

September 2018

Market Update



Important Topic: Evaluating Decision Making – Part II

Knowing markets are volatile and daily price movements are almost always due to reasons that have little or nothing to do with a specific stock, how does one evaluate the following:

One invests in a stock at \$100 per share and after three months the stock has fallen to \$80 per share. Was the initial investment decision a good or bad one? Do we now sell, hold or buy more?

I would argue that based on the above you cannot answer these questions.

To properly answer the first question one would need to return to the original decision and review all of the information that was available at that time. As I wrote last month, not knowing the future, one must decide based only on the information at hand. It is very possible that faced with the same information today you would make the same decision. More so, it is very possible that following this decision-making process you end up with many more winners than losers, vindicating the decision-making process.

To properly answer the second question (which is what must be done going forward) one would need to dive deeply into the specific company, its financials, its competitiveness, its profitability, its cash flow and answer many more questions to determine the true value of the investment. If originally such an analysis had provided a value of \$200 per share which justified the original purpose and the subsequent analysis again supports a \$200 price target, then a fall to \$80 would be a buying opportunity.

However, if the original decision included no analysis but instead was based on a friend's recommendation or based on an interview on BNN or an analyst's report, or simply on the fact that the stock has been going up and one did not want to miss out, then one must admit that the initial investment decision may have been faulty. There is no way to determine – no way to justify - whether such a stock should trade at \$100 or \$80, or \$200 or \$20 for that matter. Without proper due diligence and research one either sells or continues holding based on hope and prayer masquerading as conviction.

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Now falling from \$100 to \$80 is trying and painful. Even with an analysis that determined a worth of \$200 per share, one does not expect nor enjoy such a move. But markets are famous for seeming to know one's point of discomfort and forcing prices just past that point. One's patience will be tested. One may even experience large amounts of stress if not outright panic. If one believes that "man plans, God laughs" then allow me to introduce you to "man invests, markets laugh".

At times like these the only comfort one can have is from a proper analysis. The more one knows about the company, the more homework one has done, the more one is comfortable hanging on... Or adding.

Market Update: Returns May Not Be What You Think

2018 has so far proven to be a difficult year in which to invest. First, almost ever market around the world has fallen. Second, this comes as a surprise to most as the two exceptions – US Tech stocks and Canadian Cannabis stocks – have dominated headlines and discussion. Thirdly, the US market has reached new highs but on the back of the tech sector and the tech sector alone. Removing the tech sector from the US numbers results in a flat market year to date.

Year-to-Date: Price Returns	
Canada	-1%
International	-3%
Emerging Markets	-6%
Global Real Estate	-3%
Preferred Shares	-1%
Bonds	-2%
US Market	+8%
US Market, no Tech	0%

Given this we are quite pleased with our client's portfolio's positive returns. While we have exposure to US tech, to have posted higher returns one would have required an unhealthy allocation to the US tech sector.

As always, one must remain diligent and cautious. The markets have a way of punishing greed just when one thinks it is safe. Looking forward, we remain optimistic for the long and medium term but cautious for the short. Our focus remains, as it must, on the long-term. Our long-term plans and the reasons for investing as we do, remain the same. Each specific investment is reviewed to help ensure that the reward for risk-taken is tilted clearly in our favor.

Portfolio Update:

For the quarter, the bond market was down 1.0%, the preferred market was up 0.5%, the Canadian market was down 0.8%, the US market was up 7.4%, International markets were up 1.7%, the Emerging markets were down 2.7% and the Real Estate market was down 0.5% (Reuters).

Have a great month and let us know if there is anything we can do for you,

Meir



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