



A View From Here - October 2021

“Everyone has a plan until they get punched in the mouth” - Mike Tyson

Is There An Art To Investing?

Despite some pretty dubious Octobers, history has shown that it has actually been a pretty middle of the road month in terms of stock market performance. In fact, September has proven historically, to be the weakest month in terms of stock market performance. For our portfolio, September lived up to its namesake as our names consolidated for most of the month as we recovered a large portion by month's end, aided by strong earnings and/or corporate developments from Reitman's, FirstService and Quarterhill. On the other hand, our investment in Stelco sold off despite continued strength in steel prices. I've seen this movie before and believe it is important to keep an eye on the actions of insiders who have sold down their holdings from 44% to under 10% throughout 2021. These actions speak loud, perhaps louder than the table pounding from investors on message boards, analysts and even management that its good fortunes will continue.

We will monitor that position closely believing the best course of action is to liquidate increments in reverse of how we purchase when building an investment position over time. One of the challenges when owning a company tied to a soaring commodity, in this case hot rolled coiled steel, is that it can change on a dime as outlooks go to extremes. Unless you have a specific long-term vision, it has proven to be unwise to get caught in the rhetoric of multi-year possibilities for continued upside. Back the early 2000s when prices of fall commodities soared, there was the 'peak' theory which circulated in investment circles that we lack enough basic materials to meet demand around the globe. It turned out that after a few years and soaring prices, we found them, and I believe we will again and again and again. There is another saying that when the wind blows, even the turkeys can fly, and now, new capacity is coming on stream because of these lofty prices as formerly

unprofitable businesses are suddenly worth exploring. That is why Algoma steel is making a comeback. The more immediate question might be is, is this surge part of a new commodity super-cycle or an air pocket based on the disruption of the pandemic? There lies the ruse. You lay down your bets and take your chances.

Years ago our most passionate investment was a company called Flint Energy Services. They company had two divisions, laying pipelines and a construction division for the Oil and Gas industry. Like so many of our holdings, Flint spent at least three years treading water in and around the same price despite positive corporate and industry developments, and then then all things oil services took off and the company's share price tripled (boy - I make that sound easy). We sold the position in 2006, but by early 2008 it had dropped to less than half its valuation and then by 2012 it was trading at a quarter of it. That's what happens in commodity-based investments.

I believe there is art to investing in that you must think outside the box when the sky is painted a beautiful hue of blue and there isn't a cloud on the horizon...especially when insiders are selling shares. Actions speak louder than words. Also, often when looking at earnings of these companies, they might be at a peak, mostly because the industry is bustling so investors take a more cautious approach, and they still tend to still look cheap. We had this with another one of our long-term investment - Methanex, when it simply looked so good, that we ended up selling it. An analyst reminded me a long time ago that its always cheap seems cheap - especially at the peak - so you can't simply rely on valuation in something cyclical, but rather instinct, common sense and dare I say it again - art.

I've often been accused of staying with our investments too long. We've held so many of them for over 5 years and in some cases, decades. But that is often because they haven't reached fruition yet while corporate developments are signposts that, in our best determination, point in the direction of continued commitment. Some, like a Stelco, have had a much more immediate response. When we first took a position in this investment, we never took the stance that in the middle of a global pandemic, steel prices would quadruple, but rather that they were a low cost, debt free, large cash and land holding with an experienced management team that held over 45% of the business. The

fact that steel prices took off was a fortunate happenstance - one which we are ultimately thankful for.

Our accounts continue to perform well as they remain at or around all-time highs and returns are well into the high double digits for the year-to-date. And despite some on going concerns that we should do this, or shouldn't do that, look no further than our long-term compounded returns as a guide to our future. These are numbers that few we know of have been able to achieve and we remain proud of what has been accomplished to date.

Thanks for taking a look and as always,

All Good Things

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