled up and work is done to estimate potential value as the whole machine starts up again. It is almost as if we get fatigued with all the negativities. Early 2009 looked and felt a lot like that as the markets bottomed in March and moved a lot higher in the period which followed.

Why We Sell
Some of the well-known investing axioms you've heard about all your life are useful roadmaps. Things such as 'buy low, sell high' and 'what's popular now won't be' and vice versa have been useful guides for us in 2024. Selling off stakes in some of our best performing investments due to euphoria particularly around artificial intelligence has helped protect gains we've been able to make in those investments. In some cases, when we originally purchased them, they were valued at a third of the multiples they are currently trading at, which speaks to those tried-and-true mantras. Wayne Gretzky once said that he doesn't skate to where the puck is, but rather where it's going. The future is uncertain, and yet, nobody I'm aware of has a crystal ball. But when we all fear adversity, and we all seem to be these days, markets tend to climb that wall of worry. It is only when we are complacent that trouble in the form of some unpredictable black swan event will wreak havoc. If that occurs, we hope to make investments that can take our portfolios to new all-time highs in the period which follows.

So, leave the worrying to us. We will always do our best. As you hopefully know by now, we own the same investments that you do.

Here's to a healthy and successful 2025!

Thanks for taking a look, and as always,

All Good Things.

Adam, Jennifer and Brian