February 24th, 2022

War Tactics

This missive is being written at roughly noon Pacific Time, on Thursday, Feb. 24/22, the day we learned of that the Russian invasion of Ukraine, had started. Please know that our hearts and prayers are with the Ukraine and the Russian people – there will be unspeakable tragedies on both sides and many innocent civilians will suffer terribly. While the human toll pains me, our responsibility to you is to understand the impacts on our global economic system and what the likely outcomes are for our investments. To that end, what follows are our deep rooted convictions learned over the past 40 years, our current thinking on the answers to the questions we are likely to be asked in the coming days, and lastly, our tactical biases as we work our way through yet another market disruption. On the latter point, they are part of the territory. To do well as an equity investor, you must be prepared to accept market corrections and even bear markets – it is the price we pay for equity type returns.

Conviction # 1 has not changed - investor behaviour will continue to be the #1 determinant of lifetime returns – if you sell in every crisis and only buy when you feel good you should not be invested in equities – full stop. Our clients with the highest returns find money to send us at times like this, so if you have been sitting on cash please reach out **now**. As an FYI, it is a lot easier for us to buy with conviction, when everybody else is panicking. The CNN Fear/Freed Index is at 23 as I write, **Extreme Fear**. Similarly, you can see American Association of Individual Investors' latest survey here and it has similar sentiments. Both measures point to extreme bearishness which begs the question, when will we find bargains, when most investors are fearful or when most investors are bullish?

Conviction #2 may seem all too obvious – war is destructive – it increases the demand for energy and materials – after the initial bombs drop, markets often rally because the business prospects for a host of companies actually improve. I well remember the March 2003 US invasion of Iraq - shortly after it started, markets headed north.

Q&A

- **What is the impact on energy markets?** Europe has allowed itself to get into a serious energy bind as they have embraced intermittent solar and wind electrical generation which translates to natural gas backup and a lot of that gas comes from Russia – oops! Most of Europe has been decommissioning their nuclear plants and France has just reversed that direction – they are now in build mode. I expect others to follow. It was interesting to watch our significant position in uranium producer/processor, Cameco Corp rally by some +8.9% today and in a similar response, LNG exporter, Cheniere Energy, Inc. rally by some +7.6% at today's close. Both are held within **The Dividend Value Discipline™** and we have significant exposure to oil and gas producers to boot.
- **What is the likely impact on corporate Canada?** It is a net positive - Russian energy will be seen as less dependable and they are the #3 exporter of wheat and a host of other raw materials. Canada produces most of them and will be seen as a safer supplier. What is good for resources is good for Canada.
- **The attraction to energy is obvious, but how much of that is already priced in?** When I met with our sleuth analyst early this morning, Alex Vozian, CFA, I said, "I am biased to trimming our oil positions and buying what is down the most". Today, we have not pulled any triggers to that effect but I do expect to make some decisions over the next 2 to 3 trading days. The old adages of "sell the news" and "panics come in waves – three days, three weeks and three months"

apply. On the latter point, not all panics are equal in magnitude – the 3 weeks and 3 months don't always happen.

- **What's the impact on interest rates?** Short term rates continue to rise but at a slower pace than was anticipated a month ago. Longer rates actually drop as investors look for safe havens and bid up bonds.
- **What about gold?** The interesting thing about the gold complex was that it was already starting to perk before the troops started massing. My suspect is that it is a combination of investors looking at it as a hedge against inflation, they are becoming increasingly doubtful on crypto currencies being a store of value and last but not least, the gold producers are making record profits and they are boosting rent cheques (dividends). All of those things were true before the first shot was fired. Bottom line, biased to own. If the evidence changes, we will change.

In closing, please know we are more biased to buy than to sell – we stick with the process that has allowed us to weather all the previous storms we have experienced over the last 3 decades. Please reach out if you have questions at the personal level and do feel free to pass this missive to your friends and family.

Let's keep the war victims in our prayers,

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