

## Wells-On-Wealth Team

### Know What You Own: Participate Well

Legendary investor Peter Lynch is remembered for wisely saying, *“The single most important thing is to know what you own and know why you own it.”* This simple – yet crucial – statement forms the backbone of the Wells-On-Wealth Team’s investing process. We intimately know the investments that we hold – and, equally important, we truly understand the investing landscape in which our investments operate. Because we believe it is critical to meticulously *“know what you own,”* our team chooses to invest only in North America. Here are some reasons for this focus:

**Access to an abundance of “real-time” information allows us to be nimble.** There is a diverse amount of information available for North American companies and industries, from many different sources and from multiple analysts and commentators. This provides greater depth to evaluate investments, and also allows for increased transparency and objectivity. As a team, we access this information regularly. A North American focus allows us to be nimble – with information readily accessible, we learn about changes in the marketplace or any emerging risks “real-time” and without the need for translation or interpretation, so that we can assess and adjust, if necessary, with ease.

**Strong North American regulatory standards protect investors.** Both Canada and the U.S. have some of the highest standards in the world for securities regulation and oversight, which should provide investors with much comfort. In the U.S., the Securities and Exchange Commission (SEC) is the regulatory body that oversees the securities markets and protects investors; In Canada, the provinces and territories have securities commissions that form the Canadian Securities Administrator. These regulatory bodies are very important to protect investors and ensure that all market participants act fairly and operate under the laws enforced by the regulators. Across the world, however, the standards for securities disclosure laws, regulations, oversight and enforcement are not necessarily consistent or robust. The collapse of the crypto exchange FTX is just one example in which offshore operations were subject to limited regulatory standards, poor monitoring and lack of oversight – and, ultimately, limited investor protection.

**Substantial diversification can be achieved closer to home.** The combination of TSX 60 and S&P 500 stocks that comprise our portfolios continues to provide significant diversification across industry groups while maintaining world-class size and global exposure. Though based in North America, many of the multinational corporations we invest in have a presence in international markets to adequately satisfy the element of regional diversification. Contrary to conventional wisdom, studies continue to show that correlations between the U.S. and other developed markets worldwide have been high over recent years, meaning that holding foreign stocks listed on international markets hasn’t improved portfolio performance from a diversification standpoint.<sup>1</sup>

**Political risk can be better managed.** Throughout our many years of experience, we’ve seen how government, policymakers and even military control can rapidly change the business climate in different countries. Even changing tax laws or government regulations – all of which we term “political risks” – can add an element of complexity to how we view particular investments. Often, these changes can come fast and quickly – consider the impact of Brexit or the situation with Russia/Ukraine. The North American political landscape has historically been more stable than other parts of the world. With a focus close to home, we truly understand the prevailing tax laws, government regulations and other

political developments, as well as their current and potential impact on our portfolio investments. This allows us to be proactive, not reactive.

**Simplicity not only provides greater focus, but can also lead to cost savings.** Our focus also reduces the cost of managing our portfolios. For example, with our U.S. investments, there is only one exchange rate variable. Retail currency exchange can be costly, and the exchange rate between Canada and other foreign countries is highly illiquid – meaning that investments in foreign dollars often need to be converted to U.S. dollars before being converted into Canadian dollars. The high costs associated with two currency conversions can substantially erode an investment’s return. More notably, by truly understanding our investments and picking individual stocks for our portfolios, we avoid the expensive management fees associated with hiring external management teams to oversee this process. Other investment teams using the support of external fund managers or other experts pass these costs to the investor in the form of management fees, alongside their fees for advice.

### **An Intimate Understanding Can Lead to Better Outcomes**

For these reasons and others, our investing focus has been solely on North America. We believe that intimately knowing what we own leads to better outcomes. Notably, the timeless words attributed to Einstein often come to mind when we think of our investing process: *“If you can’t explain it to a six-year-old, you don’t understand it yourself.”* Success in investment selection and portfolio oversight comes from a fundamental understanding of the companies we invest in and the investing environment in which they operate. We focus on buying strong businesses with solid track records and a clear path forward for future growth. We understand the potential risks and how to measure them. We don’t invest in fads or trends where the prospects are inherently uncertain – this is one reason why we have steered clear of cryptocurrencies. And we pay particular attention to fees and expenses for our clients.

Throughout our over 50 years of investing success, we have been proud to consistently explain with conviction what we own and why we own it, and we believe this helps to differentiate our team. To further demonstrate our confidence in our process, we are investors in our portfolios – with our clients, we are in this together. As an added benefit, because our clients recognize most of the companies in their portfolio, this provides an additional element of comfort. Most importantly, by operating under the guiding principle of *“know what you own,”* over time, the outcomes of our investing process have continued to deliver success.

### **The End Goal: Participate Well**

Our philosophy can be summed up in two words: participate well. We aren’t in the business of trying to beat the market, nor do we ever take excessive risks. Our clients understand the importance of maintaining a patient approach through the inevitable cycles to build wealth over time. We focus on buying outstanding stocks and accumulating more as time progresses — the objective is simply to “participate well,” and this has continued to serve our clients well.

If you are interested in learning more about our process, or how our approach can help you achieve your goals, please get in touch — we would be happy to assist.

1. <https://www.morningstar.com/articles/1085861/is-international-diversification-necessary>