A View From Here - October 2023

Negative Narrative

"The stock market will definitely have a correction. Everybody will say that it is the end of the world. I predict it. They will say the big one's coming." - ***Peter Lynch***

That cracking sound heard in the financial markets throughout August and September isn't the typical kind of break where one asset class or another fractures and gives way. Instead, this is the break in a narrative of low interest rates where investors enjoy the fruits.

That narrative has been changing since late 2021 when the Fed announced its intention to raise interest rates, and in its place slowly comes a story in which rates could stay higher for longer. This is something Fed officials have tried to get the market to accept but has taken time for investors to absorb.

The pain of recognition was acute for markets in 2022 but resilient economic data pushed markets higher since the October low of 2022 and carried on into 2023. Recently, major averages are down sharply across the board and treasury yields surged to their highest levels in over 15 years. When you have an economy predicated on low rates, the calculus must change because the ramifications of higher rates should change the way assets are valued.

The cost of capital is going up and individuals and corporations are likely going to have to refinance at higher rates. In theory, this has the power to keep the markets from going higher, cause the economy to weaken and is perhaps the precipice of the next great meltdown like we saw in 2007-2009, or what the heck, the next great depression that seems to get thrown in here and there. Add to this war dragging on in Ukraine which suggests that this could widen to

something bigger and with the recent unrest in the Middle East predictions of dire outcomes begin to also creep into the narrative.

It's important to see how markets react in such times because they have historically been pretty good predictors of the future. Looking backwards, I recall that prior to the war in Kuwait in 1990, oil prices spiked as warnings from Iraq about the 'mother of all wars' turned to sand as soon as the bombs hit and just like that, the price of oil collapsed pretty much as the war began. A more specific situation occurred in August of 2001 when one of our holdings, Four Season's Hotels began to curiously move downwards which didn't make sense, until 911. I found that an eerie coincidence and still do

Either way, there is clearly a negative narrative out there.

Another View

"After a stock market decline, people may perceive more risk than before when, in fact, the decline may have taken some of the risk out of the market." - Robert Shiller

On the other side of the interest rate/lower stock market/geopolitical narrative is that it might be getting long in the tooth. I only see negative comments coming out of money managers, strategists and newspapers and can only think of one of them saying that markets are going to go higher.

As such, we have money market investments at record levels and a high amount of short market puts currently going on, as many investors have chosen to lock in rates above 4% in the safest of investments, leaving what has now been seen as traditional investment such as dividend paying utilities, banks, REITs and the like suffer under the weight of their guaranteed competition.

Perhaps, we've come to the place however, where this narrative has reached its peak as there is so much money in those camps, and assets tend to fail when everyone is invested in it. As such I would not be surprised if we see a powerful upward move in the financial markets that will

serve the purpose of getting everyone back into the stock market, and then it goes down. My bet would be on this. The economy and corporate earnings have remained resilient, markets are steady, but we are on the crest of third quarter earnings which will be another signpost.

Our Unique Offering

The increase in interest rates has perhaps created a new era of what to invest in as high dividend paying stocks continue to be challenged by their safest of competitors (T-bills, GICs, etc.) This also highlights what I believe our unique offering brings to the table.

For the past decade or more, most investors have had their money invested in some form of indexing (portfolios that essentially mirror stock indexes). What I mean by that is by way of managed portfolios and/or ETFs investors have simply needed up buying the market and enjoying the fruits from the outsized contributions of what is moving - most notably large technology shares, while us ‘stock pickers’ who value invest in businesses wallowed in the margins.

However, I felt that something broke in 2020 when companies that make up the broader market began to attract attention. This has been to our benefit, which I believe will continue for the foreseeable future. My experience in the markets is that over the long term, simply buying the ‘market’ has not produced stellar results. In fact, I would argue that most investors who take this approach might be better off simply buying treasury bills and GICs, maybe giving up a small portion of return but not much more than that.

Our long-term returns exceed this concern and I see our track record continuing if we can identify a relatively concentrated portfolio of individual investments that have potential to produce returns well beyond what is available from these two alternatives.

Our view remains that with record money holding attractive rates in GICs, a negative narrative by the news and large negative bets on the market by professionals set the stage for a

significant lift. Markets usually go down when investors are in the wrong place. Could this time be different?

Don't bet on it.

Thanks for taking a look, and as always,

All Good Things

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