A DIFFERENT APPROACH TO INVESTING (PART 1)

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When it comes to taking on any significant or vitally important endeavor, I like to 'stack the deck' in my favour. This approach might not guarantee success, but it brings me as close to a 'sure thing' as possible. I like this approach. This is intuitive to me. It allows me to sleep at night (…most nights). Call it cautious, conservative, or even boring. I'll save the excitement for other less significant endeavors, where failure has far less dire consequences.

It should go without saying that I view your financial wellbeing as vitally important (I'm staking my career and thus my livelihood on it). Obviously you do as well. Given our mutual interest in your success, let's review how we can stack the deck in our favour in order to reach your financial objectives.

Before we begin, I would like to suggest that our approach is different than most in a few key ways:

1. We don't gamble
2. We think long-term
3. We follow the timeless wisdom of the best in the business

For the sake of your time (and my space), for this quarterly commentary I will elaborate only on point #1 above. I look forward to reviewing points 2 and 3 with you in detail in future missives. Let's get started…

Market forecasting is commonplace. We get it via the 'news' media, from investment firms, and by way of individual investors. If I had a dollar for every "market outlook" I received at the start of each new calendar year throughout my career, I'd be writing this letter from the comfort of my very own island retreat. Oddly though, it didn't take long before I realized that I was often reading the current outlook of a financial firm or an investment 'expert' whose predictions from the prior year had turned out to be completely wrong. This begs the

question – why then should I, or anyone else, pay much, if any attention, to their current outlook? Surely, you don't have to have Sherlock Holmes-like intuition to recognize the futility of depending on anyone's ability to see into the future, for your own future financial success. Given the dismal track record of 'expert' forecasts, doing so seems more akin to an outright gamble than any sort of a 'sure thing'.

For evidence of the futility of relying on market forecasts, I recently read a commentary from Richard Bernstein Advisors LLC out of New York. Here's a brief excerpt:

> *"For nearly 30 years, we have surveyed Wall Street strategists for their recommended equity allocation. Through time this survey has shown to be a very reliable long-term sentiment indicator. In other words, it has historically been bullish when Wall Street suggested underweighting equities and bearish when they suggested over-weighted positions."*

Clearly, investors should not be taking their investment ques from so-called expert forecasts. In fact, as the above would indicate, we'd be well-advised to do the opposite.

After all, what is a market outlook if not merely a single point of view among many (often varying) predictions for the future? The 'expert' forecast, in actuality, is nothing more than one's hypothesis (i.e. best guess) as to how events may – or may not – prevail in the future. To depend on such prognostications for our own financial success (remember, we're absolutely in this together), seems a lot like a gamble to me. Remember, we don't gamble - at least, not when it comes to matters of vital importance such as your financial wellbeing. Imagine if we had relied on the experts for guidance on how the recent 'Brexit' vote would turn out? According to expert consensus, while the vote might be close, it seemed a foregone conclusion that the 'remain' camp would win the day (even the London bookies got this one wrong!). This simply provides a recent example of the futility of making predictions or forecasts – let alone betting with your investments as based upon them.

As mentioned above, the individual investor is also often inclined to make predictions. They tend to invest based on their personal near-term outlook, or should I say – best guess of where the markets may be headed. Unfortunately I still see this all too often within my own practice. If the client feels uneasy they'll want to invest more conservatively, if at all (of course, when consensus is cautious such pessimism is likely already priced into the market, making stocks a buy. But I digress). On the contrary, if they feel more optimistic they'll take on more risk, and perhaps accelerate their contributions (in turn, this often coincides with higher valuations – making stocks more risky, not less). Let's remember, as according to Benjamin Graham, "*The intelligent investor is a realist who sells to optimists and buys from pessimists.*"

Returning to the futility of such an endeavor, let me ask the obvious: if the very well-paid, highly educated, and

full-time financial experts can't accurately predict, what makes the average 'weekend warrior' investor think that they can? Perhaps the consumer sentiment index can provide some anecdotal evidence of the individual investor's track record for 'calling' the market. As you may have guessed, this too would have been a very reliable contrarian indicator (not unlike the 'expert opinion' of Wall Street as mentioned above). As testimony, investor sentiment was wildly optimistic in 1999 and 2000, right before the bursting of the tech bubble. The consumer sentiment index also hit a peak in January 2007, not long before the global 'financial crisis' of 2008 that saw equities fall by some 40% to 50%. And finally, after years of negative sentiment (while the broad markets were advancing) sentiment spiked again in December of 2014. This proceeded a dismal year for North American equities, in which Canadian stocks (as per the S&P/TSX Index) declined by ~8%, along with a drop in oil prices of approximately 50%.

Despite the above, most market participants (both expert and novice) continue to diligently follow, and take guidance from, economic or market forecasts. They invest today based upon their, or someone else's, market outlook. Perhaps stranger yet, they form their opinion about the market's future based on what they see or read in the news, which is always backward looking. It goes without saying that such an approach is clearly a gamble at best. I say again, we do not gamble. Not with your hard-earned savings, and most definitely not with your future financial wellbeing.

In closing, while our approach may be somewhat unique, I'm pleased to report that we are most definitely not alone. I leave you with a couple of quotes on this subject from the world's greatest investor, Warren Buffett:

"*We've long felt that the only value of stock forecasters is to make fortune tellers look good.*" and,

"*I can't predict short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up.*"

Clearly, we're in good company.

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