August 12, 2023

Gone Fishing

Let me start by apologizing to those who don't fish or find it boring, but being it's a Saturday, in the middle of summer and I'm writing from my cottage as I look at my little boat and rod, fishing is an analogy that comes to mind when I think of certain investor behaviors.

One of my favourite past times is fishing. It does not matter if I'm casting, trolling or jigging. I enjoy fishing rivers, lakes and deep sea fishing. I even enjoy ice fishing – although it is probably the least favourite. What adds to the joy is the fact I'm on or near the water. There is something about water that I find calming and peaceful.

My passion for investing, however, is greater than my passion for fishing. Many times I hear, "I don't know how you do it. All the numbers, all the volatility. How do you sleep at night?" Reality is, I sleep pretty well. I believe it is because I enjoy what I do, and with more than 25 years in the industry, I know what a repeatable and disciplined process can generate.

You're not always going to catch your target fish species every time you go out. And as investors, we can't always pick the top performers. Sometimes, I reel in a sheephead when targeting salmon, and sometimes we pick a loser when investing in what we thought to be a solid investment. But both in fishing and investing, we know that over time, we generate the results we seek to achieve. Patience is key, in fishing and when investing, but especially when it comes to investing.

Just like I have no control over the fish, I've learnt that I have no control over the movement of a stock. What I do have is the experience and knowledge to be a decent fisherman and even better investor. This knowledge and experience have been gained over many years since I first started in the industry in 1997.

It's amusing to watch fishermen in over-priced fishing boats, with overpowered engines zipping from one location to the other on the lake. If they see a group of boats in the distance, they speed off to that location thinking that is where the fish are. After a short period of time, they grow impatient, give up and speed off to another location where another group of boats has gathered. They have spent thousands of dollars on fishing gear, the best boat, latest sonars, radars and other technology in the hopes they can gain an advantage. At the end of the day, they're chasing groups of fishermen doing the exact same thing as they are – zipping from one spot to another. In the end, they're simply chasing the crowd.

In comparison, a couple of old guys in a 12-foot aluminum tin with no more than a 50-horse power engine patiently sits in the same spot for hours if needed reeling in fish after fish. As with experienced investors, these old guys have knowledge and experience gained over time. Funny thing is, sometimes you'll even catch them napping while waiting for the bite – without a drop of stress on their shoulders.

I compare the crowd-chasing boats dashing from one location to another, blowing through hundreds of dollars in fuel to investors with FOMO (Fear of Missing Out) and to those chasing the latest fads. And the old guys to the most successful investors who have built fortunes over years and decades.

Even though I see myself as somewhat young at the age of 51, many years ago, I came to the realization that “old guys” know a thing or two and are a fountain of knowledge. So instead of stressing out and chasing fads, I act like the “old guys”, learn from the success they have achieved, patiently sit back and collect excellent businesses. Knowing what I have invested my capital and my clients’ capital in is how I can sleep well at night.

At Marnoa Private Wealth, we are self-described “collectors of excellent businesses”. To collect, one usually has experience and knowledge in what they are collecting. As opportunities come along, collectors know they may need to trade up by selling one piece of the collection in order to buy the new one. Or if part of their collection is experiencing high popularity and values seem unsustainable, the collector knows it is time to cash in.

The same practice of trading up or cashing out is applied to how we invest at Marnoa. Chasing crowds and the latest fads is not something we do. As long-term investors, our goal is that we own great businesses for many years. Not only does it provide tax advantages, it also allows us to participate in long-term gains.

One of the hardest parts of investing is knowing when to sell. In a lot of cases, selling is harder than buying. Also it is difficult to watch a stock continue to rise in value after one has sold it. For that reason, we employ a disciplined and repeatable process. Seth Klarman, one of the greatest investors of our lifetime, has generated annualized returns of 20 per cent since launching his fund in 1982. Unfortunately, his fund has not been open to outside investors for a very long time.

Seth wrote in the seventh edition of Securities Analysis that good investors should start selling when a stock is 10-20 per cent below what they believe to be its fair value. He goes on to write that as difficult as it is to watch the stock continue to rise, it is even more painful to hold onto a stock that rose and then fell back to your purchase price or even lower. Inexperienced and emotional investors try to justify and convince themselves the stock will continue to rise, and when it falls, they apply similar logic as to why it will come back again. This process is very common and results in investors passing on other opportunities or developing a psychological fear of getting back into the market.

Recession, soft-landing or no landing?

The million dollar question is what will happen to the economy due to inflation and rising interest rates. The economy has until now been resilient – in most sectors. Yes, some sectors have contracted, but overall, the economy has continued to chug along. Depending on the view taken, more and more cracks are starting to show. However, contrary to the wishful hopes for immediate rate cuts by central banks such as the Bank of Canada and the Federal Reserve from those negatively impacted from a rising rate environment, it is my opinion that rates will remain higher for longer. This is the same opinion I penned in my previous letter and have expressed since last year. The next rate decision will be announced in September. Based on what I have seen, my expectation is the Bank of Canada and the Federal Reserve will keep rates where they are.

The bond market seems to agree as bond yields continue to rise across all durations. If I were a central banker, I would not want to repeat the same experience of the 1980s. For those wise (old) enough, you will recall rates rose, inflation fell as did the economy and the central bank quickly cut rates. Only to see inflation come back and being forced to raise rates again. This time around, I expect central bankers want to feel confident that inflation is within their target and will stay there before they embark on rate cuts.

For this reason, our Income, Conservative and Moderate mandates continue to add quality, investment grade bonds with yields in the 5-6 per cent range. We have added bonds with maturities ranging from 2024 to 2029 and continue to take advantage of High Interest Savings Accounts paying out 5.3 per cent.

With continued volatility in equity markets and uncertainty around a recession, soft landing or no landing, I simply do not see why investors should be taking on increased risk when the fixed income market is offering attractive yield. The key is to identify quality bonds and have the intention of holding them to maturity.

As always, please do not hesitate to reach out, should you have any questions or wish to discuss any matter in further detail.

Yours truly,

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Our 3rd Annual Investment Symposium

You're cordially invited to Marnoa Private Wealth's 3rd annual Investment Symposium!
Please RSVP by clicking here to confirm your attendance and reserve your seat.

Performance as of July 31, 2023

Gross performance results as of July 31, 2023 for our discretionary model portfolios are as follows:

	Performance Summary (%) as of July 31, 2023							
Portfolio Mandate	3 months	6 months	9 months	Year-to-date	2022	2021	2020	2019
Marnoa Strategic Allocation	2.72	3.93	4.64	7.31	-12.70	12.38	18.01	15.78
Marnoa Conservative	-0.23	1.20	1.70	4.03	-12.05	10.86	9.90	19.86
Marnoa Moderate	0.84	3.34	4.26	6.95	-13.55	12.92	20.79	25.52
Marnoa Growth	3.18	7.34	7.99	12.12	-17.26	15.00	29.74	28.70

The returns above are gross of fees. Individual performance may vary based on cash flows and fees. Performance figures for periods greater than 1-year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results.