Laurus MONTHLY UPDATE

02 2015

We couldn't help smiling at the recent Dilbert cartoon, especially given this past month's 7.2% return. Scott Adams' sardonic humour has always provided a regular source of chuckles. Being somewhat technologically challenged, I was a particular fan of the strip where the pointy-haired boss announces the new password policy for the company: "Starting today, all passwords must contain letters, numbers, doodles, sign language, and squirrel noises".

Besides the chuckle, the current cartoon made us think of the constant challenge to avoid thinking in the short term. Internally we joke that annualizing this months' performance would result in a great year for our investors. But all that's said in jest, and certainly is not meant to reflect any form of overconfidence.

In fact, in our role as stewards of client wealth, it's better to be scared than overconfident. Worry just comes with the job – unease with market conditions and valuations, anxiety over the validity of your investment assumptions, apprehension over losing money in general. It's prudent to be worried when investing because there are plenty of pitfalls an investor should really avoid.

The real test of character arises when diverging from the herd, holding unusual or out-of-favour positions that differ from consensus. This is not something easily learned – it takes a lot of time and patience, understanding your circle of competence, having like-minded partners with whom to debate, and, above all, plenty of bad past experiences from which to draw. Good portfolio managers remember the bad experiences rather than erasing them, which would be the normal human condition.

In *Fooled By Randomness*, Nasim Taleb explains how experience shapes performance. He refers to the law of large numbers, the tendency of more observations to drive out random error. Great investors are typically those who have made lots of successful investments over a long period, continuously honing a consistency of process. Being right once proves nothing – a single success could be luck.

And yet most investors are focused on the short term, whether it's the institution wanting a breakdown of the latest quarterly or annual performance results or the focus on quarterly earnings by street analysts. To that end, we are bombarded with short term sell-side opinions, generally as a result of some action or inaction by a particular company. Increasingly loud voices providing varied opinions on this particular event until the cacophony of noise virtually drowns out the rational perspective that it might just be random, and meaningless over the fullness of time.

We've written in the past that to achieve results that are better than others, one has to do things that are outside the average. And that is a lonely and uncomfortable place at times, requiring a confidence borne from lots of experience combined with a healthy dose of worry.

Not to demean, but it's quite easy to be an analyst. Developing a thesis on a particular company takes a bit of reading and some perspective on valuation. But to string together a series of investments that counterbalance – that avoid bad years and protect a client's underlying capital from high loss – takes a unique discipline that can only be improved with time. And not everyone can do it well. To quote Charlie Munger, "*There are many layers to this, and you just have to think well. I can't tell you how to think well. Some people get it, some people don't.*"

Yes, we are very happy with this month's return. We also know it is but a single step on a long journey. And we will endeavour to make the journey as fruitful and pleasant as possible for our investors.

6-1400 Cornwall Rd,
Oakville, ON L6J 7W5
(p) 844.430.5501 (toll-free)

Laurus INVESTMENT COUNSEL