A View From Here - June 2018

Record High

Following on the heels of a strong April that extended back to October 2017, May turned out to be one of the best months in our performance history and took our investment accounts to new all-time highs. What prompted this outperformance have been some revaluations of some of our U.S. news media investments, a breakout in Constellation Software bonds and shares, the strengthening of our media and retail holdings and in particular - a significant acquisition by Colliers that could re-rate this investment to gains not anticipated going forward. All in all - nothing was bad for us in May, except perhaps the continued lack of performance in some of our retail investments. I remain committed to our holdings and believe in our continued success.

10 Years After

I have been thinking about how popular some investment themes have become over the past couple of years as returns for most investors have been struggling, unless you are in what is 'hot'. But do we realize how potentially dangerous this is? Let's look back 10 years when we were in the early innings of what became the worst stock market decline in 80 years.

At the time, oil was $145 per barrel. Could anyone have expected then, that the best performing stocks over the next ten years would be very futuristic, high P/E stocks like Facebook, Apple, Amazon, Netflix or Google? Would they believe that these names could have contributed over 60% of the gain to the S&P Index and that there would be a 9% compounded return from the Index? Who, back then, thought oil stocks would be one of the worst industry performers ten years later? Certainly there were contrarians that thought that "peak oil" was a theory in search of a major defeat in May of 2008 or that stocks were a great long-term buy. What propelled this strength during that time was China and India who needed natural resources to build their infrastructure resulting in the fear of great depletion of the world's natural resources. For the resource and mining-based Canadian markets, this elevated both our dollar and our stock market during the early 2000s but now Canadian markets remain at pretty much the same levels as they were in 2008.

We can only imagine what the next ten years will be like, but looking back in time we should be aware of a few historical axioms about the markets. First, narrow popularity has historically ended badly for the stock market (1929, 1972, oil stocks in 1981, tech bubble in 1999, financial bubble in 2008). Here is what famed Canadian economist John Kenneth Galbraith said about markets captured by "popular imagination":

"Speculation, it has been noted, comes when popular imagination settles on something seemingly new in the field of commerce or finance."

Second, and something I believe deep in my investment soul, the minority always wins at the expense of the majority:

"Investing is the only sphere of life where victory, security and success goes to the minority and never to the majority." -John Maynard Keynes

Third, cheap stocks beat average and expensive ones over long time periods and beat them more heavily from the end of popular growth stock imagination phases.

We can only imagine what the next ten years will be like for stocks, but it is unlikely to be what the majority of individual and professional investors expect. In fact, I believe it will be the things that we least expect. Either way, this is a prosperous time for our accounts and encourages us all to order the large beverage next time you go out for dinner. These are good days for us.

Thanks for taking a look, and as always,

All Good Things

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