

QV UPDATE

Weekly Commentary | August 25, 2017
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Romantic Investing

Do I find all of its qualities attractive? Am I just interested in it for its money or financial position? Do I think it is capable of making rational decisions or can it act unpredictably and crazy at times? What do I expect to get from this relationship over the long term? Will it fit in well with my friends, ahem, other holdings?

These are questions that we must answer during the initial courting, I mean screening, process of researching potential investments. This ritual is usually undertaken by an individual member of the QV team. When they find a company that piques their interest, they will do a deeper analytical dive to get to know it better in hopes of building genuine affection.

Once our analyst becomes infatuated with a company, it is time to introduce it to some of their friends. New ideas are brought before the appropriate research team for further analysis. Our Canadian equity, global equity, and fixed income teams are comprised of specialized analysts that vet all investment recommendations. It helps to have other people scrutinize investment ideas to ensure thoroughness and to combat potential biases. The pretty new idea could be smiling at the analyst with the most beautiful valuation they have ever seen and a management team that is out of this world, but it might have a growing debt problem that is invisible to our love-struck friend through their rose coloured glasses. Not all companies brought forward make the cut.

The next step is to introduce the company to the investment family. This is the most nerve-wracking stage yet. The analyst compiles a formal initiation report to bring before the Investment Committee (IC). The IC currently consists of equity and fixed income portfolio managers, associate portfolio managers, directors, research associates, a compliance officer, a client service manager, and even a trader. It is very difficult for the analyst to anticipate all questions that may come from people with such different perspectives. The report presentation is followed by what is usually a quite lengthy question and answer period. Most questions are answered directly in the meeting, but there are typically a

few queries that require a follow up with additional research. The IC then decides whether or not to allow the new investment to be welcomed to the family. Not all companies pass this stage either.

Gaining insight from such an array of people has its benefits, but it does not come without risk. Groupthink is the tendency to make decisions based on the group's consensus view and it poses a considerable threat to our process. Fortunately, we are acutely aware of this risk and take active measures to counteract it. The chair of the meeting always encourages everyone to speak their mind without fear of negative judgement. Everyone's opinion is considered equally when shared. Conflicting views are debated with respect and minimal emotional attachment. Often someone plays the devil's advocate to shed light on opposing positions and possibilities. Groupthink is impossible to mitigate entirely, but with persistent effort its impact can be minimized.

At this point the new idea becomes a member of the QV family! Admittedly, our family is an exhausting one to be a part of because each company is under endless scrutiny. Like in any healthy relationship, there is no such thing as "letting yourself go." Judgement is constantly passed and positions are bolstered as adoration flourishes and trimmed when love fizzles. Alas, relationships with our companies occasionally come to an end and we must eliminate positions. All jokes aside, these can be difficult decisions to make as we sometimes do gain emotional attachment to our holdings. Despite our amorist feelings, we adhere to our process in all cases and execute the sales if companies offer limited value compared to the risks they pose to our clients' portfolios.

The average marriage in Canada lasts about 14 years. While our average holding period pales in comparison at four to five years, we tend to be more faithful partners than most investment firms. However, there are a select few companies, such as E-L Financial, that we have been smitten with since our inception more than 20 years ago!