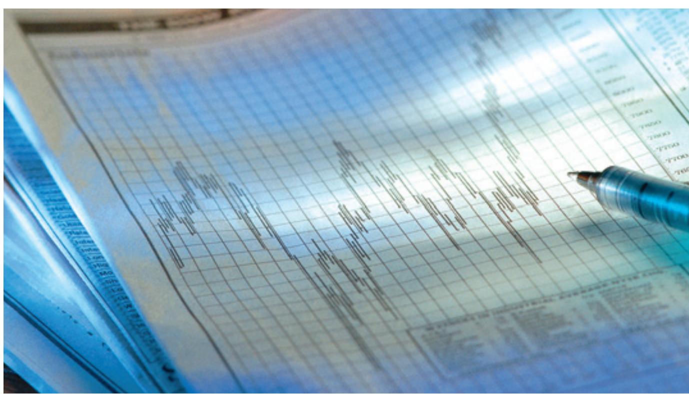
GFI Investment Counsel Ltd.
Preserving and growing family capital™

GoodQuarter

SPRING 2016



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"If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value."

— Warren Buffett

Dear Valued Client,

The first quarter of 2016 was a rewarding period for investors who take a long-term investment approach and adhere to an unwavering discipline. In January, stocks declined materially, and this selloff continued into the first couple of weeks of February. Various investors, professionals and amateurs alike began to worry and, in many cases, sold a portion (or all) of their stock portfolios. This action had the effect of leaving these investors uninvested during a period in which there was a material increase in stock prices, and resulted in many investors crystallizing tax gains (or losses).

As we have alluded to many times in the past, the short-term direction of equity markets is not predictable. Sometimes, a 5% drop in equity prices is just that, a 5% drop. Other times, a 5% drop leads to larger decreases that we, of course, wish we could predict. Unfortunately, no one can accurately – and consistently – predict widespread equity market weakness.

The only rational investment approach is to have a long-term asset allocation with a level of volatility that you can stomach. This can help you avoid panic in times of equity market turmoil and, more importantly, can help you avoid being out of the market during those ever-important days when equity markets post sizeable gains.

Thank you for your continued support. We are always available if you would like to discuss your investments or any other matter.

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Chief Investment Officer

Annualized Returns of the S&P 500 Index
(in U.S. dollars with dividends reinvested)

Staying invested is its own reward

The market always advances and recedes.
The best approach is allowing it to do its job over time.

The figures above show the long-term returns from a buy-and-hold strategy when owning the S&P 500 Index over the past 10, 15 and 20 years. For simplicity's sake, returns are in U.S. dollars with dividends reinvested.

The 20-year time period includes two major stock market crashes. The index was down 37% in 2008 and down roughly the same cumulatively over the three years spanning 2000 to 2002. Despite a major valuation bubble in the early 2000s and a major recession in 2008, investors who had the wherewithal and patience to remain invested earned satisfactory returns.

Investing in publicly traded stocks means accepting short-term volatility to capture attractive long-term returns. Investors can't have their cake and eat it too; upside in equity markets always comes with some heightened volatility.

We prefer to focus on what is knowable and controllable. Our goal is to construct a portfolio of 15 growing and strongly positioned businesses, and to then be patient. Over the long term, we will earn returns symbiotic of the economic performance of our portfolio companies, and the ebbs and flows of the market will be part of the journey.

Tax talk

As promised, Prime Minister Justin Trudeau and the Liberal government increased the personal income tax rate in Canada almost immediately after being elected into office. This was a good reminder that it is not what we earn on our investments that matters, it's what we keep after we pay our taxes. At GFI, we pride ourselves on running extremely tax-efficient portfolios. While we are proud of our performance history, we are equally proud of the fact that, compared to the alternatives, our returns are often much stronger on an after-tax basis. We do several things to help you keep more of your investment returns. We always try to hold the least tax-efficient investments in tax-deferred accounts (like registered retirement savings plans and tax-free savings accounts). We also take advantage of tax-loss selling strategies at year end to help offset any capital gains we have achieved. These are just a few of the important tax minimization techniques we employ.

The most important method we utilize to help your investments grow in a tax-efficient manner, however, is to minimize trading and capital gains realization. Our annual turnover rate is roughly 30%, meaning we trade very little in an effort to defer triggering capital gains.

Below is a model that compares the difference in returns between an active trading strategy and a buy-and-hold strategy. Under the active trading strategy, 100% of the portfolio is sold at the end of the year and replaced with new stocks. Under the buy-and-hold strategy, the portfolio is sold at the end of the five-year comparison period. Both portfolios earn gross returns of 10%. The marginal tax rate is assumed to be 50%, and 50% of capital gains are subject to tax at the marginal rate. The initial portfolio value is $3 million.

1: Annual Portfolio Turnover Strategy

	Gross Value	Return	Tax	Net Value
	$3,000,000	—	—	$3,000,000
1 Year	$3,300,000	10%	$75,000	$3,225,000
2 Years	$3,547,500	10%	$80,625	$3,466,875
3 Years	$3,813,563	10%	$86,672	$3,726,891
4 Years	$4,099,580	10%	$93,172	$4,006,407
5 Years	$4,407,048	10%	$100,160	$4,306,888

2: Buy-and-Hold Strategy

	Gross Value	Return	Tax	Net Value
	$3,000,000	—	—	$3,000,000
1 Year	$3,300,000	10%	—	$3,300,000
2 Years	$3,630,000	10%	—	$3,630,000
3 Years	$3,993,000	10%	—	$3,993,000
4 Years	$4,392,300	10%	—	$4,392,300
5 Years	$4,831,530	10%	$457,883	$4,373,648

The difference: **$66,760**

Over a five-year period, the buy-and-hold investment strategy added an incremental $66,760 in after-tax dollars for the investor compared to the active trading approach. This analysis ***excludes*** the incremental costs of extra trading that most investors must also absorb. Over decades, the differential between a portfolio with a low turnover and one with rapid turnover continues to widen, eventually becoming quite dramatic. We strive to grow your after-tax dollars over decades. The rate of return that matters most is the after-tax rate of return, and every advantage an investor can use should be a part of the toolkit.

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@gfiic.com**.

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