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iA Securities

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My five cents worth.

A couple weeks ago I was in a restaurant and overheard the waiters talking to each other. The one waiter was recounting a recent experience with a customer. The customer was in from out of town and was in every night. He would order one or two pints and then head back to his hotel room, each time he tipped the waiter exactly $0.05.

The waiter was getting frustrated by this. A nickel was somewhat insulting and more irritating than no tip at all. The waiter kept serving the customer despite his frustration. At the end of the week as the man paid his bill he asked the waiter how he liked the tips?

The waiter responded:
"Actually, it was a bit of a problem" and he would ***"rather he didn't tip at all instead of tipping 5 cents."***

The customer responded ***"5 cents, I thought I was tipping you 5 bucks."***

The customer had simply misread the portable credit card machine. He then tipped the waiter 100 dollars.

Sometimes we don't get the results we want despite doing everything right. This is true of a lot of things and applies to investing, especially in the short term. This year, with the exception of a few high flyers, Canadian stocks have not delivered. Internationally diversified investors have experienced flattish returns this year while Canadian focused investors are doing worse, and resource sector investors…let's just say there's not a lot of bragging going on at cocktail parties.

It's human nature to assume we are doing something wrong when we receive disappointing results. We also tend to assume nothing's wrong when the results are good, which is another error. If you can't look to near term performance to judge the soundness of your approach, how can you judge it at all? It takes time to commit to a strategy and only over a period of time do we figure out if we were correct.

To judge an investment approach prospectively it should pass two tests.

1. Is there empirical evidence that the strategy should work? Given the vast history of business and financial markets one can compare a strategy to ones that have or have not worked in various market conditions historically.
2. Does it make sense?

For the first test, you need to have, or you need to employ someone who has a thorough understanding of what works and what doesn't over time.

The second part is probably the most important. The beauty of this analysis is that it requires no special training and may be augmented by a rudimentary ability to detect B.S. In my experience the less tangible the service the more B.S. is generally employed in marketing it.

Technical indicators are weak and some of the highflyers have been hurt (Valeant mentioned in last month's letter is down 40% from its high). I am not predicting a bear market, but they occur from time to time and your portfolio should be able to withstand the event. During a bear market you should look for opportunities and remember that a near term negative result proves little. If you have a well thought out strategy, often the best approach is to stick with it. A bad investor throws out his shorts every winter and tosses his parka every summer.