A View From Here - March 2019

"Be patient and persistent. Good things come in spurts - usually when least expected and fidgety investors fare badly" - Charles Ellis

2019 is off to an excellent start for our accounts with most equity-based portfolios ahead by over 10% in the first two months. While the past two years have been challenging for investors, (the last four months of 2018 in particular), we should consider it a 'win' that we were able to achieve even the slightest of returns, when so many things are in disarray. We own many businesses whose deep value proposition has not yet been recognized while, at the same time, others have carried our performance. In the past month we saw record results from most of our holdings and early March has witnessed a surge in our local news media investment (see quote above), following industry and corporate developments that have taken the share price to levels not seen in a long time. All of these events helped to elevate our accounts again in February, following a very strong January. I like writing the following line: "You'll be happy with the sight of your month-end statements when they arrive shortly."

A Bull Market Turns Ten

Ten years ago, in March of 2009, stock markets around the world likely saw a generational low. Nobody expected the markets to collapse the way they did in late 2008 and I recall having a barbeque with another financial advisor and our families. As the lackluster summer gave way into the final quarter of the year, we talked about potential outcomes for the market while standing in the back yard. We fawned over different scenarios that could occur, but nowhere in that conversation did we see a collapse of this magnitude, as evidenced by his email later that week, asking if we even discussed a total collapse that took hold in early September of that year. I don't think anyone knew just how bad it was going to get, and there was nowhere to hide.

With the ushering in of this powerful downward phase, we saw the valuations of companies erase over 50% of their value as words like "Madoff" and "Subprime" made it into everyone's vocabulary. I also recall that some clients began to lose their cool, pointing fingers as if their financial advisors should have known that this was coming. In my case, I recall one instance where someone yelled at me so vividly that I pulled phone away from my ear, stared at it and thought - I will never deal with you on the other side of this...and I didn't. I wasn't alone - this was happening everywhere, and no one knew how and when this would end. But something changed in early March of 2009. It just kind of stopped getting terrible and by April, things were on the mend and many industry professionals could feel it in a way that is hard to describe in words.

If we spent a lot of time since marveling at just how bad it got, few took notice at just how strong the recovery has been. Pundits painted a dismal economic future that sold a lot of books and magazines and TV appearances as the markets moved to all-time highs over the subsequent 10-year period. It is another reminder that pessimism is a luxury that few can afford. The bottom in March 2009 marked what I believe was the start of a new secular bull market we are currently in. What is a secular bull market and how long does it last? It is when the major indices begin a rise from a major bottom and has a run period of average of around 20 years. It has been argued (and something I believe to be true) that the last secular bull market ran from 1982 through to 2000 and retreated to a secular bear market from 2000 to 2009. If the average period of a secular bull market is 20-odd years, then we have a reasonably long runway of stronger markets ahead notwithstanding a few scary bumps along the way. However, this does not mean that investors can close their eyes and make money. It's just that bull markets are better than bears. By the way - the reason why they are called "bull and bear" markets is because a bull attacks, forcing their prey higher, while a bear attacks by pulling down.

Unloved Investment Holdings

There almost isn't a day when I don't find myself defending some of the investments that we hold. This in particular has to do with our retail, and local media. Traditional retailers have suffered from what has been termed the 'Amazonification' of retail with many customers choosing to shop online, leading to an abandonment of brick and mortar retailers, despite results, which shows the opposite . There is often a

disconnect between what is occurring corporately and what is happening in the price of a company's shares. When the market undervalues businesses, we tend to assume that it knows something we do not. While that is possible, we survey the landscape to the best of our ability to be sure that we are not missing something so obvious. It remains my belief that these investments offer tremendous risk-reward metrics and the companies we hold in this sector are debt free, real estate heavy and most importantly, reporting an increase in revenue and/or cash flow. I marvel at their valuations relative to pretty much any metric you can throw at them. I recall speaking with a fund manager who held large positions in both Reitmans and Leon's Furniture, who has since left the fund, and I suspect that their holdings are now up for sale, placing further pressure on already under performing assets. But as we have seen in our investment in Lee Enterprises of late, the move out of the doldrums is often the most powerful, reminding us of that Charles Ellis quote, ""Be patient and persistent. Good things come in spurts - usually when least expected and fidgety investors fare badly".
These businesses are so inexpensive that it boggles my mind. In my 30-plus year history of investing, I have never seen a cheaper investment than what Reitmans is trading at at present. By my calculations, the business which should report revenue of almost $1 billion, and report pre-tax cash flow in excess of $50 million (which would be the fourth straight year of growth in that area) this year , holds cash and property, plant and equipment on its books at $54 million-- is almost free. Still, when I mention this, I hear a response to the tune of - "great - don't buy me anymore". It certainly isn't a coincidence that the lack of performance and unpopularity of the industry has created the distain for this investment.

I respect the fact that many still dislike some of our investment holdings but these are the type of vehicles that have delivered the kind of returns for us that few have been able to achieve. Still we have to accept that we don't know the future and we can still be wrong. I don't think we will be...

2019 is off to a great start.... Let's hope it continues!

Thanks for taking a look, and as always,

All Good Things,

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