GFI Investment Counsel Ltd.

Preserving and growing family capital™

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."
– Peter Lynch

Third Quarter 2019 Commentary

Good Opportunities Fund

The Fund generated a return of 4.3% over the third quarter of 2019, and gained 28.0% over the first nine months of the year.

With recent news headlines overwhelmingly insinuating that a recession is imminent, and a Presidential Twitter account driving steep market swings, it's only normal to question the current investment climate. We always stress that we do not time markets and we don't let short-term opinions drive our investment process. We have no idea what the markets will do in the short term and, in our opinion, nobody else does either.

To illustrate how difficult it is to time the market, DALBAR, a leading research firm, wrote a report analyzing U.S. equity mutual funds' investor returns compared to the returns of the S&P 500 Index. The S&P 500 had an annualized return of 10.0% over a 30-year period, while equity mutual fund investors realized a relatively low 4.1% return. We can attribute some of the investor underperformance to mutual fund fees, but the larger difference is attributed to individual investors attempting to time markets or switching between different funds at inopportune times. Basically, too many investors lack the patience required to remain invested over the long term.

With this in mind, here are some other common mistakes that can lead to subpar returns:

Acting on information that is irrelevant to your particular investment goals and time horizon

Investors are often tempted to make investment decisions based on information that is irrelevant to their particular goals. For example, an investor may sell their equities because they feel that markets are inflated and may experience steep declines "soon." However, this investor might be 45-years old and he or she doesn't have a need to access these funds for at least 15 years. Even if this investor did happen to get lucky and sell before a downturn materialized, they have to time the other side of the trade properly and buy back their equities at a favourable moment. This has historically proven to be extremely difficult.

Having the incorrect asset allocation for your goals

Research has shown that asset allocation has a much greater impact on investor performance than selecting the optimal stocks or funds to invest in. Many investors think their risk tolerance is higher than it actually is and, of course, it's much easier to be aggressive in a bull market. Investors with an equity allocation that is higher than they're comfortable with tend to adjust their portfolios into less-volatile asset classes (like fixed income) when equity markets are trending lower, which is never the optimal time to adjust allocations.

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Excessive trading

Not only does excessive trading result in higher transaction costs, you lose the benefit of tax-deferred growth on your investments (in non-registered accounts). Deferring taxes until a later date is most people's preferred option. That is one of the reasons why we own a diverse and concentrated portfolio of wonderful businesses that we understand well and can continue to own for a long time.

The mistakes we've outlined are all driven by emotional investing, and we know the market doesn't care about investor emotions. That's why GFI adheres to a disciplined investment approach that allows us to tune out noise that is irrelevant to our clients, and focus on the quality businesses we will continue to hold.

While we don't know where markets are going in the short term, we know with a very high level of conviction that sticking to your investment plan and ignoring the noise will lead to investment success.

Thank you for continuing to trust us with your assets. We ask, as always, that you please give us a call if you have any questions or concerns that you would like to discuss.

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