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Investment Lessons Inspired by Bob Rae

While the United States gets ready to vote for their new president next Tuesday, I am reminded of a book I read, “What’s Happened to Politics”ⁱ, written by Bob Rae. He has had political leadership roles, both provincially and federally in Canada, and along the way has learned many truths about leadership and human motivation and capabilities. I attended a book club gathering, where Bob Rae discussed his book, and I soon realized that some major insights he had learned from a career in politics were equally as applicable to investing. While we wait to see how our American friends vote next week, I thought it might be worthwhile to highlight a selection of Bob Rae’s hard-earned insights and demonstrate how they can be applied as investment lessons.

1. “Impulsive chess players might achieve a temporary advantage, but they rarely win games.”

An impulsive investment idea rarely creates wealth for investors. A truly winning strategy isn’t derived from an idiosyncratic collection of one-off impulsive ideas, but from a well-reasoned investment approach. We believe a better strategy is to steadily build a portfolio of moderate risk securities all trading below their true intrinsic values. If held with patience and willful tenacity over a period of time, a portfolio like this should dependably supply solid and measurable risk-adjusted returns that can create real wealth for investors.

2. “Control the centre, for the game is won by the side that successfully does so. In politics, some people complain that the centre is too crowded. That’s nonsensical, because that’s where most people are, and so that’s where you have to be.”

I believe moderate above-average returns and below-average risk resulting in reasonably consistent long-term outperformance is the “holy grail” of investing. It’s the equivalent of an investment manager “controlling the centre” and is, I believe, what most investors are truly seeking. Occasionally, and impulsively, investors may think they want fast, sizeable, high-risk returns, but only until they experience the inevitable offsetting losses. It’s often a long journey to recover serious investment losses. Once serious losses have been experienced, most investors sagely seek steady low-risk gains. That’s how experienced investors come to realize what the “centre” is, investing in core asset classes with long histories of returns and avoiding the shiny and new untested exotica.

3. “Overall success relies on having developed a better defence and countering any weak points to his skill set. Relying on his natural strengths will never be enough.”

Most investors expect their managers to be skilled at identifying individual securities that will deliver above average returns in a reasonable period of time. What is often overlooked and taken for granted however, is what I have long believed to be a significant and critical work horse of investing: portfolio construction. When at its best, well-executed portfolio construction is defensive and risk-minimizing. It counters and balances the inevitable missteps that can and will get made in securities selection.

4. “Patience and persistence count for a lot, and action is always more powerful than reaction. You can only create opportunities if you are the one in control of a situation.”

We have long stressed that investing is equal parts human emotion and underlying security and market fundamentals. We are contrarian investors, we seek to beat the crowd and search for value opportunities among the overlooked, underfollowed companies. We look for companies that are temporarily out of favour but have acceptable levels of risk and that are run by good management. If they do, we have greater confidence that they can resolve any challenges and win the favour of the investors once again. A proactive stance is calm, measured and calculating. It is driven by rationality and fundamental logic. It feels in control and almost easy! Reactive trading, chasing a fast-rising stock or dumping a fast-falling one, is heart thumping and fear inducing. It is painful and hard with lots of emotional second guessing. It lacks the confidence inducing and sense of being in control that patience and preparedness bring the proactive investor.

5. “What makes a truly great politician is the ability to pivot, to improvise.”

Successful investing relies on building a solid and reliable process. Doing so assists us in making decisions that can work through a variety of market cycles. Occasionally, markets experience extraordinary things; the best response is to ignore the noise and listen to your instincts. Deciding that a new technology really is disruptive, that a peak or valley is emerging or that a new category of investing has reached its limit is a critical skill. Quoting Phil Givens a former mayor of Toronto, “You don’t get what you deserve. You get what’s coming to ya.” Almost none of us deserve challenges, but life (and markets) will send them to us to learn and grow from. Adaptability, a necessary leadership skill, is about realizing that the world around us is evolving and that our approaches and tool kits must adjust to the new dynamic.

6. “People draw too many conclusions from current trends. They fail to understand that trends can change...this speaks to the need for some humility, particularly in the ranks of the pundits.”

Economics is often jokingly called “the dismal science” to underscore its woeful track record of forecasting success. Market forecasting is equally ungratifying. There are few (if any) long-standing investment firms that can claim to have been consistently successful due to its application of market timing or forecasting trends and market movements. Successful investment firms focus on bottom-up security selection and not on top-down asset selection or economic forecasting.

7. “There are some who see this resource wealth as a curse, even a disease. This is simplistic nonsense...a great advantage for Canada.”

We also hear some comments that the Canadian stock market’s dependence on resources and cyclicals must mean that our returns are riskier and subpar relative to other developed nations. A quick fact check will demonstrate that in the long run, the Canadian stock market’s average return and overall risk are in line with other major developed markets. In fact, looking at Canada, the U.S., and the World from January 1, 2000 to September 30, 2016; the annualized return for the S&P/TSX Composite was 6.0%, the S&P 500 was 3.7% and the MSCI World was 3.0%.ⁱⁱ Ricardo’s Law of Comparative Advantage of almost 200 years ago supports this outcome. The law demonstrates that a country should produce more of what it’s good at, and less of what it isn’t. If all nations follow suit it means that both their respective economies and the global economy overall will be wealthier. Every world economy is dependent on a few key industry groups that they are competitive in; that supports world trade and the benefits from trade at all levels is important for the lifestyles that humanity benefits from.

These are just a few examples of political insights from Bob Rae's many years of public service. At Sionna, we are students of history. We study different perspectives and disciplines to learn something new; similarly, we look for diversity of opinions when making investment decisions. Our team is constructed of individuals with various backgrounds and perspectives, which not only encourages learning, but we believe also leads to better decisions and outcomes for our clients. It was interesting to us that political insights also apply to investing, and we look forward to continuing to learn; as Dr. Seuss once said, "The more that you learn, the more places you'll go."

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ⁱ Rae, Bob. *What's Happened to Politics?* Toronto, Ontario: Simon & Schuster Canada, 2015.

ⁱⁱ Bloomberg at September 30, 2016.



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