This article is excerpted from a letter by Alain Robitaille, portfolio manager of Robitaille Group at Desjardins in Quebec, Canada.

Far be it from me to take the credit for an accurate prediction. But I had to think back to the irony of the call (which I wrote about in my last letter) I had received from the representative of a cannabis company. I had mentioned at that time that we were not going to invest in it even though it is a very popular sector, since the companies people are talking about are not showing any profit. I also emphasized that, sooner or later, reason would prevail. In other words, profits need to rise for a valuation to rise. Below is a graph, which, since our last financial letter, represents a Canadian index of cannabis producers (in red).

As you can see, the decline is about 31%. I wouldn't buy any of it today either, for it still doesn't offer what we're looking for.

I also thought about their business model, which was imposed by the government, and I have to confess that I'm puzzled by it. Since the product was legalized and is now sold "relatively freely," why not let producers grow it freely in the most efficient way, i.e., by letting it grow in fields just like tobacco? The savings would be substantial, and the prices offered, or profitability, would be even higher. This will probably be the case one day, after a huge amount of capital has been wasted to grow a plant inside a fortress…

Source: MarketQ.

I could also talk to you about cryptocurrencies, which, in my opinion, are certainly not a type of investment. The reasoning is the same: When it comes to the stock market, the euphoria for an asset class can reach heights that defy the laws of gravity. Often, there's an appreciation and an increase in volume, which attracts speculators, a little like a pyramid scheme. The ending never quite lives up to the rest of the story…

The stock market, turning every which way

As is the case every time the market suffers a major decline, investors become increasingly volatile, nervous and emotional. I always like to say that investors are always okay with the long term as long as the short term is doing well, something I'm reminded of every time there's a decline. So, what's happening? A trade war, an election for the U.S. Congress, fears about rate hikes or an economic slowdown…In fact, almost the same kinds of stories we've been hearing since 2009. Far be it for me to think of announcing that the market is going to grow non-stop over the next 50 years. However, I still believe that no one can predict the future. No one can time the market in such a way that they sell at the right time and buy at the right time. I regularly hear investors say—incorrectly—that the very rich and the big investors time the market. If I believe those that I follow regularly (Buffett, Gates, Icahn, etc.), it's not like that at all. In fact, the very wealthy who succeeded by investing all have one thing in common: They practically never negotiate!

Time and compound returns are the best friends to have on the road to greater wealth. The turnover rate of the investments by Buffett (5%), Gates (5%) and Icahn (3%) is nearly 0% per year (Source: MOI Global). In Canada, we talk about the three richest people in the world who made their fortune by way of informed investment decisions and by being patient.

People regularly ask me the following question: Am I worried about the recent drop? My answer is always the same: The only thing that worries me in a stock market decline is the reaction of investors. In my opinion, as always, each decline offers me a chance to improve our portfolio and future performance. How? By buying securities in the companies that interest us at the lowest possible price. And then? Patience.

In fact, always remember that the decline in a share price on the stock market does not reflect the real loss in the value of the company that we're holding. It's the quarterly financial results that allow us to determine the value our companies and decide whether to hang on to them or not. The stock market could be open one day per quarter and we would still be able to achieve our long-term objective. Unfortunately, the 24-hour news channels would find that time passes very slowly!

That being said, the average valuation on the stock market is currently approximately 15 times profit, and the historical average is 16.1 times (Source: Value Line). Therefore, the stock market is not as costly as the historical average. According to the figures I saw recently, the profit of S&P 500 companies in the last quarter rose nearly 25%, of which 7% was attributable to the tax cuts. Therefore, we're talking here about fairly strong growth. The economy is running hot, the unemployment rate is very low, wages are rising, and interest rates remain very low. From my perspective as a shareholder in several high-quality companies, the time is ripe to earn profits. And then? Patience!

> "Investing in stocks is not easy, but it should not be painful. Plain and simple, it requires work and an understanding that stock prices tend to follow company earnings over time." —Peter Lynch, foreword to *Big Money Thinks Small*, by Joel Tillinghast

Interesting reading for you and your children

I just finished reading the book *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko. This book dates back to 1996. I admit that I hesitated to read it for fear it would be a book of "recipes for becoming rich." Far from it. In fact, it's really the dissection of a group of millionaires based on their level of over- or under-accumulation. The most interesting section—which, on its own, makes the book worth reading—is, by far, the one about the children of millionaires. The way they talk to them about money, help young children financially until adulthood, definitely has a major impact on their tendency not only to save, but also to become independent and succeed on their own. A hint? The chapter in question is titled "Economic Outpatient Care." According to the authors, significant financial help leads to financial dependence…

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