TD Wealth

Amazing Amazon

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Investment Advisor, TD Wealth Private Investment Advice 2017 Vol. 1 of 6

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."
-Sir John Templeton

Moving the Markets:

The Trump Trade momentum has continued to build throughout 2017 despite widespread 'uncertainty' surrounding what the future holds. I have to laugh a little at the uncertainty commentary and those waiting for clarity, as unfortunately these are two states (certainty and clarity) that never apply to the future.

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It was not long ago that the mental blind spots we have come to somewhat understand in humans were far less understood. It was as recent as the 1960's when famed Israeli psychologists and Nobel Prize winners Amos Tversky and Daniel Kahneman would start to figure out how these biases consistently lead us down the wrong path to poor decisions. One of the notable biases that comes up often is known as hindsight bias, sometimes called the knew-it-all-along effect, which sees one viewing past events as predictable, despite there being no evidence beforehand that the outcome was knowable. Think of the last time you, or someone else, said you knew something was going to happen after the fact. I can only imagine listening to sports radio after the Leafs either make, or fail to make, the playoffs, which will seem so obvious in hindsight.

The most recent example of hindsight bias came from pundits and aficionados explaining away the rise and ultimate victory of President Donald Trump. I was amazed at the amount of smart sounding people who were able to explain how they saw this coming despite the fact that not a single poll suspected a Trump victory. I'm sure I could dig up the same ex-post commentary with respect to Brexit and most other unforeseen events, but I'd like to apply this example to one of the largest, and most successful companies in the world, Amazon. Amazon went public via an initial public offering in 1997, and according to The Irrelevant Investor's Michael Batnick, the company has compounded at 35% annually. This works out to a 38,155% return since inception!

Enter hindsight bias. Looking back and knowing this incredible track record has fooled some people into thinking that Amazon's rise was some sort of pre-destined or obvious event, as opposed to a largely unknowable outlier. When Mr. Batnick digs into the numbers further, the story becomes even more amazing and one begins to realize how difficult it would have been to first know this price action in advance, and second, to have the gumption to hold on throughout.

For example, since the 1997 IPO, Amazon fell 15% on 107 different occasions, in just three days! This means your $100,000 in Amazon common stock on a Monday would be worth $85,000 on Thursday. Furthermore, Amazon has declined 6% in a single day on 199 separate days. Again your $100,000 today would be $6,000 less tomorrow. In the fabled tech wreck from December 1999 to October 2001, your $100,000 investment declined to just $5,000, a 95% loss. Not to belabor a point, but Amazon has had a double digit decline every single year it has been public, and a 20% drawdown 16 out of 20 years. The median annual drawdown has been a 30% decline which is not for the faint of heart!

The lessons here can't be overstated. For every Amazon, there are thousands of great 'stories' that fell by the wayside in the last twenty years which have permanently lost investors their hard earned money. If we understand that there is no reliable crystal ball or superstar analyst that can consistently uncover the next Amazon, the only logical step is to put together a strategy that gives you the best chance of having long-term success. The only free lunch in this regard is to diversify your holdings so that no one position makes or breaks meeting your objective. Recall that to be a successful investor one needs to be a successful loser. Being a successful loser is a lot harder if you hold a concentrated position that when it inevitably declines has an outsized impact on your portfolio.

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What I'm Reading: *Red Notice* by Bill Browder. This was recommended to me early last year and has been on the top of my reading list since. I was given a copy by a cousin for a Christmas gift and read it cover to cover whenever I had a moment. It's an unbelievable true story about high finance in Russia and could easily be mistaken for a fictional thriller. This was likely the most interesting read in the past year and gave me a new appreciation for how lucky we are to live and invest in the western world.

Who I'm Following: Cognitive decline may be worthy of a full note down the road and I've touched on it briefly before but wanted to highlight yet another study I came across. A recent CFA Publication from the quarterly magazine *The Analyst* goes into detail on studies that show when investors age, two diametrically opposite forces exert influence: first, cognitive ability starts to decline leading to sub-par decision making which is accompanied by an increase in confidence– a dangerous combination when making financial decisions.

Market Folly: The investment classic by Benjamin Graham, *The Intelligent Investor,* starts with a comparison of investing and speculation and warns that the two shouldn't be confused which is often lost on the masses. Take for example the son-in-law of Bill and Hillary Clinton (also backed by Lloyd Blankfein) who made a huge wager on Greece through his hedge fund last year. The bet hasn't paid off and the fund has been shuttered after suffering 90% losses. A great reminder that 'wagers' and 'bets' are best left to gamblers at the casino.

Reason to be Optimistic: Although Warren Buffett was one of Hillary Clinton's biggest financial advisors it appears the 'never bet against America' attitude is still going strong. On a recent interview with Charlie Rose, Buffett noted that since the election, Nebraska-based Berkshire Hathaway has bought $12 billion of common stocks. Further to this note, Buffett's annual letter to shareholders noted that in his view, equities are not necessarily in bubble territory.

Outside the Office: My two older brothers seem to live more exciting lives than I do so rather than bore anyone with my life, it's worth sharing the exciting happenings in both of theirs. My middle brother recently competed in and completed a relay race that travelled from Los Angeles to Las Vegas which is over 340 miles through Death Valley from the Santa Monica Pier to the Vegas strip. My oldest brother is still hard to pin down but is currently on a pit stop at home before heading to Romania via a stopover in India (a little out of the way to be sure). His time home will be a change of scenery from his last several stops which were Costa Rica, India, Cambodia, and Morocco.

Select Benchmark Returns – To February 28, 2017

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Comp (Canada)	0.73%	19.74%	4.02%	CDN Bond Index	0.83%	1.89%	3.37%
S&P 500 (US)	5.57%	22.33%	11.60%	CDN Short Term Bond Index	0.54%	1.48%	2.17%
MSCI Europe	3.32%	12.82%	5.28%	CDN Long Term Bond Index	0.91%	2.12%	4.55%
MSCI Emerging Markets	7.27%	27.3%	6.05%	US$/CDN$	1.34%	2.07%	-5.73%
MSCI Far East	5.72%	21.05%	7.06%	S&P TSX Energy	-6.62%	27.28%	-0.29%
MSCI World	5.33%	21.97%	10.03%	S&P TSX Materials	5.23%	28.17%	-6.77%

Source: TD PAIR, TD Securities

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