

February 21, 2024

Dear clients,

Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair.

- Sam Ewing

To lose patience is to lose the battle.

- Mahatma Gandhi

Whenever I gently lecture my kids on learning patience, one of my favourite (and not at all annoying) things to say is, “Yeah yeah, patience – how long will that take?” We aren’t born with it, and parents can’t teach it. It must be learned by enduring through uncomfortable times.

We are in one of those times, at least from an investing perspective. The mega-sized technology companies are rising very quickly thanks to artificial intelligence hype, making overall market performance look very good, but most other companies have struggled. For conservative value-oriented investors who don’t like to risk client capital trying to participate in a mania, it’s tough to watch. I’m learning patience. But how long will it take?

Uncertainty rules

There’s a lot of uncertainty in this market, mainly centered around interest rates and inflation. No one knows when inflation will finally settle down. Like Super Nanny, all we can do is patiently keep putting the restless two-year-old back to bed, hoping she doesn’t wake the whole house. When she falls asleep, we can finally get some work done.

Inflation is an increase in prices. It’s bad for obvious reasons, but it’s especially bad if it gets out of control – it can ruin whole economic systems. Governments use interest rates to fight it – if they raise rates, they hope people will borrow less money, spend less, and stop feeding demand for stuff, which increases prices. This strikes me as rich, considering the reason we have inflation in the first place is because governments can’t resist printing money. As Nobel prize-winning economist Milton Friedman once said, “Inflation is always and everywhere a monetary phenomenon,” meaning it is always caused by too much money chasing too few goods.

I tell you this because it forms the backdrop of my investing tactics right now. Markets are sure inflation and interest rates will come down soon and allow everyone to get back to normal. But I don’t see any evidence of politicians reducing spending. In fact, they seem pretty comfortable with debt. So, I believe inflation will be with us longer than most expect. At the same time, I think rates will come down, if only because interest payments are becoming a huge burden. This will keep inflation higher as well.

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Where we are invested

The investments in your portfolio are in place to take advantage of my long-term view of things (with some counter-stances in case I'm wrong). But in the meantime, we endure the ups and downs as the market adjusts to daily events.

As you know I like to invest in stocks that are more likely to go up than go down. (This sounds obvious, but limiting downside risk is important to me.) I've focused on stocks that could benefit from longer term inflation. For example, commodity-linked stocks, undervalued dividend-payers, and a few arbitrage situations.

The last three months of 2023 gave us solid returns. In the Canadian portfolios, asset managers, healthcare, and precious metals stocks performed very well, but oil and fertilizer stocks did not. In the U.S. portfolios, we were successful with our homebuilder, banks, technology companies, and defence stocks. Again, oil and fertilizer stocks were weaker.

So far into 2024, commodity-linked companies have continued to lag, especially gold and silver producers. But these are also the most attractively valued sectors of the market, and I expect them to realize significant returns through the remainder of 2024 and into 2025.

B.C. Speculation and Vacancy Declaration Due

If you live in B.C., you should have received a letter from the B.C. government instructing you to declare your home as occupied for the B.C. Speculation and Vacancy Tax. The due date is March 31. If you can't locate your letter, call 1-833-554-2323 for assistance.

I hope you are enjoying our mild winter! As always, if you have any questions please reach out.

Best regards,



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