

Why The Tortoise Is So Wealthy!

Dr Terry Curran, CIM
Investment Advisor & Associate
Portfolio Manager

RBC Dominion Securities Inc
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The Tortoise and The Hare

- Aesop's Fable
- The race between unequal's
- Fast hare vs slow moving tortoise
 - ◆ Slow and steady wins the race!
 - ◆ Confidence vs over-confidence
- ◆ Lots of Investing Lesson's!

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The Wealthy Tortoise

- #1 Tortoise vs Hare **Personality**
- #2 Tortoise Investing **Advantage**
- #3 Ways to Enhance Tortoise strategy
- #4 Tortoise **Macro 2016**
 - ★ A. Pessimist B. Optimist
- #5 Tortoise **Suggestions 2016**

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#1 Tortoise vs Hare Personality

- Most are wired to be Hare's
- We want to act & quickly
- Especially if emotions stirred
- It's a survival trait!!
- So wired for "Short-termism"!
 - ◆ eg. avg hold US stock is 17 weeks
 - ◆ If ETF included its 4 weeks

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Tortoise vs Hare Investing Personality

- H monitors daily...
- H hate down turns...
- H do speculative stocks...
- H complex investments...
- H frequent action...
- H investor is all about Emotions & Emotions

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Emotions and Investing

- A Very Poor mix
- Loss emotion 3x stronger than gain
- Markets down over 40% of days
- So daily BNN monitoring...

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#2 Tortoise Investing Advantage

- Slow and steady
- Not over confident
- Keeps things simple
- Minimal emotions CORE feature
 - ★ (even when harassed by Hare)

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DALBAR STUDY

- 20 years investor behavior
- Equity funds returns vs investor
- Average 10% funds and 5% investor!
 - ★ Every year x 20 years!!
- 2014 -5.5% vs 13.6%
 - ★ (also bonds)
- "Investors are their own worst enemies"

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The Dalbar Study

- Many Irrational investor behavior's
- Two worst:
 1. Herding Emotion
 - ★ ...buy high-greed
 2. Loss Aversion Emotion
 - ★ ...panic selling low-fear
- Excess emotions kill investors!
- As we are wired to REACT !

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The Dalbar Study

- Confirms -wired to React/Over-react
- Especially when excessive emotions!!
 - ★ Most other circumstances-this is good...
- But NOT in investing world
- Encourages “buy high and sell low”
- Occurs Repeatedly !!
- How do we minimize emotions?

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The Tortoise Investor

- Warren Buffett→ Tortoise Investor:
 - ◆ “lethargy, bordering on sloth should remain the cornerstone of investing style”
- Prem Watsa, Seth Klarman...
- Hard wiring different or..
- Found ways to minimize emotions and over-reaction

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#3 Way's To Enhance the Tortoise Strategy

- “A Wealth of Common Sense”
 - ★ Ben Carlson
- “need an emotional intelligent strategy”
- 1. Patience-ignore noise
- 2. Simplicity-emotions in check
- 3. Common Sense-think mid-long term
- 4. Repeatable process-Auto pilot
- 5. Discipline-to buy low & sell high
 - ★ (contrarian strategy)

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Way's To Enhance the Tortoise Strategy

- Ben Carlson:
 - ◆ Hard to do nothing...
 - ◆ Wired to act...
 - ◆ Rare arena where less is best...
 - ◆ History-pendulum swing—boom-bust—know history on cycles...
 - ◆ Simple-asset mix and diversify!!

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Higher Emotional Intelligence is Key!

- Most successful investors have a HIGH Emotional Intelligence IQ!
 - ◆ Wired for less emotions, less reactivity
 - ◆ Neuro angle—frontal over temporal
 - ◆ Minimize temporal bombardment!
- Or a system in place to enhance EI
- Curran's Strategy....

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Ways to Enhanced Emotional Intelligence

- 1. Simplicity-dividends, low beta*
- 2. Strategic Asset mix
 - * -bonds-equity
- 3. Diversification-free lunch*
- 4. Cycles and Reversion to Mean
- 5. Mandatory Patience—boring!!*

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Ways to Enhance Emotional Intelligence

- 6. Rebalancing-key especially in declines
- 7. **WRITTEN Plan-auto-pilot!***
- 8. Minimize Noise-less emotions*
- 9. Tactical Times...
- 10. Macro is Important

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#2 Importance of Strategic Asset Mix

- Since 1928 only 3 years that both equity & bond down (1931,1941,1969)
- Bonds:
 - ◆ 1. protect
 - ◆ 2. minimize emotions
 - ◆ 3. Provide dry powder
 - ◆ (PS-also time to be tactical...)

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#4 Cycles and Reversion to The Mean

- Need to know history
- Markets are Not linear
 - ★ ALSO Economy, credit growth,profit margins and herd emotions ALL CYCLICAL!!
- RTM—cycle from one extreme to another
- Take advantage of this !!!

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Other Cycles

- Presidential Cycle
 - ★ Year 1-4
- Annual Seasonal Cycle
 - ★ "sell in May go away"
- Secular Bull vs Secular Bear
 - ★ Investing differences...
- *"Beating The Market The Easy Way"***
 - ◆ Sy Harding

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#6 Rebalancing

- Is mandatory!
- Forces you to Sell high
- Forces us to Buy Low
- Mandatory BUYING when 20% sale...eg. last 6 months!

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#9 Tactical Times

- 10-25%...depending upon...
- Take advantage of cycles...
 - ★ (Seasonal, Presidential...)
- Especially in Secular Bear Markets
 - ★ Controversial but my thoughts are...

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Secular Bear Markets

- Shorter Cyclical cycles is <5yr
- Longer Secular cycles is >5yr
 - ★ Secular typically 15 yrs
- Sbear- sideways and ++ volatile
 - ★ No gains and steep loses
- MOST-2009 the end of Sbear???
- I don't think so because...
 - ★ Time to tactical...

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#10 Macro is Important

- Big picture very important
 - ★ eg. US vs Cdn dollar 2015
- Allows one to balance risk vs reward
- Helps protect in down markets
- Macro calls for 2016→
- But first a brief review:

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Emotional Intelligence Investing Rules

- 1.Minimize emotions
- 2.Minimize action-reaction
- 3.Biggest challenge is patience
 - ★ You want-need boredom!
- 4.You want AUTO-PILOT system!!
- 5.Encourages buy low & sell high

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#4 Tortoise Macro Call 2016

- A. The Pessimist Viewpoint
- B. The Optimist Viewpoint

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A. The Pessimistic Viewpoint

- 1. Global Grand Experiment(s)
- 2. Commodities Tailspin
- 3. E/R Recession
- 4. Manufacturing Recession
- 5. Global Economic weakness

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A. The Pessimistic Viewpoint

- 6. Currency Wars
- 7. "Cycles As A Guide"
- 8. Global Debt Levels
- 9. Consumer Health-Spending
- 10. Bond Message

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#1 Global Grand Experiments

- Unconventional, experimental!!
 - ◆ 1. US-EU-prolonged ZIRP & QE
 - ◆ 2. Japan-Abenomics 2013
 - ◆ 3. China massive build-concrete...
 - ◆ 4. Negative Interest Rates (NIRP)
 - (evidence of success or failure?)
 - ◆ NOT normal times-Uncharted!
 - ◆ HOW can we predict future??

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#2 Commodity Tailspin

- Oil—supply & demand
- Most other commodities down
- Dr Copper —PhD economics
- CAT- 48 months sales decline...
- World trade plunged...
 - ★ (Recent bottom? Mining shares up)

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#3 Earnings-Revenue Recession

- Last 5 yr---6.9% E gwth S&P 500
- 2003-07---12.9% recovery
- 1995-99---11% r
- ie. earnings have been weak
 - ★ (even with financial engineering)

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#3 Earnings-Revenue Recession

- 3 quarter's negative Earnings gwth
- 4 quarter's negative sales gwth
- JP Morgan report:
 - ◆ Over 115 years
 - ◆ Consecutive ¼ negative earnings...
 - ◆ Recession 81%!!

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#3 Earnings-Revenue Recession

- "Quality" of Earnings very weak:
- 1. Cost cutting++
- 2. Buy backs ++ (debt)
 - ★ ("financial engineering")
- 3. Little Cap Ex spending
- 4. Very weak sales-revenue!
 - ◆ Profit margins now declining++
 - ★ Often seen late cycle

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#4 US Manufacturing Recession

- ISM manufacturing
 - ◆ 4/12 less than 50
- Industrial Production
 - ◆ contracted 3 consecutive months
- US in a recession 55-65%+ of the time
- Service side "ok"...

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#5 Global Economy Weak

- Commodities-Baltic Dry Index
- Global trade down 8.4% 2015!
 - ★ First contraction since 2009
 - ★ CAT sales down 48 months
 - ★ Walmart closing
- World Bank-global growth 2.9%
- 2% is a global recession

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#6 Currency Wars

- All devaluing currency
 - ◆ Except US
- ZIRP-NIRP...
- China big risk

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#7 "Cycles As A Guide"

- 1. Presidential Cycle- Year 8*
- 2. Seasonality Cycle
- 3. Profit Margin Cycle
- 4. Margin "abuse" Cycle*
- 5. January Barometer*
 - ★ (Year 4/8 & negative January...)
- 6. Secular Bear vs Bull...
 - ◆ Howard Marks – "The Most Important Thing"

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#8 Global Debt levels

- Global debt:GDP---->290%
- Debt is deflationary
- 2008—mortgage debt
- 2016—G7 gov, EM, High Yield & margin debt....

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#8 Debt Levels & Cycles

- Ray Dalio
 - ★ long term debt cycle is done
- “Liquidity trap”
- “pushing on a string”
- Velocity of money WEAK
- LOW growth is coming...
 - ★ STOLEN FROM FUTURE!

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#9 Consumer Spending (Financial health)

- Crucial for US economy
- 70 % US economy
- Job growth but weak wage gwth
- Consumer spending weak
 - ★ after auto loans and ObamaCare
- Cheap gas not helping yet?

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#9 Consumer Spending (Financial Health)

- household income from 2006→2015
- 90% still lower!!
- 10% higher—these are top wages
- Voters “saying it ain’t so”...
- Ie. The Trump and Sanders vote!!

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#10 The Bond Message

- Yield Curve flattest since 2007
 - ◆ Not inverted but...
 - ◆ Best indicator of recession
- High Yield market
 - ◆ \$1T to \$2 Trillion last 5 yrs
 - ◆ Spreads now soaring
 - ◆ Measure risk like “VIX”
 - ◆ HY Leads equity...
- Flashing Caution!

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Pessimist- Stolen Future Growth

- ZIRP, NIRP, QE,++ DEBT
- Misallocation of capital
- Created enormous risk taking
 - ★ Impacts all financial assets!!
- Every asset class now expensive
 - ★ prior years focal bubbles
- Borrowed from future...
- Now it’s pay back time...

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Macro Pessimist--- Recession Risk 2016

- Most surveys 15-20%
- Pessimist says 50%+
 - ◆ Recessions markets drop 35%++
 - ◆ No recession—15-20%
- recession q 5 year—last was 7years...
- IMPORTANT call but difficult...

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B. The Macro Optimist Viewpoint

- 1. Jobs numbers strong...
- 2. Auto sales strong...
- 3. Low energy cost- ++consumer...
- 4. Service side ISM strong...
- 5. Interest Rates zero--stimulates
- 6. US insulated from global economy...
- 7. Millennials-huge #'s & housing

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Macro Optimist—NO Recession 2016!

- oil always high...
- Jobless claims very low
- Yield Curve not inverted
- IMPORTANT Call but difficult...

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Recession Call “Rub”

- 95% of the time missed or wrong
- June 2008—6 months into worst recession ever and ZERO Banks-Investment firms had correct call !!!
- And 2016 has NO PRIOR HISTORICAL representation...
- Bottom Line—MUST be invested BUT Tactical & Defensive when appropriate!!

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CONCLUSION 2016

- **Risk FAR outweighs Reward!!**
- 7th year bull...
 - ★ Two 10% corrections in 6 months
- Extremely Uncharted Waters...
- Global economy slowing
 - ★ (recession vs soft landing...)
- US Politics scary 2016...
- Great gains since 2009...
- Time for TORTOISE STRATEGY!!

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Wealthy Tortoise Advise 2016

1. Asset mix crucial
 2. Diversification a must
 - ★ But Low beta over high beta
 3. Focus on dividends!!
 - ★ Sideways market...
 4. Be tactical—“cash substitute”...
 5. Patience—slow and steady
 - ★ Remember Dalbar Study
 6. Buy low-sell high...what is YOUR system??
- ◆ (B Carlson, Sy Harding, Howard Marks)

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Recent Buy Low Strategy:

- 1. Utilities--Fortis, Brookfield Renew, "Altogas"
- 2. Con Staples--PJC, Loblaw's, Saputo
- 3. Commod----Franco Nevada
- 4. Energy---TRP, ENB, IPL, Keyera
- 5. Small Cap—Mawer Global Small
- 6. Global-EdgePoint & Mawer Glob Bal
- 7. Emerging Market-Cap Gp EM
 - ★ (most down 20-30% last 4 mnths...)

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NeuroApproach Investing Strategy

- News letter q two weeks
- Formal report q two months
- All listed on web site

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Wealthy Tortoise Best Guess 2016

- Markets over sold so bounce into April
- But then "sell in May..."
 - ◆ Earnings & R & oil ??
 - ◆ Presidential Election Yr 8...
- "President Trump"?? Volatility++
- Stick to The Plan!! Auto Pilot!!
- Remember RISK vs REWARD...

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