

Some Thoughts After Five Years of Discretionary Management

This article is authored by Alain Robitaille of [Le Groupe Robitaille](#) at Desjardins.

We began discretionary management of our portfolios on July 1, 2012. Many clients had already invested in our different models before that date, but we had to contact each of them for each transaction before I obtained my licence. As shown on the chart on the first page, the average annual return of our equities portfolio has been 19.10%, which is 4.55% better than the market average.

As you undoubtedly already know, as a faithful disciple of Warren Buffett, my goal is to beat the market over a long period of time. Fanie and I believe it is possible to continue to do so for many years to come. Of course, “possible” does not mean “easy,” but Warren Buffett and many managers who follow his principles have managed over the long term to prove that work, discipline and working in very small teams can produce great results. I know some of the “superinvestors” who are followed each quarter by several publications. Generally, they are managers like us, who act alone, without a team of analysts and without an investment committee, who think for themselves and who make investments for the very long term. For us it is a constant challenge and highly stimulating.

Is it common to beat the market?

According to Standard & Poor’s (*SPIVA Canada Scorecard 2016*), over the past five years, only 5.43% of Canadian managers who use our benchmark indexes outperformed the index.

So for the past five years, a little less than 6% of managers “beat the market.”

According to the Morneau Shepell publication which calculates the performance of Canadian managers on a quarterly basis, a manager would have had to generate an annual return of 18.45% or better over the past five years to rank in the first five centiles at June 30, 2017.

We have produced an average annual return of 19.10%.

And we did it without a management committee and without a team of analysts, by employing the good old method used by Buffett and Munger since 1956, that is, a lot of reading and thinking, and few trades. And don’t forget that our fees, which come to an average of 1% per client, are very competitive.

Here is a reminder of our investment philosophy:

- We try to beat the market over a long period without incurring the risks of market timing or speculation.
- We look for companies that have a sustainable competitive advantage and operate in sectors that we consider essential to
- We want to invest at the lowest possible price and for a very long period of 10 years on
- We choose business managers who have a substantial ownership interest and who manage their shareholders’ capital with a view to long-term

An interesting discussion with a client

A client recently mentioned to me that a competitor’s fund portfolio that he heard about had a return

similar to that of our equities portfolio. We checked the numbers together:

- Average annual return of the competitor's equities portfolio over five years: 9%
- Average annual return of our equities portfolio over the same period: 19%

I was somewhat disappointed that my client used the term "similar." Since the difference can be hard to grasp as a percentage, here it is in dollars, using a hypothetical amount:

Initial capital: \$1,000,000

Value of the capital after five years with the competitor: \$1,565,681

Value of the capital after five years with Groupe Robitaille: \$2,395,900

Both of the portfolios concerned are indeed equities portfolios, and although the competitor claims that he takes fewer risks, this is probably not the case. Past performance is no guarantee of future results, but we will continue to strive to achieve the first of our objectives mentioned above.

Interesting questions from our clients at our annual meeting

Here is a retrospective of the interesting questions that investors asked us (some several times) at the reception we organized in May in three cities in Quebec, as we do each year.

Do you intend to continue doing this job for a long time?

A very appropriate question from many clients, considering that you generally entrust us with most of your financial assets and that you believe in our investment philosophy. I like to think that this question suggests an intention to retain me as a manager for a long time, but it is difficult to answer. I'm still passionate about my job, and each day, without exception, I look forward to going to the office, working with an efficient team, and taking up intellectual challenges. You have probably guessed that Warren Buffett influences my way of thinking. I wonder what drives him to go to work each day at age 86, when he has a personal fortune of about \$77 billion... The answer probably has to do with passion. My father worked all his life, seven days a week. When he reached retirement age, he said jokingly that for him, this stage simply meant that he stopped getting paid to work (he hasn't slowed down much). He passed on to me his passion for work, and I'm going to try to be a better capitalist and avoid retirement!

What explains the underperformance of our portfolio in 2016?

I knew that my clients had a good memory! Our portfolio is partly invested in U.S. stocks without currency hedging, so the appreciation of the Canadian dollar had an impact on returns. However, the main reason for the underperformance was the rise in the energy and materials sectors in Canada, in which we were not invested. Consequently, the index performed better than us. This was our second year of underperformance in the past eight years. In other words, there have been two years where we didn't "beat" the market. The first time, in 2010, it was for the same reasons, i.e. a rapid rise in resources, a sector absent from our portfolios.

Will President Trump have a negative impact on the markets?

He certainly does not leave anyone indifferent! Changing presidents can radically alter the image of a country, since it can greatly influence foreign policy, taxation and many laws. We also realize that the American political system is designed to prevent a single individual from taking control of the political apparatus. Wishing to avoid the effects of a monarchy, the founders of the U.S. constitution divided powers between the president and the two houses - the Senate and the House of Representatives. Every two years, elections are held to elect some members of these houses. So although the president

(Republican) is from the same party as the current majority in both houses, in one year, things could change. For the stock market, the impact could be positive and result in more moderate taxation and regulation. The stock market is unpredictable and I would not bet on one man influencing it for long. This reminds me of a quotation:

“Go for a business that any idiot can run, because sooner or later, any idiot probably is going to run it.” — Peter Lynch

What was your worst investment mistake?

That’s rather hard to answer, because I must humbly admit (investing teaches humility) that I’ve made many mistakes, which is normal. No manager is always right, it’s impossible. I could generally classify mistakes in two main categories:

Mistakes of omission: We studied a company and agreed that it met our criteria; however, for a reason that still escapes us, we didn’t buy it. Of course, the shares of that company subsequently rose sharply. These are indelible memories for me that would take too long to enumerate, but ask Fanie this question: she’ll have some stories to tell you.

Lack of respect for the circle of competence: The mistakes in this category have not to do with buying a company that we failed to study, but where we failed to understand its future challenges and how its environment would likely evolve.

The key, of course, is to recognize one’s mistakes and to learn from them. Selling at a loss is not the worst thing; stubbornly holding on to a losing company can be much more costly. Ask the shareholders of Nortel!

Thank you once again to all our clients who came to our meetings and who asked questions. Answering them cold was very stimulating!

An inspiring read...

I recently read a very interesting book: the autobiography of Edward O. Thorp entitled [*A Man for All Markets*](#). I recommend this book, whose main focus is not on the investment, but rather on effort and using your abilities to succeed.

From a modest background, Edward Thorp managed to become a university professor of mathematics. He subsequently tried to prove that it is possible to use the law of probabilities to win at games of chance. (Don’t try it: casinos have adapted!) To do this he invented the first portable computer. He then used statistics to “invent” quantitative investing. The book contains some interesting thoughts, including on the importance of being generous when we are successful, a notion dear to my heart.