

## Important Topic: The Advantage of Real Research (and Properly Aligned Compensation)

This month I want to spotlight one of the investment managers and provide some insight into how they operate and why they have our confidence.

Capital Group is an organization that offers one of the best combinations of approach, strategy, extensive research, focus on low fees, and internal compensation based on multiple year performance. The result has been an 85 year track record of beating the index with less risk. Books have been written about Capital Group specifically – Capital: The Story of Long-Term Investment Excellence - and they are profiled as the best investment firm in - What It Takes – Seven Secrets of Success from the World's Greatest Professional Firms.



The Capital Group platform is to look for ideas that will be worth 2 or 3 times its value over the next three to five years. To ensure the proper focus, analysts are compensated on the success of their recommendations over 3, 5 and 8 years. Patience, in depth research and vision are key to success and compensation should align with these characteristics.

Permit me to share one story. When Bill Ackman (one of the most renowned hedge fund managers) shorted Herbalife claiming the company was a large Ponzi scheme and would collapse, an analyst at Capital Group (Joe Matt) spent considerable time researching the company and investigating each of Bill Ackman's claims. In the end he recommended the stock and over time Capital Group became the largest shareholders of the company. Herbalife missed their earnings targets and the headlines surrounding the company were terrible. In addition, they were weathering withering daily attacks from Ackman as he tried to make the bet against them work. After continuously investigating the company and their management, Capital Group maintained a fundamental belief that it was not a fraudulent firm and that it was in fact worth a great deal more than the current market price. The analyst, Joe Matt, actually became a Herbalife rep and went to the conferences and sold product on weekends! He made sure that he and Capital Group understood everything about this firm. This thorough analysis is something most investors can't or won't do, yet this level of analysis is key and differentiates the great from the good. In the end Ackman gave up his battle, the stock increased significantly and Capital Group had a huge profit.

## Market Update – August 2019

August was a difficult month. Not only did the market indices end the month lower, but they experienced an increase in volatility. Whole percentage gains and losses came and went with great speed.

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This unnerving volatility was fueled by the continued concerns centered on international trade, interest rate movements and negative yielding global government bonds. Economic indicators took a negative turn as some turned from positive to neutral and a few turned from neutral to negative. Such signs add to the uneasiness.

Unfortunately, negative economic indicators do not provide a clear call for action. First, negative indicators can come and go without actually resulting in investment losses. Second, at times negative indicators remain for 18 months, with markets moving upwards, before the markets turn downwards. The result? A lot of uneasiness and concern, encouraged by alarmist headlines, but still no method or process to time the market.

But not being able to time the market, does not mean that we ignore these changing indicators and blindly buy index funds. It is during times such as these that we look at taking profits from the recent run up in equities (rebalancing to our original risk levels), we look at alternative investments including private debt, private equity and specific hedge funds, we look to our active managers that have low downside capture ratios and we invest new funds over longer periods of time.

One should remain invested for the long-term but one needs to ensure that one's portfolio is properly

balanced, properly cautious. Statistically, this is not the best time to increase risk or speculate.

Year-to-date, the markets have remained strong posting attractive gains year-to-date.

Looking forward, we believe the economy has weakened slightly, political uncertainty and volatility remains high (and likely will for the foreseeable future), and inflation remains benign. As a result, we are neutral in the short term, but positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the month, the bond market was up 2.0%, the Canadian market was down 0.1%, the US market was down 0.6%, International markets were down 1.9%, the Emerging markets were down 3.0%, the Real Estate market was up 1.8% and the preferred market was down 4.7%. (Reuters)

Year-to-date, the bond market is up 8.9%, the Canadian market is up 15.8%, the US market is up 15.2%, International markets are up 8.3%, the Emerging markets are up 0.9%, the Real Estate market is up 17.3% and the preferred market is down 4.2. (Reuters)

Have a great month and let us know if there is anything we can do for you,

Meir

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