A View From Here - January 2019

"You know, when I was nineteen, Grandpa took me on a roller coaster. Up, down, up, down. Oh what a ride! I always wanted to go again. You know, it was just so interesting to me that a ride could make me so frightened, so scared, so sick, so excited, and so thrilled altogether. Some didn't like it. They went on the merry-go-round. Nothing. I like the roller coaster. You get more out of it." - A quote from the movie Parenthood 1990

Roller Coaster Year in Review

For a large part of 2018 our accounts performed exceptionally well as they defied the gravity that was pulling apart portfolios around the world. You wouldn't have known it looking at U.S. indices such as the S&P 500 or the Dow Jones Industrials as they were marching to new highs on the strength of a narrow band of technology companies that we know all too well. Canada, however, was in complete disarray and we remained thankful to hold positions in some of the very few companies that had been performing well, and having a takeover of Aveda Transport in April helped to further enhance our investment accounts. By the end of the summer, our equity-based accounts were on either side of a 20% increase with a lot of cash to make further commitments. As September took hold, we saw a consolidation that only picked up steam in October and even more so in November, erasing a lot of our gains. So we did what we thought was best by purchasing more of the very securities that began to weaken. There was nowhere to hide as the year closed itself out. Those U.S. indices, that were so strong throughout the year, suffered their worst December since 1931 and ended the year down 6%, while the TSX index in Canada suffered a crushing 12% retreat.

Beyond the indices, it seemed that every company we looked at was down between 30 and 50 percent from their pre-September valuations. It would be safe to say that 2018 turned out to be a disaster for most investors, yet for our accounts, it was ultimately a year where for the roller coaster took us pretty much back to where we began and we eked out a small gain.

Considering just how bad it has been, I'd call that a win.

Years ago, a smart advisor told me that bear markets are made up of the kind of action we saw in throughout 2018; the broader market of stocks suffers while the indices continue to make new highs and then collapse. 2018 might be the poster child of that theory. As the fourth quarter progressed, fear of all kinds of things took over, as investors frightened themselves out of stocks in perhaps the misplaced notion that the 'big one' is coming. The media trumpeted the sudden recessionary and fear mongering predictions that were barely spoken of prior to the fourth quarter. It is important to keep in mind that markets go higher more often than they go lower and when they retreat many like to lament about what we could have done at previous highs. It's wistful to think that, 'if only I would have,' but not very realistic because who can predict the future actions one might take? Think about that for a second and it makes sense. We simply can't just buy here and sell there, because of our emotions in any given moment. As an example, I recall the story of Isaac Newton's investment in the infamous South Sea Trading Company in the early 1720s. After making extraordinary gains, he sold his entire position only to watch it go significantly higher, so he repurchased his entire position and then some, only to watch it collapse, losing more money than he made in the first place. Who knows what they would have done if they got the sellside of the trade right this one time. That is why we need to focus on the longer term.

Markets are seen as leading indicators of what will be, but they are not infallible. Sometimes they just reflect the herd piling into a trade. And again, 2018 might have been the poster child for that type of action, as everyone wanted to own what was working until it wasn't. Then they wanted to sell them all. Analysts have been looking all over the place trying to find where a disturbance might occur that could set off another financial crisis and a subsequent economic disruption. No one seems to be asking what is going right or whether solid earnings growth and a strong economy, mixed with what could be attractive valuations and moderate interest rates, are enough to keep the stocks attractive. Instead, all of this is seen as the top of the economy and a recession is coming or has already begun. What we do know is that nobody knows. That is why we focus more on our individual investments and what their prospects are.

While the distance from the financial crisis of 2007-2009 remains in the rear view mirror, many fear resurgence of some sort or about that preverbal 'black swan' event and the ever-present fear that usually accompanies investors scaling the wall of worry. As I see it, most of those concerns have been somewhat factored in and any black swan event will come from a place very few, if any, see coming. A near collapse of the global financial system 10years ago was not generally expected or discussed, similar to U.S.-China trade today or any of the other myriad of well-known fears. Maybe the 'swan' is that today's panic sellers will be agonizing over their premature sales. In the ironic world of expecting the unexpected, nobody's expecting it, so there's reason in itself to occur.

The Hopeful Silver Lining

The first 10 years I spent as an advisor were long on hope, but as the process evolved I realized that in order to be successful in the pursuit of investing, one had to know exactly why we held a particular investment and believe in the work we did until it reached fruition, or conversely, if a thesis on any particular investment changed, to take action. I once read, and believe it to be true, that in order to be a successful investor, one must know each investment intimately while exercising patience and humility. The process, it would prove, is never easy and is fraught with speed bumps that include weak markets, disappointing earnings and total apathy towards any good that might be going on in a company. We have seen this process occur in almost every one of our holdings at one time or another. If there has been a theme to my career, it is that we spend a great deal of time arguing with the market, and, again, 2018 might have been the poster child of this ongoing challenge. While this may be cold comfort for what our individual companies are achieving, especially in terms of what we believe their rightful value proposition is, I know that at some point we are going to likely be rewarded for our commitment. Unless we are missing a cannonball coming straight for our heads, or as many fear, this is the big crash that all of us fear deep in our gut.

With that being said, each one of our holdings delivered excellent reports in recent months (particularly our retail and media holdings) that outside of the general market turmoil only enhanced belief in our view. As such, we have been using cash to continue to build these positions so that they will at some point reward us, especially when it's hardest - during market turmoil. When I scrutinize earnings reports, peer valuations and speak with other analysts/investors who have like-minded or opposing views, I feel that we are on the right track in these investments. As in the past, so many of these companies are valued apathetically to what is going on until they become recognized and history has shown us that when they do, it occurs over a short period of time. It is interesting that in each of the years from 2012 onwards, we have received a takeover in one of our holdings and maybe with a little luck, we will see another in 2019 as they do wonders for our returns. This also doesn't surprise me as we are value-based investors and, at some point, an industry participant or private equity fund looks to take advantage of the mispricing and buyout a company. I hope this process hasn't been just plain luck.

I feel quite optimistic about 2019.

Thanks for taking a look, and as always,

All Good Things,

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