> *It is in the nature of stock markets that they go down*
>
> *– Charlie Munger*

Lorne Steinberg,
MBA CFA
CO-PRESIDENT

Yes, The Stock Market Will Go Down…

Dear Client,

As we reflect on the start of last year, it's clear that investors faced a host of challenges: rising inflation, geopolitical tensions, shifting interest rates, fears of a potential recession, and the uncertainty surrounding the U.S. elections. The outlook was clouded with "doom and gloom" predictions. Yet, despite these concerns, market fundamentals proved resilient, rewarding investors with another year of strong performance.

Today, many of these same economic and geopolitical uncertainties persist, fueling fears of a potential market downturn. After two consecutive years of strong returns, it's no surprise to see countless headlines predicting a bear market, particularly in light of ongoing risks such as tariffs and trade conflicts.

Will the stock market decline? Undoubtedly, at some point—it's an inherent part of investing. What remains uncertain is the timing and trigger. Historically, the most significant market downturns have often been unexpected. Events like 9/11, the financial crisis, and the COVID-19 pandemic serve as stark reminders that the catalysts for market sell-offs can emerge without warning.

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So, what is the correct strategy?

Well, when I have a personal issue I am dealing with, I often turn to a trusted friend for advice. When I am grappling with investment issues, I often turn to my old friend Warren Buffett, whose net worth is made up almost entirely of his shares in Berkshire Hathaway, which is one of our largest holdings.

This excerpt from Warren Buffett in his 2017 Letter to Berkshire Hathaway shareholders says it all:

"Berkshire, itself, provides some vivid examples of how price randomness in the short term can obscure long-term growth in value. For the last 53 years, the company has built value by reinvesting its earnings and letting compound interest work its magic. Year by year, we have moved forward. Yet Berkshire shares have suffered four truly major dips. Here are the gory details:

Period	*High*	*Low*	*Percentage Decrease*
March 1973-January 1975	*93*	*38*	***59.1%***
10/2/87-10/27/87	*4,250*	*2,675*	***37.1%***
6/19/98-3/10/2000	*80,900*	*41,300*	***48.9%***
9/19/08-3/5/09	*147,000*	*72,400*	***50.7%***

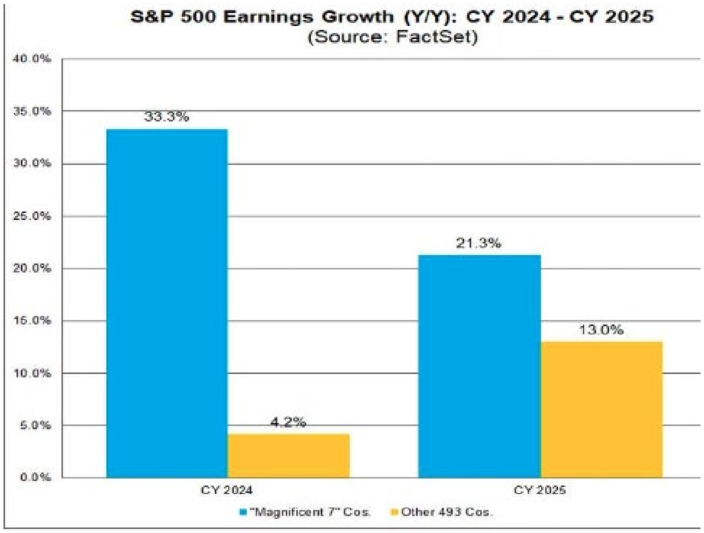
…In the next 53 years our shares (and others) will experience declines resembling those in the table. No one can tell you when these will happen. The light can at any time go from green to red without pausing at yellow."

Throughout the years, Warren Buffet has never sold a single share of Berkshire Hathaway, suffering through these major declines in his net worth from time to time. The message is: if you own good companies, focus on their earnings and growth, and ignore the day-to-day market movements.

The "Magnificent 7"

Although market performance over the past year was again driven in large part by the largest technology and communications companies (especially those investing in artificial intelligence) there are many great businesses outside of these sectors, trading at compelling valuations.

The chart below shows the earnings growth for the Magnificent 7 technology stocks versus that of the rest of the market. While the earnings growth for those companies was far better in 2024, the gap is expected to narrow significantly this year. When market performance is this concentrated, investors tend to focus only on those few companies and ignore the rest. They do so at their peril. When it comes to investments, history has always proven that nothing stays expensive forever and nothing stays cheap forever.



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Some of our best performers over the past few years have been companies such as Amazon, Alphabet, Meta, Microsoft and Taiwan Semiconductor, which, despite the performance of the past two years, are still trading at attractive prices given their growth rate. However, we are also seeing outstanding value in many other great businesses, whose earnings are growing, but which are trading at very attractive valuations. It is these investments that may indeed be the drivers of performance going forward.

Here are a few examples of our holdings: Nestlé (a recent purchase), the Canadian banks, and Meta & Microsoft (two of our largest holdings).

Nestlé is the world's largest food and beverage company, boasting a diverse portfolio that spans baby food, bottled water, breakfast cereals, coffee and tea, confectionery, dairy products, ice cream, frozen food, pet foods, and snacks.

The three most important categories for Nestlé are: Coffee (25% of sales), Petcare (20%), and Nutrition & Dairy (18%). Their global distribution footprint is unparalleled, with 80% of sales in categories where they are either #1 or #2 in their markets, and 31 of their brands have annual sales of over $1billion. The group is increasingly focused on health and wellness categories and consistent investment in innovation (spending close to 2% of sales on R&D) ensures their portfolio remains relevant and competitive.

Additionally, management's disciplined capital allocation, including divestitures of underperforming businesses and strategic acquisitions, has contributed to improving operating margins. Despite the slow growth of some legacy product lines, Nestlé's ability to generate robust free cash flow underpins its progressive dividend policy and share buyback program, both of which have been key drivers of shareholder returns. They also own 20% of L'Oreal, the world's largest cosmetics company, which accounts for about one-fifth of Nestle's market value.

Nestlé's portfolio of powerful global brands, along with their focus on premiumization and operational efficiency, positions them well for success going forward. With a 4% dividend yield that should grow over time, the shares offer outstanding value.

Canadian Banks

Canadian banks are a core holding in our Canadian dividend strategy, having generated an exceptional track record of earnings and dividend growth for decades. One of the major reasons for this is that foreign banks are restricted from competing in most areas of this industry, so the Big 5 banks have this market to themselves. Canada's population is growing, and Canadians are getting wealthier - two important drivers of growth for this sector.

At the same time, the banks continue to improve operating efficiencies through the use of technology, keeping costs in check, resulting in improved margins. With diversified revenue streams that encompass retail and commercial banking, wealth management, and capital markets, Canadian banks are well-positioned to weather economic cycles. Robust regulatory oversight ensures that they maintain healthy capital ratios, comfortably exceeding the minimum regulatory standards. Furthermore, their prudent risk management practices and conservative lending policies have contributed to lower levels of loan delinquencies relative to global peers.

While there is some cyclicality in this industry, the Canadian banks have demonstrated their resilience by delivering solid earnings growth over time and consistently increasing their dividends. Even during the financial crisis when most global banks were forced to raise capital and cut dividends, the Canadian banks were able to maintain their dividend payments despite the economic turmoil. With an average dividend yield of 4.7%, this sector continues to offer compelling value with healthy dividends and a strong growth profile.

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Meta Platforms, formerly Facebook, remains one of our key holdings, due to its dominant position in social media and digital advertising. The company's ecosystem, which includes Facebook, Instagram, WhatsApp, and Messenger, boasts over 3 billion monthly active users globally, providing unmatched reach for advertisers. While the core advertising business (which still accounts for over 90% of revenues) has faced headwinds in recent years from evolving privacy practices and regulations, Meta has demonstrated that it has both the capabilities and financial firepower to adapt and succeed. They have invested heavily in artificial intelligence as well as in immersive technologies through its Reality Labs division, which include Quest VR headsets and Ray-Ban branded smart glasses.

Though profitability in this division remains several years out, management's prudent capital allocation ensures that investments in emerging areas do not compromise overall margins. Meanwhile, the continued growth of Reels on Instagram, and the monetization of WhatsApp's business services, underscore Meta's capacity for innovation within its core platforms. With a very strong balance sheet, Meta is well-positioned to navigate any near-term challenges and capitalize on long-term opportunities.

While in some ways Microsoft needs little introduction, the business has evolved considerably over the past several years, having gone from a vendor of products to a purveyor of services. This shift has resulted in a higher quality revenue stream while reigniting growth at a company whose revenue was stagnating 15 years ago.

Oh, how times have changed. Microsoft's transformation into a diversified technology powerhouse continues to make it one of the most compelling stories in our portfolio. While its legacy Windows and Office 365 businesses remain steady cash generators, the company's crown jewels are now its cloud computing and productivity solutions businesses. Azure, the cloud platform, has emerged as the second largest player globally, benefitting from the secular shift toward cloud adoption by enterprises of all sizes.

Having taken a significant stake in OpenAI, the creator of ChatGPT, the integration of AI technologies across the Office 365 suite is ongoing, further enhancing the value proposition to businesses. The gaming segment, led by Xbox and bolstered by the acquisition of Activision Blizzard, provides exposure to another growing area. With its AAA-rated balance sheet and significant free cash flow generation, Microsoft continues to reward shareholders through a growing dividend and substantial share buybacks, while making substantial investments to grow the business. Most recently the company announced that it would invest $80 billion this year to construct data centres to handle AI workloads.

The combination of sales from diversified business units, strong free cash flow generation and a relentless focus on innovation positions it well for sustainable growth.

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Final Thoughts and Update

The beginning of every new year inevitably brings a wave of predictions about stock market performance for the year ahead. While intriguing, such forecasts are ultimately futile — no one has a crystal ball.

Life would undoubtedly be simpler in our field if the stock market consistently moved upward. Unfortunately, the only investment manager who appeared to achieve this was Bernie Madoff, and we all know how that story ended.

I've observed that investors who enjoy the greatest peace of mind are those who deeply understand what they own and why they own it. Our investment committee is dedicated to ensuring each investment meets stringent criteria before earning a place in our portfolios. This process, combined with rigorous research and continuous monitoring, gives us the comfort of knowing that even during the worst market downturns, we have a portfolio of businesses that can weather the storm, and emerge stronger than ever.

Yes, the market will inevitably experience downturns. However, we're confident in our positioning to navigate those challenges when they arise.

Firm Update

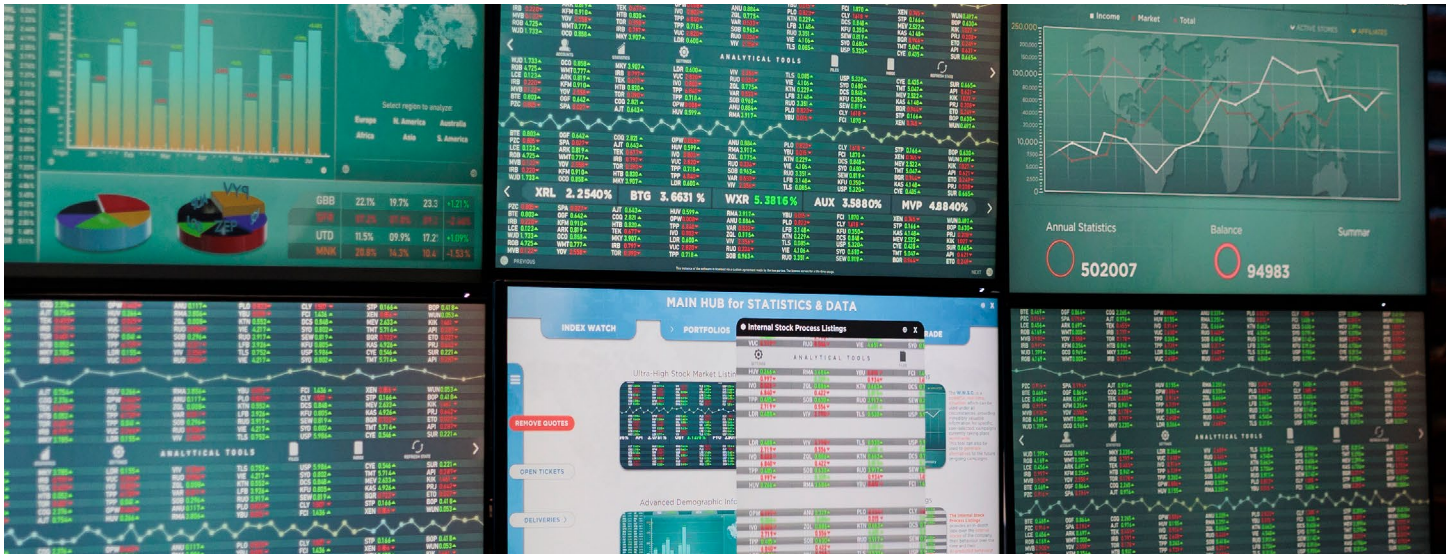
Since our firm's inception in 2009, our growth and success have been entirely due to the dedication and collaboration of our exceptional team. It's often said that great leaders hire individuals smarter than themselves, and in this respect, I've been successful!

In 2014, Liam Card joined our firm in a junior role. Over the years, he has consistently risen to every challenge, taking on greater responsibilities and becoming a key driver of our success. Over the past couple of years, I have not made any major decisions without his input. It is with this in mind that I am very pleased to announce Liam's promotion to Co-President of our firm. Moving forward, he and I will share this title and the responsibilities it entails.

Sincerely,

Lorne Steinberg

Lorne Steinberg
Co-President



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