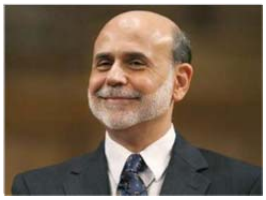
# QV Update

December 20, 2013 Joe Jugovic, CFA

## Joy, Joy, Joy

*♪ Oh the weather outside is frightful, yet the market is so delightful, stocks are on a roll, let them grow, let them grow, let them grow. ♪*




My 10 year old daughter is at that awkward age where she is starting to question whether Santa is real. I know this seems older than many children, but I can't fault the poor thing, she has the Jugovic gullible gene. As a parent it has become harder to stick to the story, so I try to emphasize that if she believes in the spirit of giving and doing good, then Santa is real. This year however I have begun to wonder if it's time to tell her the truth – "Santa is real dear, but his name is Ben and he's an economist!"

Investors believe he's the real deal. Year-to-date the US markets are up anywhere from 25%-30% depending on the index. Even most countries in Europe have posted on average 15% gains. Meanwhile, Canada has been a laggard, but has still generated gains in the high single digits. A steadily depreciating Canadian dollar has amplified global returns relative to those of the TSX.

To be clear, we are not suggesting Mr. Bernanke's policies are the sole drivers of these returns, but they sure helped. The fundamental good news is that the economy continues to slowly improve, companies and profits are healthy and multiples while growing are not excessive. Oh yes, and Europe didn't blow up, nor did the U.S. default. The biggest driver in our opinion remains the depressed levels of interest rates which amplify all asset prices. The surprise taper this week was accompanied by a very important message, "rates will remain at near-zero well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the committee's 2% long-run goal".

Just this week, commentators have been singing Mr. Bernanke's praises with the "successful taper". In our Scrooge like way we shout Humbug to the growing consensus. Former Federal Reserve Chairman Alan Greenspan was a revered hero while stock markets were strong and his policies considered brilliant. It wasn't until years later that the underlying damage was discovered. Call us skeptical, but we don't believe Santa is an economist, nor do we believe everything is as rosy as people have come to expect.

<u>INSIDE THE FUNDS – 2014 OUTLOOK</u>

We're often asked how we think stock markets will perform in the future. Our year end forecast is simple; the next 5 years won't produce as high of returns as the last 5 years. What you pay for an asset has a significant bearing on the overall return. Today the valuation multiples are much higher than 5 years ago. This doesn't mean we're calling for a major crash or negative returns. We caution though against extrapolating from the past and getting caught up in the growing optimism.

We believe the key will be to continue to focus on companies with sustainable and enduring business franchises, strong balance sheets, and reasonable multiples. We remain confident in the businesses and management teams in which we are invested. That being said, we have reduced exposure to higher valued holdings and have added to those at more reasonable multiples. We will have to continue to actively do this in 2014 to minimize risk.

We will return with our weekly email on Friday January 3rd. All of us at QV wish our readers a safe and happy holiday season and thank you for your continued support.

Image Sources: http://www.youngresearch.com/wp-content/uploads/2012/03/Ben-Bernanke.png & http://www.freakingnews.com/Merry-Christmas-From-Vladimir-Putin-Pics-74886.asp