

PATRICK O'BRIEN'S Summer 2017 Client Note



For the clients and friends of
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Dear Friends and Clients:

It is time again for the great Rotary Duck Race supporting the youth groups of Maple Ridge and Pitt Meadows. Up to ten thousand rubber ducks will race for a variety of prizes on August 13 on a classic BC coastal river – the South Alouette in Maple Ridge Park. Born of snow melt and rain, these waterways have a typical appearance – a thick border of shrubs and trees flanking rocky rapids interspersed with quieter pools. Don't let their plasticity fool you: these ducks are fired up and ready to swim when they are released from the starting gate and float to the finish line.

Without careful thought, one would expect many "ties-for-first" as they are all propelled by the same flow. It doesn't happen. The first and the last duck to successfully make it to the finish line are far apart as the river is anything but consistent. Some ducks have to be helped along, caught as they are in plants, stick jams, back eddies, and the like. Sooner or later, we might even lose one to an eagle. In the end, the winning duck will provide a car, or a Mark's shopping spree among other prizes to lucky ticket purchasers. The biggest prize is that another ~\$70,000 from ticket sales will flow into sports equipment, choir tours, playground equipment, etc. for young Canadians.



Wealth Management
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Financial Markets are a bit like the duck race. They are made up of many securities, sectors, countries, political and geographic segments, and thousands of duck participants who are carried along the river of human endeavor, technology, and behaviour. Some parts of this human economy become mired in back eddies or log jams. Other parts scurry ahead for a time, but may get splashed up on the shore. It is all very unpredictable except that our basic needs for heat, light, communications, etc. do not go away.

I often talk about the layers of protection that our portfolios incorporate. I want to be safe as a participant in the markets, the center of the onion in an uncertain world. The first layer dictates holdings only in markets where the rule of law prevails and regulators and analysts can scrutinize company finances and outlooks every three months. The second layer protects us by owning valuable fixed assets such as land, toll bridges, and hydroelectric dams that have value, independent of ownership or managerial expertise. These form the bedrock of the infrastructure that keeps the lights on and the traffic moving in Canada every day. A third protective layer leads to companies that send their customers a monthly bill that will be paid in priority – such as cell phone service and rent. Companies that tick all three of these boxes will prosper even as the world becomes stranger than fiction with the news every day. The duck race is only about 300 meters long and so any duck can win. Our investment horizons can stretch over many years, multiple generations, and even longer in the case of the charitable foundations I manage. Since we are talking more about a long race, steady speed with layers of protection against unknown river conditions ahead is the strategy in our portfolio duck race.

I wish you all a great summer!

Regards,

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