



# Stick to the plan, even after you get punched in the mouth

BRENDA BOUW

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Money manager Dan Goodman points to popular paint maker Sherwin-Williams Co. when making his case for the benefits of long-term investing amid volatile markets.

His company, GFI Investment Counsel, has seen the New York-listed stock more than triple since buying it for client portfolios in mid-2016. The Cleveland-based company's stock has lost about a quarter of its value since hitting a record high of US\$354 last fall, but Mr. Goodman says he'll continue to hold it, citing its strong management team and capital discipline.

"These types of down moves are difficult for clients to deal with, but in our view, if you're going to own these high-quality businesses, you have to expect some volatility," says Mr. Goodman, GFI's chief executive officer, who oversees about \$1.6-billion in assets.

He notes that Sherwin-Williams SHW-N shares have dropped by 20 per cent or more six times in the past 20 years but have had compound growth of 20 per cent over the same period. "That means if you put \$1-million into it in 2002, it would be worth \$35-million today," Mr. Goodman says.

"It's an incredible business, with very disciplined management," he adds. "These are the types of businesses that we work hard to find for our client portfolios."

GFI's equity portfolios, which include about 16 stocks such as Sherwin-Williams, MSCI Inc. MSCI-N, Apple Inc. AAPL-Q and Microsoft Corp. MSFT-Q, have returned 7.5 per cent over the past year, as of March 31. The average annualized compound growth rate over the past five years is 15 per cent and 17.5 per cent over the past 10 years, Mr. Goodman says.

The Globe and Mail recently spoke to Mr. Goodman about what he's been buying and selling, and he offers some investment advice using the words of former professional boxer Mike Tyson.

## **Describe your investing style**

We are roll-up-your-sleeves stock pickers and value-based investors. We focus on and purchase high-quality businesses that we believe are trading at reasonable prices. We want businesses with pricing power that can be resilient enough to manage through recessionary periods. We also like high-quality, sticky businesses that aren't easy for customers to switch from and aren't easily replicated or competed against. We are North American focused, but many of the businesses we own have a global footprint. Right now, we're about 70 per cent U.S. equities and 30 per cent Canadian equities. We also believe in using fixed income to provide balance in a portfolio or to reduce volatility. We believe the best portfolios have the highest allocation to equities that an investor can comfortably hold during volatile times. Our clients' accounts are customized, so the level of fixed income is based on their tolerance for volatility and other factors like their age.

## **What are you telling investors about the markets today?**

We're trying to keep our clients calm in this investment environment. There's a wall of worry that we're climbing with rising interest rates and the war in Ukraine. We're not immune to it. We understand how emotional people can get, but we see these as important considerations for short-term investors. We like to focus on long-term investing. There will always be present-day worries. They will pass. We see North America as a very strong safe harbour for investment capital, especially right now. We're happy to be invested there.

## **What have you been buying or adding recently?**

We've been relatively quiet through the first quarter – and that's very consistent with us. We aren't active traders. But we have made a change this quarter. We've bought Google [Inc.] parent Alphabet [Inc.] [GOOGL-Q](#) in February. The company has been on our radar for quite a long time. We didn't see the company as being as tight as it could be with its capital allocation until it put in a new management team that's far more disciplined with free cash flow. Over the past few years, CEO Sundar Pichai and CFO Ruth Porat have proven to be strong capital allocators, and we expect outsized returns from Alphabet in the future.

## **What have you been selling?**

One business we sold to make room for Alphabet was Netflix [Inc.] [NFLX-Q](#). We bought it in June, 2020, and sold it earlier this year. It's not that we think it's crumbling. It's a good business. It's that we became less convinced that the economics – even for the industry leader in streaming – are compelling enough for it to be one of our top holdings. Given Netflix's valuation, its slowing revenue growth and its requirement to continue spending money on content and growing expenses, we were quite pleased to sell it and buy Alphabet instead.

## **What investing advice do you give friends and family?**

Don't let investing become emotional. Make sure you have a plan. To quote Mike Tyson: "Everyone has a plan until they get punched in the mouth." From an investment perspective, that means during volatile periods, like the one we're in now, it's important to stay the course and stick to the long-term plan you developed during normal times. Don't make irrational, emotional decisions.

## **Do they heed your advice?**

Some do. I certainly don't bat 1,000 with everyone.

This interview has been edited and condensed.

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