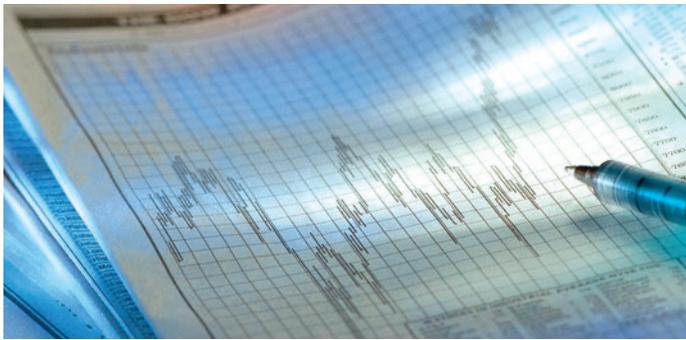


GoodQuarter

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“Be fearful when others are greedy and greedy when others are fearful.”

— Warren Buffet

Dear Valued Client,

As you are likely aware, we tend to quote Warren Buffett regularly in our GoodQuarter publication. This quarter’s quote was easy to select. At the risk of being repetitive, understanding the cycle of fear and greed is quite simple, conceptually, but it’s quite another thing to keep a level head when all those around you are losing theirs. GFI was founded in 2007. We were actively managing money during the credit crisis of 2008/2009. We have been here before. The emotional roller coaster that swooning markets cause can truly be the greatest impediment to successful investing.

The fourth quarter of 2018 tested every investor’s ability to keep a level head, as markets dropped significantly in October, rose in November and then fell materially once again in December. While timing the markets accurately would be ideal, it is not possible in the long term. As such, we continue to invest in the most responsible manner; by buying businesses that can withstand periods of recession and do not require access to the debt and equity markets for fresh capital.

Even with all the market volatility in the fourth quarter, our equities were only down 0.2% in 2018. That compares quite favourably with both the S&P/TSX Composite Index (S&P/TSX) and the S&P 500 Index (S&P 500). Unfortunately, the path taken to achieve that result was quite volatile. If we all knew on January 1, 2018, that our stocks would be roughly flat, there would be very little concern. But the roaring start and dramatic finish resulted in an emotional roller coaster. Our article last quarter, talking about how often to check your account, seems quite prescient in hindsight.

Including the approximate 10% decrease in the fourth quarter of 2018, our equities have a five-year annualized rate of return of 14.8%. By comparison, a benchmark of a 50/50 mix of the S&P 500 (in Canadian-dollar terms) and S&P/TSX, with

dividends included, had a return of 9.1% over the same time frame. Bonds have returned 3.5% over the last five years.

We are partners. Our ability to achieve strong long-term returns for you is predicated on your ability to withstand the volatility inherent in a daily traded market and maintain your investment plan despite that volatility. Withstanding volatility and purchasing highly cash-generative businesses is the best approach to investing that can be regularly repeated. We will therefore continue to invest your funds in this manner.

If you have been invested with us for some time, know that we are proud that this market weakness has not materially impacted your long-term returns. If you’re just starting your relationship with us, we are confident that with the passing of time, this will be discussed as a volatile beginning in the start of a beneficial long-term relationship. It will be looked at as a brief moment in time along the path to achieving your financial objectives.

And finally, congratulations are in order. As of the New Year, Adam Bresver became a partner in GFI. Adam recently celebrated five years at GFI, and his commitment to meeting our clients’ needs and objectives has been evident from day one. We are excited to partner with Adam for many years to come.

Thank you for entrusting us with your assets. Please give us a call if you have any questions or concerns you’d like to discuss.

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Chief Investment Officer

Buying quality businesses — what does that mean?

Let's walk through an example of a company we own in our portfolios and explain how we describe a quality business. Our focus will be Visa Inc.

Visa is a payment network, loan creator and marketing company. Visa is not a lender. Visa's customers are the major global banks, who partner with Visa to issue credit cards to these global banks' end-customers. The bank then extends credit tied to each credit card, and structures the fees and rates associated with the credit card. Visa is in an industry that competes aggressively but, importantly, the competition does not focus on price.

While Visa requires some capital to grow its business, the majority of its business is extremely scalable. Each incremental transaction is serviced by the existing network, with obvious need to expand the network when demand requires such a long-term expansion. Since Visa receives a percentage of most transactions, inflation is automatically passed through the system as inflation in consumer spending yields Visa higher revenues.

Customers (i.e., banks) are generally pleased because Visa generates high-yielding loans, transactional revenues and bank allegiance (Visa does not lend and has zero credit risk). Consumers are pleased because they don't have to carry around excessive amounts of cash, they collect points through their purchases and their spending is more easily tracked. There has been some more recent pushback from retail businesses, as the margins Visa extracts does add up over time. However, the alternative of cash, which can be lost or stolen, or cheques that occasionally bounce, are significantly worse. Retailers will always request lower fees, as they should, but this give-and-take is part of all business relationships.

While stock market volatility affects Visa's stock price, the company does not require outside capital to grow. Unlike marijuana start-ups or junior resource companies, the availability of capital is meaningless to Visa. In fact, given that Visa buys back its shares over time, a temporary market decline is advantageous over the long term.

All businesses have their own challenges. Visa fights government lawsuits and must be vigilant in ensuring that new start-up payment systems don't overtake its dominance. To date, all new electronic payment methods (e.g., Apple Pay, Square) include Visa. Taken in aggregate, however, these risks are manageable given the strength of the underlying business. We believe that being able to buy Visa at today's prices, roughly 15% below its most recent high, will work out well in the long run.





Happenings at GFI

A few odds and ends:

-  **The Registered Retirement Savings Plan (RRSP) contribution deadline date is March 1, 2019.** The maximum contribution is \$26,230. The Tax-Free Savings Account (TFSA) annual limit has increased to \$6,000. There is no deadline for a TFSA contribution.
-  **Corey Deschamps, our Certified Financial Planner, is available to every client as a resource for all your financial planning needs.** Whether you want to formalize a budget, have a second set of eyes review your insurance and tax planning, or just have your future assets illustrated more formally, Corey is available. Please reach out to him any time.
-  **We recently celebrated our one-year anniversary at our new office** and are very pleased with the new space. We love having visitors, so please drop by at your convenience (if you haven't done so already)!
-  Lastly, please **make sure to reach out to our office if you are having any trouble viewing your statements online.** We are always available to help.

GFI Investment Counsel

GFI Investment Counsel (“GFI”) provides tailored investment portfolios to families, foundations, trusts and corporations. We work closely with our clients to customize investment accounts that coincide with our clients’ unique requirements. GFI focuses on preserving and growing client capital through intense due diligence, focus, and discipline.

In January 2008, GFI launched Good Opportunities Fund (“the Fund”), an alternative investment fund available to accredited investors. The Fund focuses on a select group of investment opportunities that provide an attractive risk/reward dynamic regardless of asset class or market capitalization. The Fund is managed with a focus on understanding the businesses, their capital structure, and risks and opportunities.

For more information about GFI Investment Counsel or the Good Opportunities Fund, please call **416.488.8825** or email info@gfic.com.