Hello friends,

Thank you for taking the time to read this note.

As you are well aware this year has been very challenging for many types of investors. The headlines are painful, inflation is being chatted about at every grocery store and restaurant in town, although prepared food places are often just masking higher prices with smaller portions. Interest rates have risen dramatically, trust me I know this as I have a reasonably large mortgage and my cost of finance is up 100% and will be up 200% by the time the rate hike is completed, hopefully this year. Gasoline prices are higher and the prices we are willing to pay for businesses has fallen well over 20% in the last 6 months. Yes, it's a tough first half of the year. Adding to the bad news list is the invasion of Ukraine by Russia, which has spurred inflation and added roughly 20 bucks to a barrel of oil, and pushed up food prices from 10% to 20%. If you, my 1% friend feel stressed, think about the marginal individual living paycheque to paycheque, dealing with rising cost of living for non-discretionary essentials. Oh, you want to travel do you? Pandemic got you down so you want to fly away? Sure, but it will cost you 30% more.

The good news? Wages are strong, employment is strong, corporate debt has fallen only 12%, impressive considering that government bonds are down 25%, same for stocks, so the high yield market is telling me the corporate world is doing fine, for now, no defaults on the horizon, which is important. The other good news is that the FED is acting swiftly, which has an initial blunt feel but getting inflation under control sooner rather than later from these levels is likely the correct policy. The other good news is we have already had a significant correction in most markets. Yes, it's possible to fall even another 20% from here, but based on historical probabilities that would likely be the bottom. At times like this it's important to remind ourselves that nothing is permanent. Economies and markets tend to grow over time and both troughs and peaks are temporary. In between investors swing back and forth from the extreme emotions of hopeless to flawless. Successful long term investors are able to manage these emotions by understanding that the truth lies somewhere in between. So I repeat, we are at least half way through the correction. Likely more, but who knows. The more you pay for an investment usually means your future return will be less and the opposite is also true, the less you pay for an investment the greater your expected future return. Historically speaking, if you purchased ANY of the previous bear markets when the market was down 20%, it yielded much better forward returns. We are there now.

Investing is easy in a bull market and difficult in a bear market, most would agree. Yet, the opportunity and safety of capital is actually better as investors are fleeing in panic. Look, there are many ways to make money in markets, and it is my belief based on 40 years of investing and 21 years of advising, that timing in the market is the key factor to generating long term financial success. Start early with your investment process and stick with it. Jack often reminds me how Warren Buffet has made 95%+ of his wealth after the age of 60. Buffet often says the stock market is a market of stocks. He cares little for the broad market, yet is very passionate about businesses that over time build wealth such as Coke, Gillett, Burlington Northern, Bank of America, etc. Look, over decades, stocks win over bonds and cash, however, to stay in the game without being shaken out, balance and moderation help. Currently, we can find safe low risk investments that pay just over 4%, which is much better than the 2% being offered 12 months ago. I am happy to discuss this further with you offline. The point is balance wins. It keeps you in the game. However, the past year has been horrible for bond investors. The government of Canada's 30-year bond, which is almost triple A credit quality paper has fallen 25%. The bond was sold or issued at $100 with a 2% coupon and now is trading at $75. The safety in this bond is that there is little default risk, so why the fall in price? All in the mathematics of rising rates. Interest rates are so important and so highly under appreciated by investors, falling interest rates made money cheap and placed that cheap money in the hands of new unsophisticated investors who bid up a new class of assets (Crypto and NFT's), and bid up some old assets to extremes like real estate, and laneway garages selling for a million bucks in Toronto near little Italy.

Crypto is down 65% when looking at Bitcoin, the largest crypto asset. Tech stocks are down the same amount or more; Zoom Video, DocuSign and Peloton. The FOMO is over, for now, being replaced by FEAR, and both are very toxic to your long term financial health. Chasing themes after they have had huge increases believing this time its different is so dangerous, as is bailing after the pain has been felt. Sell FOMO and buy FEAR should be the mantra, but that is so hard to do.

And hear lies the enemy, it is each and every one of us. Recency bias has us believe what has recently occurred will continue to occur. If stuff is going up, it should keep going up, and if it's falling, it should continue to do so. In reality, we know that isn't true, but in the middle of it, our guts tell us it is. Speaking of gut, my wife and many wise people have said to me to always follow your gut instinct. In the business of money management this is not great advice. Our gut tries to protect us, so when you're laying in recency bias, your gut can lead you to do the wrong thing at the wrong time. Success or Star investing requires the savvy student to go against the herd and therefore gut feel. Put in another way, with rising interest rates there is going to be less money in the system, our homes will be less frequently used as ATM's, so with less money chasing assets means those who have cash stand in a better position to make sounder investment decisions. We are at this point now, and yes we may stay here for a few months or quarters, but this too shall pass. Strong hands time to make a move.

During our last conference call, which I strongly encourage all of our investors to tune into to get a better understanding of the investment landscape, I included a chart with long term facts of stocks, bonds, interest rates, currency values, and news headlines. It's loaded with cool and interesting information. There are so many lessons in that one chart. What I remind you of is bear markets end, bear markets are long term investors friends if you allow it to be. Bull markets end too, stocks outperform bonds 2 to 1, and bonds are not risk free. Cash lags inflation and time, yes time my friends solves most mistakes unless that mistake was concentrated.

It is my belief that we still have to mark time in this current funk and we therefore shall. We will moderately adjust portfolios at the margin, but we are core long-term investors and will not exit stage left hoping to get back in at lower prices or during safer times. The way to hit the low print is to be there as I like to say. Being in the market and owning quality businesses allows us to be positioned for the recovery. To help us remain long and strong, we have to believe that history will at least rhyme. Good businesses sell more stuff year in and year out resulting in higher stock prices as earnings rise. Suncor and CNQ are two companies you and I own. Between the two of them they supply the world with roughly 2% of oil consumed. This is a huge number as Suncor produces 750 thousand barrels of oil per DAY. This is an incredible number and a company that has staying power, its balance sheet is clean, it pays a 4% dividend, and as green as we want to be we continue to consume 100 million barrels of oil a day and rising. Knowing what we own makes holding a bit easier. By the way, Suncor owns Petro Canada, where you likely fill up. The stock has doubled in the past 12 months. We own banks, CIBC, Scotia, and National. Yes, the economy is slowing, which means mortgage lending will slow, but if you believe that everything is cyclical, as I do, then lending in the future will resume and the banks will be just fine. Between now and then we clip our 4% dividend and wait. Just look at the long-term trend of banks, especially Canadian banks, they are higher, short term they are in a funk, but that is not a sell signal. We own health care names, health care is a play on demographics and certainty of all of us using these services and products over time. Currently, inflation is a headwind, but covid has created a demand bulge that still needs to work its way through the system. We remain long in the space. Going through your investments and thinking about what you own rather than following media headlines can be good for your financial health.

I conclude with we are at least halfway through this correction. Perhaps we hit bottom in the fall, perhaps 10-20% lower. Using history as a guide, it won't be permanent. If this plays out, I also believe next year will be an incredible year and the market likely makes a new high 24 months from now. Just one man's guestimate, based on history, some facts, and experience. Bear markets require time and price adjustment to put them to bed. Jack and I are on the case, as you know.

Any issues, any concerns, any major changes in your life, please let us know.

Be greedy when others are fearful,

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