

A View From Here - March 2023

“Monetary conditions exert an enormous influence on stock prices. Indeed, the monetary climate - primarily the trend in interest rates and Federal Reserve policy - is the dominant factor in determining the stock market's major direction”.

- Martin Zweig

Fighting The Fed

After an incredible start to the year, markets sold off throughout February due mostly to inflationary data challenging January's optimism. Naysayers may argue that we have had a rally in a negative environment, but we prefer to see markets digesting a strong upward trajectory from 2023's onset.

This is based on earnings releases that have come in at levels suggesting that last year's sell-off brought many companies down to attractive levels. Investors have been grappling with war, spy balloons, heightened geopolitical tensions and a federal reserve determined to rein in inflation.

The author of the above mentioned quote built an impressive track record around a mantra to 'never fight the fed', which means if the federal reserve is increasing interest rates, markets will be challenged. However, there are a few camps who believe this period is transitory and that interest rates are catching up to the

pandemic which forced them to all-time lows.

With Covid moving further into the rear-view mirror, rates have likely moved to where they might have been had there been no pandemic in the first place. I am in this camp, but others believe that we are on the crest of hyperinflation or stagflation - all of which works against the markets in terms of 'Never fighting the Fed'. Either way, our role is to accumulate investments for future profitability and even large corrections look smaller from 30,000 feet.

For us, it's short-term noise in a continued effort to build our accounts one disparate investment at a time. In some cases, we are closer to realization of value whereas others remain far off its potential. As such, we are using weakness to augment existing investments while our returns have been generated from businesses that whose valuations are increasing. I remain optimistic that our recipe will continue to deliver long-term results that few have been able to achieve. It's what excites us and drives home our mantra - **Your Future is Worth More.**

Earnings Support Valuations

Some of our investments are climbing to new highs yet still trade at valuations below multiples that we paid for them. I believe this bodes well for future earnings releases if they show continued growth. For example, we hold a position in Hammond Power Solutions that was purchased at a 6x multiple to its cash flow and despite tremendous growth, now trades at only 4x. We remain constructive on this investment and believe its valuation remains attractive despite having a

300% return from when we took our initial position.

This is also true for three additional holdings leading us to make additional commitments to over the past year. Our view is that when the market catches to what we view as its potential value, it will lead to a meaningful profit.

Often the hard part is to remain invested despite the current strength we've seen to date. When we analyze and re-analyze over and over and over - if we come to the same conclusion that an investment still merits a place in our portfolio, we only sell part of the investment to manage the portfolio and reduce our vulnerability. As many of you know, we have been selling some of our retail holdings as the size it represents on account now sticks out like a sore thumb.

That's the difference managing a portfolio brings to the table in terms of the hard lessons we (keep) learn(ing) when share prices move exponentially higher. It's often hard for me to recommend selling part of a position simply because it's moved so much, but we must remain prudent when something grows to a point where it represents a significant percentage of our account holdings.

To get to this place and make that decision, there are a lot of things that are mixed in a bucket, but experience and ultimately art (for lack of a better term) is what guides our actions. I have yet to find a better system, whether it is using algorithms or some sort of time-tested but still unproven paradigm to decide when to sell. Selling is the hardest part of an investment position and make no mistake -

there is an art and a degree of luck in the equation.

Despite February's sell-off, our accounts fared quite well especially given January's double-digit increase and believe our investments will reward us with time.

Your Future is Worth More.

Thanks for taking a look, and as always,

All Good Things

PS If you know of anyone who is looking for a better experience with their investments, please let them know that we are out there.

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