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November 14, 2023

Dear clients,

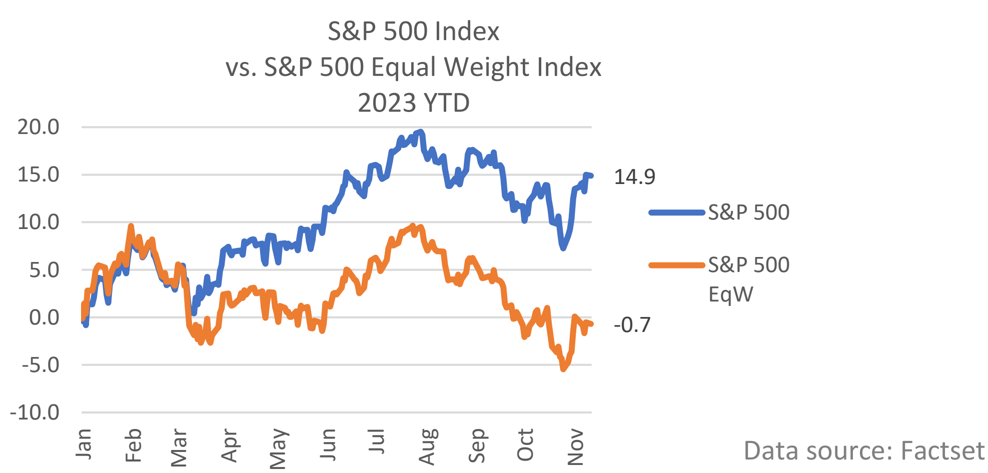
The essence of investment management is the management of risks,
not the management of returns.
- Benjamin Graham

My former boss and global investing legend Peter Cundill was a disciple of Dr. Benjamin Graham, author of *The Intelligent Investor* (published in 1949) and the father of value investing. Every year at our company annual meeting, Peter would remind those present that strong positive returns are nice and all, but it's the negative numbers that do the damage.

Peter was referring to the mathematical "mystery" that if your $100 grows by 10 per cent, and then shrinks by 10 per cent, you have $99 remaining, not $100. In other words, investment losses hurt long-term results more than we expect. Peter was always laser-focused on preserving capital for his investors. He passed away in 2011 but his unique investing style lives on in all who worked with him, including me.

Timing

There are times to take investment risks, and times to avoid them. The year 2023 has been highly uncertain and unpredictable – not the time to make big bets, in my opinion. I have been focused on long-term investments that seem safer for client capital. As often happens, conservative investors miss higher risk opportunities as a result. For example, the "Magnificent 7" in the U.S. (Alphabet, Amazon, Microsoft, NVIDIA, Apple, Meta, Tesla) have had a terrific run on the back of artificial intelligence (AI) hype, driving the S&P 500 Index much higher, but if we take the influence of these stocks out, the U.S. market has been essentially flat.



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In 2023, I have held on to a few convictions that contradict the market's expectations:

1) Oil prices will remain high due to government environment policies that discourage new production. Suppressed supply means higher prices.
2) Labour markets and the economy will be stronger than expected.
3) Inflation will run higher for longer because of the above two points, and because governments show no sign of slowing their historic money print.
4) Geopolitical risks have the potential to get worse.

In view of the above, I have maintained significant exposure to oil and gas companies, gold and silver producers, and fertilizer companies. These sectors are not the Magnificent 7, so they have lagged the market, but I believe, in the longer term, they provide better protection for your capital, with better return potential. Other sectors in your portfolio include REITs, financials, technology, grocers, and autos.

It's important to be patient in this business! That often means looking wrong for extended periods. But we will continue to avoid taking undue risk in this environment.

Best regards,

Bill

The S&P 500 Index is a US equity benchmark representative of the United States stock market, with stocks weighted by market capitalization. The S&P 500 Equally Weighted Index is the same US equity benchmark but with stocks weighted equally. Both indexes are reported in US dollars, with dividends not reinvested.