

## MONTHLY COMMENTARY | JULY 2024

*“Time is the friend of the wonderful business, the enemy of the mediocre.”*  
- Warren Buffett

It has been a very interesting year thus far in the equity markets. To mid-year, only eight stocks made up the year-to-date return of the S&P 500 Index, seven of which are leveraged to artificial intelligence (“AI”). Canadian and European indices have been more balanced but have significantly underperformed the US market given their lower exposure to technology. To that end, when investment periods are led by a single investment theme – like AI – they can last longer than one might expect then change quickly and dramatically.

Which leads us to July. Reminds us of the song *“Who Let the Dogs Out”* by The Baha Men, with everything – good and bad – racing forward, gathering steam, and *“the party was pumpin’ and everyone was having a ball”*. At which point we run headlong into the brick wall called August.

All day, every day, we investors are observers of the world around us. We interpret what we perceive and make decisions based upon those interpretations. It is axiomatic that the more accurate our observations and the better our interpretations of them – the closer they comport with objective reality – the better our decisions can be. Yet we are bombarded with “exigent” commentary: quarterly corporate data (which is, largely, irrelevant), street analyst nuance, Fed speak, rejections, projections, short theory, why the market will rise, why it will fall, and even conjecture why it won’t do anything! In short, noise.

It is a very simple premise “to acquire great companies and hold them as long as we can”. It’s quite another challenge amidst the cacophony of noise surrounding both our investment team and the clients they serve. The ability to analyze “applicable” information – sorting through the noise to discern fact from falsehood – requires the application of logical principles, rigorous standards of evidence, and careful reasoning.

As Daniel Kahneman has acknowledged, “making consistently good choices based upon good reasoning is

really hard”. Training ourselves to do so more intuitively is even harder. That’s partly because humans are lazy and productive critical thinking requires adequate domain knowledge as well as lots of practice. Most of us come up short on both.

Which is why our multi-generational investment team looks carefully at every idea. Each of us has our own experience, our own biases, our own skepticism. From our extensive experience in our domain – small cap investing – there are patterns of business success that can be discerned, whether the model itself or the cultural treatment of the management team. These experiences can be shared, conclusions revised based upon new evidence or thought and, throughout it all, lessons learned. And the best way to learn is remembering the errors and mistakes of the past.

There are relatively few things in the investment world that can be proven with a high degree of certainty. Among them are that costs, and capital, matter a great deal to a business, that we investors are often slaves to our cognitive and behavioral biases, and that humans are dreadfully poor at predicting the future. By ourselves, life experience conspires to make it more difficult to adjust or amend our positions over time, which is further accentuated by the more prominent we become or the more admired we are. Yet alongside an experienced team of like individuals, the odds of making good choices are bolstered by collaborative reasoning.

To be frank, we humans are shockingly prone to bad ideas, ideas that escalate to terrible decisions then metastasize in actions that can undermine, or damage, our investment portfolios. We’d all like to think we’re better than average, but vanishingly few of us are as good as we think we are. The idea that we would act singly in our own rational self-interest with any degree of consistency is, quite obviously, ludicrous, and has continuously been falsified by witnessing the choices of others. Only collectively, can we withstand the noise. Or, at the very least, team up to fight off the dogs.