



Volatility is the price of admission. The prize inside are superior long-term returns. You have to pay the price to get the returns.

– Morgan Housel



Lorne Steinberg,
MBA CFA
CO-PRESIDENT

Fee vs. Fine

Dear Client,

The first quarter of 2026 offered a clear reminder that even favourable market environments are rarely free from disruption. Only a few short months ago, central banks seemed to have inflation under control, interest rates were lower and trending downward, corporate earnings were strong and consumer spending seemed resilient. By March, investors were asked to navigate a rapidly shifting backdrop that included heightened geopolitical risks in the Middle East, rising energy prices, inflation concerns, central bank policy, and the lingering uncertainty surrounding the North American trade agreement. Together, these forces created an environment where investor sentiment was changing faster than the underlying fundamentals themselves.

Quarters like this tend to reveal something far more useful than the headlines: they remind investors what actually matters over time. Q1 was not a quarter that rewarded speculation, concentration, or emotional decision-making. It was a quarter that reinforced the value of resilience relating to quality of businesses, diversification of portfolios, and disciplined investor behaviour. The latter is perhaps the most important of the three.

Look no further than the correction at this time last year. That sell-off was one of the fastest descents into (and recoveries out of) a bear market in modern history. By late June, the market had climbed back above the February peak, completing a full recovery in roughly three months from the onset of the decline. It was a timely reminder that owning quality investments and staying invested is generally a wiser strategy than attempting to time the market. No one said it better than legendary investor, Peter Lynch: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves."

This is also where diversification continues to prove its worth. A well-constructed portfolio is not designed to win every short-term race, nor is it built around the assumption that one market, one sector, or one narrative will continue indefinitely. It is designed to help investors participate meaningfully in long-term growth while removing the need to make emotional decisions during periods of heightened uncertainty.

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Over the past few years a narrow group of technology stocks dominated the indices, and many investors ignored the rest of the market. Suddenly, over the past few months, those same few companies have been among the worst performers, while many of the laggards outperformed.

The recent volatility presented opportunities to initiate new positions and add selectively to existing holdings. Software-as-a-Service (SaaS) companies have been among the hardest hit in the recent sell-off, as concerns around the long-term implications of artificial intelligence have led to a sharp compression in valuations across the sector. While we believe those concerns may ultimately prove valid for certain software businesses, we have also identified a number of high-quality companies that, in our view, have been indiscriminately repriced alongside the broader group. In these instances, the dislocation has created attractive opportunities to establish or increase positions at far more compelling valuations. Below are a few examples.

Constellation Software

Constellation Software has established itself as one of the world's most successful serial acquirers of vertical market software (VMS) businesses. Its decentralized model has allowed it to acquire hundreds of small, niche software firms that provide mission-critical solutions to its customers. Its portfolio of businesses services a wide range of industries – everything from public transit to golf courses to cemeteries. Today, approximately three quarters of annual sales come from recurring maintenance and support. The company's free cash flow is directed at its ongoing acquisition strategy which drives continued growth.

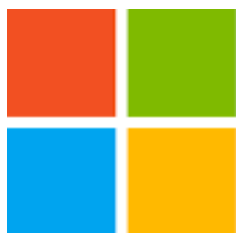
Despite the double-digit growth rate, the shares fell by over 50% due to fears of AI impacting the business, and we initiated a position. With a strong balance sheet and an outstanding track record of earnings growth, Constellation remains a premier play on software consolidation and operational excellence.



Microsoft

We added to our position in Microsoft during the quarter. In some ways the business needs little introduction, but it has evolved considerably, with dominant market positions in each area in which they operate, effectively owning the PC software market for both consumers and enterprises, and being a strong number two in cloud hosting. In addition, the company continues to demonstrate its leadership in the generative AI era and we believe Microsoft has the ability to bundle AI capabilities into its ubiquitous software ecosystem, creating a formidable moat that will support sustained growth for years to come.

Despite elevated capital spending to address industry capacity requirements for computing, they remain a free cash flow behemoth and are one of only two companies to boast a AAA-rated balance sheet (the other being Johnson & Johnson, which we also own). Microsoft should be able to continue to deliver 10% annual revenue growth over the next number of years, with earnings per share growing even faster, due to share buybacks. At the current price, the shares are trading at the lowest valuation in over a decade.



Microsoft

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Adobe

We also added to our holding in Adobe, the world’s leading creative design and document management software provider this quarter. Despite what one might read about the ‘death’ of software as a service, Adobe has added 10 million additional users to its various platforms each month and continued to deliver annual revenue growth of 10% or better while maintaining 35-40% operating margins. It is worth noting that via their "Firefly" generative AI tools, they are actively integrating generative AI capabilities into their software solutions and are starting to see the first fruits of that investment.



The business remains an incredible cash generator and the company has been buying back swathes of its shares recently. The lower the share price, the more powerful the effect of buybacks on driving earnings per share growth. Given its dominant market positions and the quality of its operations, the stock has historically commanded a significant valuation premium. Over the past 10 years one would have paid (on average) over a 30x multiple of forward earnings. Today, investors are paying about one-third of that.

Final Thoughts

The quote at the top of the page is a powerful reminder that market volatility is not a penalty for investing poorly — it is simply the cost of earning superior long-term returns. As Morgan Housel argues, investors who view volatility as a “fine” will do everything they can to avoid it and will feel punished when it inevitably arrives. But if volatility is understood as a “fee,” the necessary price of admission for long-term wealth creation, it becomes easier to accept as part of the journey rather than something to fear.

Periods of uncertainty, pullbacks, and short-term market declines are an unavoidable part of investing in equities and other growth-oriented assets. In other words, investors are not rewarded despite volatility, but often because they are willing to endure it when others cannot. This is why discipline matters so much. The long-term benefits of investing are typically realized by those who remain patient, remain invested, and keep perspective when markets become uncomfortable.

For long-term investors, the lesson from the quarter is simple, but important: uncertainty is not unusual, and volatility is not a flaw in the investment process — it is part of it. The role of a sound investment strategy is not to eliminate uncertainty, but to be built to withstand it. That means remaining focused on business quality, balance sheet strength, valuation discipline, and diversification rather than reacting to every shift in the news cycle. While headlines will continue to change, our focus remains exactly where it should be: on protecting capital, compounding wealth over time, and always acting in the best interests of our clients.

Sincerely,



Lorne Steinberg
Co-President

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