



# NEWSLETTER Q<sup>1</sup>

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## What Drives Us

Winter 2023

Marked by extreme volatility, 2022 proved to be a difficult year for financial markets. With few places to hide, values of almost all asset classes declined including real-estate with the relatively rare occurrence of stocks and bonds declining in tandem.

What can we expect in 2023? As Yogi Berra once said, 'it's tough to make predictions, especially about the future'. There are, however, some themes that have emerged. Inflation (the rate of price increases) has likely peaked. The pace of interest rate increases by central banks is anticipated to slow down. The conversation should shift towards the health of the economy as rapid interest rate hikes from the past year start to work their way through the system. The cost of borrowing is poised to remain high compared to recent years, but still relatively low compared to historical averages.

After the volatility of 2022 and the uncertainty ahead, it's understandable that investors may feel apprehensive. Long term investors know that these drawdowns are to be expected and they've often been rewarded for their patience. Patience happens to be the topic of the feature article of this edition from PenderFund Capital Management. On the back page, we have a write-up of our recent experience with an inspiring local charity.

Stay Well,

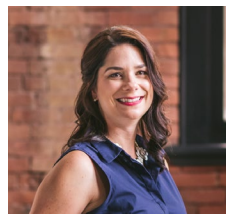
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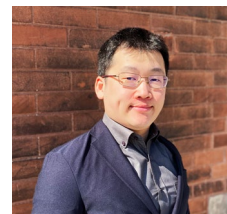
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# Wait for it... the keys to successful investing

Thank you to PenderFund Capital Management Ltd for this article: <https://bit.ly/3Wg8wfc>

**“The big money is not in the buying and selling ... but in the waiting.  
— Charlie Munger**

### What is the “patience premium”?

Investors are well-versed in such terms as “value premium” and “equity risk premium” but I think someone should coin the term “patience premium”. If value premium argues that “value” stocks, as measured by such metrics as high book-to-market price ratios and low price-to-earnings ratios, tend to outperform relative to growth stocks, and equity risk premium is the theory that states stocks should provide a greater return than “safer” investments such as Treasuries, then the patience premium would posit that patient investors are more likely to outperform over the long term.

I think we can all agree there’s a supply chain issue regarding patience. Whether it’s the average tenure of chief executives or the average holding period of stocks, both have been steadily falling. Technological advancements may be one of the causes of our global impatience. One-click shopping for just about anything we desire leaves us frustrated when gratification is delayed. As Herbert Simon, the American Nobel Prize-winning political scientist observed: An information-rich society may be attention-poor.

The definition of patience is finding a balance between a smaller reward in the present and a potentially bigger reward in the future and

placing a higher value on the future reward. Common sense and life experience confirm that building the emotional stamina to overcome obstacles in pursuit of long-term goals is a worthy endeavor. Having talent and a drive to succeed are great, but without patience they are often not enough to get to the finish line. Of course, patience on its own—without the drive to succeed—is simply passivity which will not get the job done.

### “Markets rise over the long term, despite periods of drawdowns.”

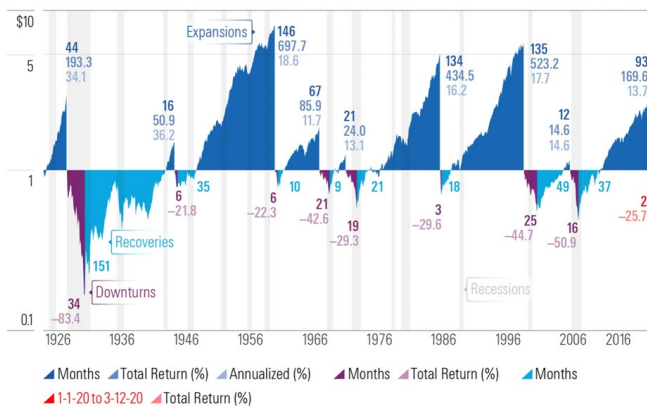
Some people conflate patience with passivity. But they are not the same. Patience is active. It entails being sharply focused on a long-term goal and being opportunistic about how and when to act on it. There are good reasons to build patience. Not only does practicing patience help us manage stress during difficult periods it can also help us reach goals over the long term. For example, studies show that impatience in children may impair educational achievements and creativity (intellectual capital growth).

Impatience in investors may impair material capital growth!

As the chart below shows, markets rise over the long-term, despite periods of drawdowns which makes a good case for the benefits of staying the course.

## Bear Markets Are Painful, but Markets Rise Over the Long Term

Growth of 1 USD from 1926–2020



Source: Stocks—Ibbotson Associates SBBI U.S. Large Stock Index. \*March 1 to March 12 return calculated for the S&P 500 because the Ibbotson Associates SBBI U.S. Large Stock index does not have daily data.

## 4 Key advantages for the patient investor

It's no coincidence that some of the world's most successful investors over long periods of time are proponents of the patient approach to building wealth. Legendary investors such as Warren Buffett, Howard Marks, and Phillip Fisher have all spoken about its merits. Buffett has stated his favourite holding period is "forever".

Marks acknowledges that not every period offers great opportunities for investors. "Sometimes we maximize our contribution by being discerning and relatively inactive. Patient opportunism—waiting for bargains—is often your best strategy."

Fisher endorses the need for patience "if big profits are to be made", and added, "it is often easier to tell what will happen to the price of a stock than how much time will elapse before it happens."

And why not add some wisdom from Mahatma Gandhi in here too: "To lose patience is to lose the battle."

The patient investor enjoys four key advantages:

1. Benefits from opportunities created by short-term investors who have low tolerance and patience for volatility and for underperforming a benchmark or peers;
2. Employs investment strategies that include illiquid or unlisted assets that lower risk and bring the potential for greater returns over time (e.g. private equity; merger arbitrage; liquid alts);
3. Invest based on long-term thematic trends such as secular trends; and
4. Lower investing, taxes, and other costs by reducing leakages from too-frequent turnover.

## Practicing the art of patient investing

Like anything else, patience can be cultivated. Readers who have studied martial arts may be familiar with the term "wuji" or "wui chi" (pronounced woo jee) which translates as "without limits". In martial arts, t'ai chi, and qigong, wuji is a form of standing meditation. It is often the first and the last step in a series of movements. Wuji is deceptive. To an outsider, the person is simply standing still. It looks like nothing is happening, but a lot is happening in mind and body. In investing terms, you could compare wuji to having optionality: from here you can go anywhere, or nowhere, depending on what you want to achieve.

I'll leave you with a final thought on the patience premium from an ancient African proverb: Patience is a tree whose roots are bitter, but its fruit is sweet.

# BDWM IN THE COMMUNITY

## Street Help

As we look back on 2022 with gratitude, we wanted to pay it forward by helping those who have not been so fortunate. As such, our team decided to support an inspiring local charitable organization.

Street Help Homeless Centre of Windsor is a homeless drop-in centre operated by and for the homeless. Established in 1995, the organization is run entirely by volunteers and serves over 400 meals daily while providing non-perishable food and clothing items. Their mission is to provide a sanctuary from the streets and to help the homeless develop genuine skills. Our group spent the afternoon packaging clothing and assisting them while they prepared the dinner service. We were given a tour of their facility, during which they explained plans for modest renovations that would impact their outreach. They emphasized that the need has never been greater and that reliance on food banks has been growing exponentially.

In addition to participating in this humbling and moving experience, our team further supported this cause with a financial contribution to help them with their mission.



## A Timely Reminder

### RRSP - Registered Retirement Savings Plan

Deadline for 2022 RRSP contributions is March 1st, 2023. The contribution limit for 2022 is \$29,210 and the new limit for 2023 is \$30,780. Your personal contribution room can be found on your Notice of Assessment or the CRA website.

### TFSA - Tax Free Savings Account

The annual contribution limit has been increased for 2023 to \$6,500. This brings the total lifetime contribution room to \$88,000.

### RESP - Registered Education Savings Plan

If you have an RESP set up for your children, contact us to ensure that you are making annual contributions that maximize the government grants available.

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