Market Update

March 2024

Important Topic: Earnings

Many times, we have focused our reader's attention on the connection and correlation between a company's earnings and their long-term share price. The connection is, at its core, rather simple. The more money a company makes the more valuable the company is.

In the short term a company's stock price might fluctuate as the market's affections for the company wax and wane. But if one focuses on the company's earnings, their health, strength, trend, and growth rate, one can get an excellent sense of where the share price will be heading, eventually.

There is a lot of truth to the adage that the stock market, in the short term, is a voting machine (popular stocks get taken to incredible highs and lows), but it is a weighing machine in the long term (the true value emerges over time).

We recently came across some very interesting data on this subject, and we thank Drew Dickson for allowing us to quote his work here:

Nvidia now has a $1.7 trillion market cap. And in the last five years, the stock is up about 1,700%. Guess what else is up about 1,700%? Nvidia's earnings estimates.

How about Facebook, aka Meta, which goes through periods of hatred and love with equal vigor? Well, over the past seven years it has bounced around a lot but still has generated nearly 260% returns. And forward earnings projections? They're up 280%.

We can stretch things further back and look at Google over the past 14 years (earnings up 885%, stock up 980%); or Amazon during the same period (earnings up nearly 2,500%, stock up about 2,800%).

Or we can go waaay back and analyze Microsoft over the past 22 years. Forward earnings projections have increased from $0.93 in February of 2002 to $11.57 today. That's nearly 1,150%. The stock is up just over 1,200%.

And finally, from one of my favorite former-CEOs Reed Hastings, we have good old Netflix. About 18 years ago, analysts were forecasting that Netflix would generate 11 cents of earnings in the coming 2006 year. Here in 2024, they are forecasting a whopping $17 of earnings in the coming year. That is a whopping EPS increase of 14,889%. And how about the stock? We'll it is up a whopping 14,882%.

Fundamentals matter, sports fans. Fundamentals matter.

So basically, it probably isn't terrible advice to ignore the rest of it. Ignore the noise. Ignore the talking heads on CNBC. Ignore prognostications of meme-stock Sith lords. Ignore the volatility. Embrace it, actually. And just focus on the fundamentals. Get those right, and you will likely win.

Whenever you hear someone talk about an investment, focus on the earnings. Earnings remain the number one indicator of a company's future. If there are no earnings, move on or wait. If earnings are growing, take a close look.

In this vein, Warren Buffet wrote about a change to his approach that was due to something his future long-term partner Charlie Munger said:

> "Warren, forget about ever buying another company like Berkshire. But now that you control Berkshire, add to it wonderful businesses purchased at fair prices, and give up buying fair businesses at wonderful prices."

One can find a fair business – mediocre earnings – trading at very low, attractive prices. This was Warren's background, what he had been looking for. But it is better to find a wonderful business – excellent and growing earnings – at fair prices. First look for the earnings, and then determine if they can be bought for a fair price.

Market Update: March 2024 - The Rally Continues

The market continues its rally, now in its 24th week. Markets have again reached all-time highs.

The world is expecting that not only will interest rates not be increased again but that interests will be cut. Such a cut may be delayed, but it is expected to start in 2024. Lowering interest rates would not only improve valuations but help the housing market and businesses in general.

Earnings are growing again, consumers defy expectations and continue to spend, wages are strong, jobs are available almost everywhere, and there are several trends, such as technology and health care, that are changing the world for the better.

If one was ever to be bullish, this would be the time. Yet many remain fearful.

The correct position, as always and as it must be, in our opinion, is in the middle. One should remain optimistic, to a slightly greater or lesser degree, but temper it with a realistic assessment of what can happen.

Thus, when one finds a great opportunity, one should proceed with caution and invest prudently. When one is fearful, one should continue to invest, even if with smaller amounts.

We like how our managers have positioned their portfolios and still look forward to the rest of 2024. We are positive and optimistic about the short, medium, and long term, and our ability to meet our client's objectives. At the end of the day that last point is all that truly matters.

Have a great month!

Sincerely,

- Meir & Adam

Index	Month
Bonds FTSE Canada Universe Bond Index - CAD	- 1.3%
Canadian Equity - S&P/TSX 60 Index - CAD	6.2%
US Equity – S&P 500 - USD	10.4%
International – MSCI EAFE Index - USD	6.0%
Emerging Markets - MSCI Emerging Markets Index - CAD	4.4%
Real Estate - Dow Jones® Global Real Estate Index - USD	-1.4%
S&P/TSX Preferred Share Index - CAD	9.2%

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