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Toronto Maple Leaf fans and equity investors have one common trait; they have both experienced substantial disappointment for a very long time. But there is one crucial difference. Toronto hockey fans are well aware of their team's dismal results and expect futility well into the future. Market participants, on the other hand, don't truly appreciate that equity markets have not had very good performance for some time and expectations for the future are far too optimistic.

It is truly astonishing to see how little the TSX has returned over the past several years. Even we are surprised at the stark reality.

Table 1
TSX Compound Annual Rates of Return
as of March 31, 2016

Years	 	Percent (%)
One		(6.57)
Two		(2.05)
Three		5.02
Four		5.30
Five		2.09
Six		4.94
Seven		9.59
Eight		3.17
Nine		3.26
Ten		4.05
Sixteen		4.77

The most common time frames used to assess performance, five and ten years, have generated 2.09% and 4.05% compound annual rates of returns, respectively. The TSX's return since our inception, sixteen years ago, is not much more inspiring at 4.77%. The average of all of the above periods is only 3.06%. GIC's would have provided a similar return with virtually no risk!

The cause of these disappointing equity market returns has been persistently high valuations. Since 2000, equity valuations have been substantially above long term historical norms. Consequently, investment opportunities that would allow a portfolio to generate a 10% return have been few and far between.

When we present this information, the most common response is surprise. We have all been conditioned to believe that equities generate returns in the 7% to 10% range on a regular basis. It is no wonder that investors are disappointed by their portfolio returns. Results have not met expectations and most advisors have "over promised and under delivered".

As all of you know, we have been very cautious in our expectations and have consistently argued in several past newsletters that the potential returns in equity markets were very low and did not justify the risks. Even though we have been correct in our assessment and have managed to meaningfully outperform the TSX over most time frames, total portfolio returns are less than we would have liked due to our substantial cash balances. It is difficult to swim against the tide.

Investors are responding in predictable ways. Some are moving to fixed income or high yielding products. Others are transferring assets to U.S equities as their performance has recently been boosted by an appreciation in the U.S. dollar. Many change money managers or advisors to those that have had strong short term performance or promise high returns.

While we understand the frustration, all of these strategies will undoubtedly end in more disappointment. Fixed income assets will result in a loss of capital when interest rates increase from currently unsustainably low rates, North American equity market valuations are at levels that are likely to return less than five per cent over the next several years and chasing performance never works.

What do we advise in an environment where the long term returns from every asset class are expected to be very low and do not justify the risks? Here are some suggestions:

Entrust your assets to a TRUE value manager as it has been empirically proven that over time value investors generate performance that is better than market averages with less risk;

For ultra-high net worth individuals and families, invest a portion of your assets in a highly concentrated portfolio of value stocks;

Pay off debt; the after tax return on interest savings will be far greater than financial market returns and the peace of mind will be “priceless”.

In a high risk and low return environment there aren't many other satisfying alternatives.

There is one outcome that applies almost uniquely to you, our clients. The best scenario would be a good old fashioned bear market. While a broad based market decline would make some uncomfortable, our substantial cash position would allow us to take advantage of the situation. We would be able to purchase securities at valuations that would potentially generate substantial long term rates of return. Referring back to Table 1, the highest rate of return generated was the seven year period starting March 31st, 2009. Not surprisingly, this date coincides with the steep decline in equity prices during the financial crisis.

We were quite excited earlier this year, as it appeared that investors were ready to capitulate. We were prepared to pounce! Unfortunately, markets turned quickly and sharply upwards as the Federal Reserve indicated that it was delaying interest rate increases for the foreseeable future. Sometimes we just can't catch a break!

As you have seen in your portfolios, we have made investments in high quality businesses when their share prices have fallen dramatically. Since our inception in 2000, the realized gains on these investments have averaged more than 20% compounded per year. In order to achieve such returns we have had to be very

selective. Unfortunately we have been unable to find enough of these opportunities at any one time to be fully invested. Many are surprised to learn that we have only made forty-six investments over the past sixteen years; an average of less than three per year. For us, a little more activity brought on by a substantial market decline would be very much welcomed!

Most in the investment industry would like to “run us out of town” for such a wish. Their clients’ performance would suffer dramatically because they are fully invested and/or aggressively positioned. But worse, declining markets would be **bad for their business**. Assets under management would fall, leading to a drop in profits. They hope, that somehow, the long term relationship between high valuations and low future returns no longer holds true.

For most traditional investment counsellors and advisors, best practices in **today’s environment** would suggest that a long term financial plan be based on **no more than a two to four per cent net return**. While the reality of this return may be disappointing it will allow for realistic decision making. Lifestyle, spending, estate planning and philanthropic choices can be made without having to worry about making material future revisions. Higher returns would be a bonus and a pleasant surprise.

It is unusual for an investment manager to write a newsletter that projects low future returns and hopes for a serious market decline. But it is because of you that we can say and practice what we believe. Your confidence and trust has given our work true meaning and purpose. It is a privilege to serve all of you.

Vito Maida



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