A View From Here - March 2018

"It's not always easy to do what's not popular, but that's where you make your money. Buy stocks that look bad to less careful investors and hang on until their real value is recognized." - John Neff

Five Months and Counting...

The almost infallible investing environment which flourished around the world in recent months gave way to tremendous volatility in February. Markets posted some of their worst weeks on record only to be followed up with some of their best. The Canadian markets can't get out of their own way as interest rate fears have now crept into utilities and dividend paying names that had been holding up many portfolios adding another layer of weakness as resource and metal shares remain frail. With this new round of volatility comes the importance of knowing what investments you own and why you own them.

That being said, February was a particularly good month for our accounts as many of our holdings reported record quarterly results. Of particular note were the reports from Constellation Software, FirstService, Colliers and Leon's Furniture. This was augmented by Lee Enterprises whose management suggests that 2018 can be a break out year in terms of asset sales, improving metrics and a possible refinance of their entire debt structure. When I compare that company to its peers, I scratch my head and wonder what we are missing. But as we point out in a few paragraphs, we've been there before.

While, it has been very subtle, our account values have been on a steady rise since October, having reversed a relatively mild (although it never felt that way to me) consolidation from the all-time highs achieved in April 2017. With that in mind, I believe that you'll like the view of your month-end statements when they arrive shortly.

Unless there's a cannonball coming straight at our heads...

I believe that the commitment to some of our most overlooked and deep value investments will reward us over the next 18 months. This optimism is based on our experience in similar situations when we see large disparities in the value of businesses relative to the overall market environment and more specifically, to their peers. These are the key metrics that we look to compare our thesis to, and the disparity in two of our most passionate names has never been more defined. While some might think that were missing something, I see it as continued opportunity.

We've seen this movie before; when some of our investment positions get so cheap relative to almost any yardstick, something good happens...unless of course, we cannot see the cannonball coming straight for our heads. As you know, I am invested in all of our names and constantly looking under rocks to find the things that give us an 'uh-oh' moment. I know it's not necessarily the share price action of the companies that defines success, as out of favor companies usually wallow longer than we'd like and always test our resolve.

One of the most successful value investors, John Neff said in his book " On Investing " that what he did for a living was argue with the stock market. I believe that investors' over-enthusiasm for technology creates the bargains among the industries threatened by the potential for technological change. This means retail, oil & gas services and old media, where disparity in the valuations of these businesses inclusive of their profit margins and/or asset holdings such as cash and/or real estate, offer opportunity to build wealth with what I believe is very limited risk. The growing variation between them and their peers has never been more pronounced.

I recall that when we were building up our investment position in Softchoice investment from early 2009 through to 2013, the shares were simply underappreciated and had me scratching my head wondering what we were missing. Consider this quote taken from A View From Here - August 2011:

"Interestingly, Softchoice now has $36 million of cash and earnings have continued to grow despite the

fact that its share price remains in a state of apathy. This can't stay too long (unless our analysis is wrong) and either the share price will begin to reflect its true value or a strategic buyer will make an offer for the company like they have done so many times before with our holdings (InterTan, Pet Value, Viceroy Homes, Nova)."

On April 23, 2013, the company announced that it was being acquired for $20/share. At the time I was writing that, the shares were in the mid eight dollar range for almost three years

Despite the volatility associated with the markets at present, I feel strongly that we have built a solid portfolio of investments that should reward us in the future.

Thanks for taking a look, and as always,

All Good Things

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