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"No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant."

- Warren Buffett

Investing successfully is hard. Really hard. It's like learning to play the piano well or living a healthy lifestyle. It requires constant patience, discipline, and vigilance. And, to quote another great Canadian manager, good investing is boring, even when the markets are roiling as they were last quarter.

Good investing is about consistency, sticking with the proven process even when emotionally you'd rather react. Because the exceptional, the truly worthwhile, investment takes time.

Accepting that investing is really hard, true investing – which we define as the allocation of capital to either entrepreneurs or company management requiring funds to exploit an opportunity to generate profits – in Canada is a monumental task.

Consider the index by which Canadian investors are measured. The TSE300 Composite Index was first implemented in 1977 as a benchmark for the Toronto stock market. For 25 years, the Index always contained 300 companies. On May 1, 2002, the TSE300 Composite Index ceased to exist and 25 years of market data ended with it. A new index, the S&P/TSX Composite Index was formed, managed by Standard & Poors, with a new set of rules allowing for regular changes based largely on market liquidity.

Today, the Composite Index included 237 companies, but the volatility in holdings since the launch of the TSX has been phenomenal. From the low of 222 constituents in 2004, the addition of income trusts spiked the number to 278 by the end of the following year, only to fall to an all time low of 204 in 2009. And of the 237 companies today, almost 20% did not have a market price in 2009.

From March 31, 2009 – roughly the end of the great recession – to December 31, 2018 the TSX Composite increased 64.2% (price only). Comparatively, the US SP500 Index rose 214.2% (both in domestic currency). However, 121 companies actually outperformed the Canadian index. Thirty-four of those companies (about 30% of the "winners") had market capitalizations less than $250 million on March 31, 2009. Going further, 60% of the outperforming stocks had market capitalizations less than $1 billion at the beginning of the measurement period.

Structurally, the Canadian index is really comprised largely of smaller capitalization companies. For example, at December 31, 2018, the TSX Composite has 115 companies – about 50% of the index names – below $3 billion market capitalization, while the SP500 had none. Above $25 billion market cap, the TSX Composite has 23 constituents (9.7% of the total names) while the SP500 has 192 – about 38% of all companies held by that index.

There are many reasons why all this information is important to the investor. First and foremost, the market liquidity cannot fully support our large investment funds. For example, the assets of the Ontario Teachers Pension Plan equate to roughly 10% of the entire market capitalization of the TSX Composite. It would be structurally impossible for the Teachers to have a large Canadian equity exposure without creating a large ownership weight in the companies in which they invested.

Space limits us to go further in this note so we will carry our analysis forward to the next commentary. We'll finish this by suggesting there are some wonderful companies in the Canadian market. But, while a good investment can be wonderfully rewarding, it can take decades to arrive. Which is very much the mantra of a small cap investor.