Wendy Booker-Urban

Lessons

I recently had the opportunity to impart some of my investing knowledge to my daughter, who participated in a savings competition with her grade 9 classmates. Finally remembering what her mother did for a living, she asked me for five stock recommendations. Despite her fictional investment horizon of only one month, I was not deterred from espousing the virtues of long-term investing. We began our lessons recalling the wisdom attributed to legendary value investor Benjamin Graham: "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

Trying to find five stocks that will outperform over a very short time period illustrates Ben Graham's concept of the voting machine. How these stocks perform in four weeks will depend less on their operational results, and more on investor expectations. Investor expectations can be heavily influenced by news headlines or crowd behaviour. Picking five stocks that will win in the short term requires luck. Repeating this luck is the challenge.

Rather than trying to predict investors' behaviours, I encouraged her to focus on quality businesses with solid track records of growing earnings through different economic cycles. These businesses should be bought at prices that provide a margin of safety when equity markets fall. Ben Graham's "weighing machine" refers to the accumulated wealth generated by the growth in companies' earnings and dividends over time.

Mindful that I may lose my daughter's attention if I began to dive into the fundamentals of equity analysis, I ended our brief lesson by asking her to reflect upon the following principles:

- Focus on quality and the price you pay when choosing the companies to invest in.
- Consider the degree of risk you are comfortable with. A shorter time horizon will limit your ability to recoup losses.
- Avoid paying a high multiple of earnings for any company as it tends to limit your potential return, even over a long-term horizon.
- Prioritize risk and potential downside over returns. Equity markets do not rise continually; there will always be a correction. Only the timing, degree and duration are uncertain.

As I prepare to retire after a 27-year investment career, I am comforted to know that these investing principles remain the foundation of QV's investment philosophy. At times our style can be challenged. I clearly remember the technology bubble of the late 1990's when the prevailing argument insisted there was a new paradigm for valuing stocks, and the days of value investing were over. I also remember an investor presentation in 2007 illustrating the explosive growth of debt in that decade, alongside assurances that insurance and derivative products would mitigate this risk. Recall the $200+ oil price forecasts amid the peak oil assertions. These were all predictions that proved incorrect in the long term but led to significant equity bull markets and high market valuations in the short term. While we may not have always kept up with equity markets as they reached new highs, our approach helped to limit losses during the inevitable market corrections.

As I write this letter, our style is challenged again. Predictions of an economic recession dominate the news headlines and central bankers are prepared to lower our already low interest rates to support the economy. Equity markets are rallying again on a continuation of the low interest rate environment that has buoyed all risk assets since 2009. Concerns about rising debt levels and high stock valuations have been dismissed once again.

In the end, my daughter followed my advice and chose to invest in a bank, a railroad, a utility, a software company and a grocer in her virtual portfolio – companies owned in the QV portfolios with proven track records of generating earnings growth through many different cycles over a long investing horizon. She may not win the competition, but I expect these lessons to help her succeed with her savings goals over her lifetime.

When required to summarize my investing philosophy in 10 minutes, I chose these concepts of quality, value and long-term investing. They were first introduced to me by QV's founder, Leigh Pullen, and advanced by his successors Joe Jugovic, Ian Cooke and Darren Dansereau. Thank you for the valuable investing lessons over these many years. Most importantly, thank you to our clients, whom I have been honoured to serve since QV opened its doors in 1996. Your support and friendship have been the most important lessons of all.

Sincerely,

Wendy Booker-Urban