

In Groups 2, 3, and 4, we see that paying less than 12 times P/E *always* results in positive long-term returns. And, just as Graham & Dodd predicted in 1934 – Groups 9 and 10 show that buying stocks with a P/E of 20 times, well, is just plain foolish.

Which brings us to the S&P/TSX Index today. The trailing P/E is currently in at 19.2 times, making the Canadian market expensive and very close to Graham & Dodd's foreshadowed "20 times". We are using the Plexus Asset Management data from the U.S. as there are currently no similar long-term statistics available for Canada. Assuming that this data can be applied to the Canadian market, P/E ratios in the range of 19 times are likely to achieve average 10-year returns of 5% per annum with a low of -2.6% and a high of 12.2%.

Is Sionna saying that the Canadian market is too expensive? Yes – but the good thing is that we don't buy the index. We sift through it and select the individual securities with more attractive P/Es than the market. We do, however, caution cap-weighted index holders because, as it nears the 20 times mark, the S&P/TSX is also approaching Graham & Dodd's "foolish zone".

With our relative value investing style, Sionna follows a broad range of Canadian stocks and we hunt for good companies at good prices. At present, we have selected a portfolio of inexpensive stocks and we remain confident that given enough time, these stocks should rise relative to the market. Our conservative estimate gives us confidence in our ability to generate superior long-term returns – despite the valuation of the overall market.

How did we manage to get our hands on that classic first edition, fifth printing of *Security Analysis* in the glass cabinet in our lobby, you ask? When I found out that a retired wholesaler friend, Doug Rodomar from the Canadian Investment Fund, had a first edition copy, I expressed an interest in buying it. At one of our annual lunches, in a gesture I will always treasure, Doug gave me that wonderful book by the Shakespeares of the financial industry, proof of both the value of friends and the endurance of value.

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