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OBJECTIVE Empower Clients to become confident investors.

SOLUTION Close the knowledge gap between advisors and clients

Imagine you had to invest in a company, and you couldn't sell your shares for the next 15 to 20 years. How would you adapt your approach? How would your perception of investing change if you were asked to articulate why you selected your investments in the first place? Becoming a better investor requires a bit of work – but it can certainly be done. In fact, we believe all it takes is an understanding of three key rules.

1. **Develop a solid investment framework**
2. **Control your emotions in times of uncertainty**
3. **Look into high-quality public & private investments**

INVESTMENT FRAMEWORK

Let's begin by building a foundation based on a strong set of principles, which we will call your investment framework. We will accomplish this by examining how the most astute and successful investors have built their wealth – let's call them our role models of wealth creation.

As our team studied these individuals, we determined there is a common set of principles that underpins their investment approaches. While we could simply tell you what they are, we would rather take the time to explain them in-depth to better illustrate their true value.

To start, take a moment and think of someone you know who has amassed a significant degree of personal wealth. When selecting this individual, there are only 3 rules:

- They cannot have won their wealth.
- They cannot have married into their wealth.
- They cannot have inherited their wealth.

Now that you have that person firmly planted in your mind, let's test our principles.

First, the person you're thinking of likely created their wealth by owning a few high-quality businesses – right? Secondly, they probably had a thorough understanding of said businesses. In fact, most people would call them an expert. Thirdly, the businesses in question are probably domiciled in one or more long-term growth industries. The person you're thinking of was also likely using other people's money prudently. Lastly, chances are that this person took a minimum of 10 years to build their wealth.

So, how accurate were our assumptions? You can try this exercise again with another individual, and another, and another. The results will not change, because these principles describe the way in which real wealth is created. Therefore, they must make up the foundation of your investment framework.

Lets take some time to explore these principles in-depth, then discuss some actionable takeaways to make you a better investor in the long term.

Our investment framework

- → Own a few high-quality businesses
- → Thoroughly understand these businesses
- → Ensure these businesses are based in long term growth industries
- → Ensure these businesses are excellent allocators of capital
- → Own these businesses long-term

1. Own a few high-quality businesses

There is a belief that in order to be a good investor, you need a portfolio of several hundred stocks. But does that really make sense? Can we really find 100+ business that are all excellent and projected to outperform the market?

This commonly held belief actually isn't true. In fact, when a portfolio exceeds approximately 30 stocks, you are no longer reducing volatility – you're simply diluting performance. Charlie Munger, a masterful investor and Warren Buffett's right-hand man, has been quoted saying the following →

> "A lot of people think that if they have a hundred stocks they're investing more professionally than they are if they have four or five investments where I have a pretty reasonable chance of being right that they're way above average. I think it's much easier to find five than it is to find a hundred. I call diworsification - which I copied from somebody. I'm way more comfortable owning two or three stocks which I think I know something about and where I think I have an advantage."

Diversification is encouraged, but diluting excellent investments with mediocre investments is not the path to success.

2. Thoroughly understand these businesses

"The dog ate my homework!" is no longer an excuse – to be a better investor, you'll have to do some research. At a bare minimum, it's important to understand what the companies you own actually do. You don't need to be an expert, but it's better to invest in a company whose leaders or top executives are experts in their field.

This approach is based on the idea of co-investing with people who have skin in the game. Do the operators have a significant stake in the businesses you own? Have they proven their ability to navigate that company through multiple economic environments? If you can answer these questions about our investments with a resounding "yes," your portfolio will be infinitely better.

As discussed in our first point, a portfolio should have no more than 30 stocks if you want to maximize its performance. However, maintaining a lean portfolio will also help you respect this principle – ask any business owner and they'll tell you it's quite the feat to intimately understand one business, let alone dozens or hundreds!

3. Ensure your investments are based in long-term growth industries

The problem many of us face is trying to predict outcomes over short periods of time. The ability to predict growth from quarter to quarter and year over year tends to be very difficult because of a variety of risk factors.

Such risks are unexpected events that nobody could have predicted. In these situations, rattled investors run to the markets out of fear (which is unfounded in many cases), selling off large amounts of stock with no buyers in sight. The outcome, as you can imagine, is stock prices plummeting until cooler heads emerge to buy the drastically undervalued stock.

How can this be avoided? One of the simplest ways is to stop trying to predict short-term moves and instead focus on long-term secular trends. These secular trends are new ideas or changes in the way we live that will drive an industry forward over the next 5, 10, or 15 years. Some simple examples are biotech, the aging baby boomer population, clean energy, the need to reduce carbon emissions, and an increase in demand for prescription glasses for a generation brought up in front of screens. Spot the trend and invest – don't trade.

4. Ensure the prudent use of leverage

At some point, most companies need to raise capital to propel their product or service to the next level, typically from outside investors. How efficiently they invest and allocate that capital tells us a lot about an entrepreneur, CEO, and board.

These factors are a little more difficult for a layman to identify, but if you're looking to maximize growth, look for companies that are reinvesting a sizeable portion of their profits back into their people, product, or process. You can even try becoming a client of a given company before investing. What does working with them or purchasing from them feel like? Do you want to buy more of their product or service, or have you been disappointed?

5. Own these businesses for the long run

This is incredibly important, and one of the most difficult points to execute. Investing is simple, not easy: Sometimes, we let our emotions get the best of us, and we make hasty decisions because we want to "solve" perceived issues right away. However, the way we feel in the moment has nothing to do with the quality of the underlying businesses.

In fact, since most great companies are changing the way we live and challenging the status quo, people have conflicting outlooks. This lack of consensus leads to long, flat periods where there is no solid conviction regarding the underlying business. To be a successful investor, you need to be able to spot opportunities that not everyone can see, stay the course, and focus on the long term.

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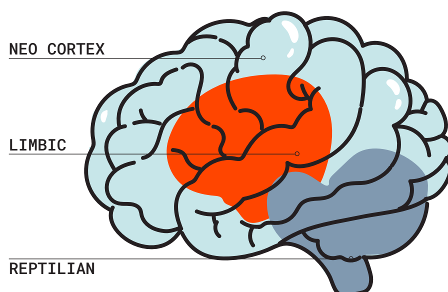
This framework will guide you towards more sustainable decision-making. The ability to articulate and understand why your investments were made will allow you to have better control when selecting stocks, especially in times of market uncertainty.

As we build on the ability to become a savvier and more successful investor, let's discuss how to maintain control over your emotions, and the impact this can have on your portfolio.

CONTROL YOUR EMOTIONS

> "The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger–but recognize the opportunity."



Humans are at a disadvantage when it comes to investing because of our hard-wired "caveman brain," which allowed us to survive in the harsh wilderness for tens of thousands of years. However, one biological process that's less useful outside of the "wild" – and can actually hold us back – is the fight or flight mechanism.

Previously, it acted as protection: when a sabre-toothed tiger started charging towards you, you would instinctively know whether to fight or run. In this case, the answer would clearly be to run. However, in the context of investing, when a market correction (the modern-day sabre-toothed tiger) occurs, we are triggered to run. Sell, sell, sell. But wait – isn't that exactly how we lose money? Selling low and buying high?

What's needed here is perspective and a complete understanding of the situation. That way, the tiger looks less like a threat and more like a steak through Fred Flintstone's eyes: an opportunity.

By controlling our emotions, not only do we avoid selling low, buying high, and eroding our hard earned savings – we are also able to capitalize on incredible opportunities.

Imagine what your portfolio would look like if, during the last three economic crises, you remained faithful to your investment framework in the face of uncertainty – what if you hadn't reacted to market turbulence, but instead, proactively looked for opportunities to buy quality businesses at discounted prices. What would your investment balance be today?

While you can't go back in time, you can recondition your mind to stop, think, and react strategically in the future. Put simply, focus not on the fear, but on the opportunity.

Like any muscle in our bodies, the control we have over our emotions must be built up over time. And the first step is cultivating awareness.

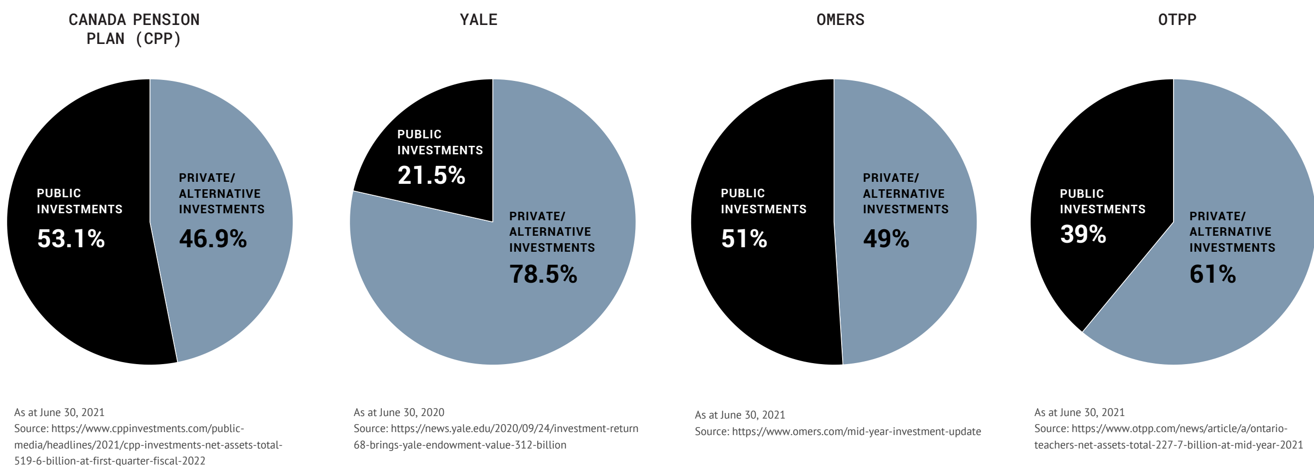
Two key takeaways

→ Having a sound investment framework is key to making sound capital allocation decisions.

→ A reliable investment framework is key to controlling one's emotions. Crisis = Danger + Opportunity.

ACCESS TO QUALITY PUBLIC AND PRIVATE INVESTMENTS

For many retail investors, it comes as a surprise that they are not limited to the public stock or bond markets to grow their wealth. This is a concept that most of Canada's pension funds, endowments, and wealthy families have benefited from over the last 30+ years.



As at June 30, 2021
Source: https://www.cppinvestments.com/public-media/headlines/2021/cpp-investments-net-assets-total-519-6-billion-at-first-quarter-fiscal-2022

As at June 30, 2020
Source: https://news.yale.edu/2020/09/24/investment-return-68-brings-yale-endowment-value-312-billion

As at June 30, 2021
Source: https://www.omers.com/mid-year-investment-update

As at June 30, 2021
Source: https://www.otpp.com/news/article/a/ontario-teachers-net-assets-total-227-7-billion-at-mid-year-2021

Why are they investing this way? What do they know that we don't? The difference is, they have found opportunities for greater stability through diversification, and enjoyed better returns based off of more prudent business valuations. In fact, our next piece – **the 60/40 Portfolio 2.0** – will highlight the benefits of private and alternative investments as bond yields hit a 30-year low.

So, what constitutes a private and alternative investment? These are tailored solutions that meet the needs and risk tolerances of our individual clients based on the follow investment types:

→ Private Equity

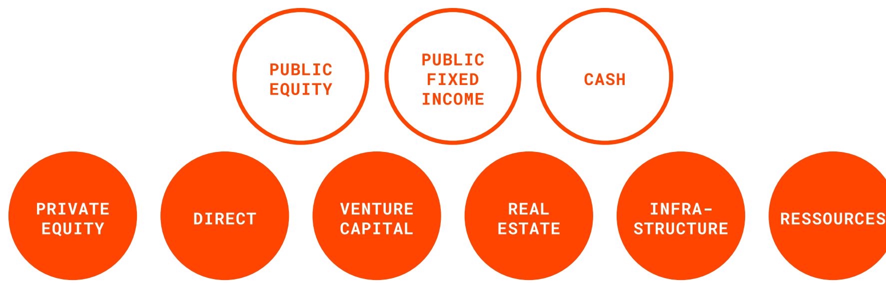
→ Direct Investment

→ Venture Capital

→ Real estate

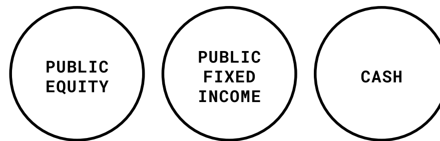
→ Private debt

→ Farmland



Z+S Mandeville approach

Client requirements and needs



Traditional approach

By incorporating these additional asset classes, we can achieve a greater degree of diversification, which should ultimately decrease volatility.

Imagine replacing your current government bond allocation (1.5% yield) with a portfolio of apartment buildings in Ontario that currently yields 7%. That's not even considering the additional appreciation of the underlying real estate (inflation protection).

The result is a higher-yielding portfolio with greater diversification, which is what pension plans have put into effect. How does this type of strategy work for the retail client? Sounds like a great question for your investment management team, and one you should certainly raise during your next review.

We hope that this piece has helped you along your journey to becoming a more informed investor. Moving forward, be sure to keep the following 3 concepts close:

1. Our investment framework for making more calculated and informed investment choices.
2. Our guidance in helping you understand the importance framework has in the control of one's emotions.
3. The Access we can provide to quality private and alternative investment opportunities which can enhance your long-term growth potential.

About Us

Zagari+Simpson is a family wealth management office that provides clients with timely and effective financial guidance to bring their dreams and life goals to fruition.

As a Mandeville Private Client Inc. partner, we offer our clientele broad access to a diversified suite of public and private investment options.

Through rigorous analysis, planning, and the application of individualized financial growth strategies, we will help you leverage present opportunities to build a prosperous future.

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