THOMLINSON
INVESTMENT COUNSEL

RAYMOND JAMES®

April 19, 2022

Dear clients,

Knowing yourself is the beginning of all wisdom.
– Aristotle

Thus says the Lord of hosts: Consider your ways.
– Haggai 1:7

Thinking about the accomplishments you are most proud of in life, did you achieve them by imitating someone else? Or did you operate out of your own talents and character? When it comes to mistakes, were you honest with yourself and your limitations? Or were you trying to be something you are not?

Just as in the rest of our lives, investors must be honest about who we are. Do I have the time and ability to manage my investments alone? What level of risk can I accept? What types of investments am I comfortable with? If we insist on investing outside of your own limits, we run the risk of not achieving our financial goals, or worse, experiencing a permanent loss of capital we cannot afford.

As your advisor I spend considerable time with clients in conversation, discovering your goals and preferences, past experiences and future expectations. The purpose of this process is to help you understand yourself. At the same time, we find out if your goals are a good match for my own investment style, risk management, and areas of expertise.

Know thy manager

Good investment managers do not try to be something they are not. In my case I understand that I am comfortable investing in cash-generating companies while they are "on sale", even if popular opinion is against them. Warren Buffett, arguably the world's most successful investor, said that it is wise for investors to be "greedy when others are fearful, and fearful when others are greedy." While this style can look wrong for a while, it tends to result in less risk and better results over longer periods of time. (But no promises!)

Fortunately, since about September 2021, my approach has worked. Markets have been challenging for most investors in 2022, especially in technology shares. Energy, on the other hand, has outperformed. Your portfolios have benefitted from a large weighting in energy (oil & gas companies), and a low weighting in technology. This is the biggest reason your portfolios have generally gained in value while global markets have fallen.

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Be greedy when others are fearful

There is a steady stream of negative news in the media at the moment. Ukraine, inflation, interest rates, politics, supply chain, COVID… You would be forgiven for thinking the world is coming to an end. As a result, investor sentiment is very low by historical standards. According to the recently released AAII (American Association of Individual Investors) Sentiment Survey, bullish sentiment – ie expectations that stock prices will rise over the next 6 months – is at 24.7% versus an historical average of 38.0%. Similarly, bearish sentiment – expectations of prices falling – is 41.4% versus 30.5% historically.

Encouragingly, Charles Rotblut of the AAII notes: “Historically, the S&P 500 index has gone on to realize above-average and above-median returns during the six- and 12-month periods following unusually low readings for bullish sentiment...” In other words, negative sentiment tends to be a good sign for positive future returns going forward. This gives contrarians like me a good feeling!

My best advice for times like these is to try not to let the news media distract you from the discipline of investing for the long term. You will experience short-term ups and downs but following a contrarian discipline of buying when others are fearful should result in reasonable returns over time. It won’t always seem so, but trusting in the process will help carry you through.

As we head into spring I hope you are opening your doors and windows (figuratively and literally), shutting out the fear coming from your television sets, and spending time out of the house with friends and family. I recently spent 11 days in Hawaii with my kids over Spring Break and it was a much-needed restorative time for all of us. If you would like to hear about it feel free to give me a call!

All the best,

Bill

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