

ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

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Every Dog Has Its Day, Revisited

At our Annual Address in early 2019, we highlighted seven stocks in the **Odium Brown Model Portfolio**¹ that had performed especially poorly the year before: **Coty, ING Groep NV, Tri Pointe Homes, Weyerhaeuser, Cenovus, Peyto and Colfax (which subsequently changed its name to Enovis and spun out ESAB Corporation).**

Investing is a humbling affair, and it's wise to learn from errors, but that wasn't why we highlighted our dogs that year. Rather, it was to demonstrate that selling poor performers when they are depressed can exacerbate the situation. It's natural to have doubts when investments disappoint. However, doubt can damage a portfolio if it provokes one to sell at an inopportune time.

Patience is a virtue, and in our May 2019 *Odium Brown Report*, "Every Dog Has Its Day," we reported that our seven dogs had produced a total return of 31% for the year through to mid-April, roughly double the return from the S&P/TSX Composite and S&P 500 Indexes, and meaningfully better than the average return of 13% from our top-10 performing stocks in 2018.

While we ultimately moved on from these seven stocks, those "dogs" have continued to run, with an average Canadian dollar total return of 130% from

2018 to mid-March 2024. That's better than the 80% and 122% gains in the respective Canadian and U.S. benchmarks over the same period. The best performer, Tri Pointe Homes, has more than tripled in value. The laggard in the group, Enovis, has appreciated by 65%, which doesn't include the 142% return from ESAB since it was spun out in April 2022.

But poor performers don't always recover. Sometimes a company's competitive position deteriorates beyond repair or industry dynamics take a sustained turn for the worse.

We did add Cenovus back in 2021 and Enovis in 2022. In other cases, we switched to better-performing stocks, while in others, we regret moving on. Hindsight is always 20/20. What matters most is that we learn from our mistakes, and that we have conviction in the businesses we continue to hold.

With that in mind, let's turn to the Model's current holdings and the stocks presently trying our patience. The table below highlights the 10 best and worst performers for the 12 months ended March 15, 2024. Except for a few noted exceptions, we have owned all these stocks over that full period.

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ODLUM BROWN MODEL PORTFOLIO			
One-Year Total Returns (as of March 15, 2024, in Canadian dollars) ¹			
Best-Performing		Worst-Performing	
Vertiv Holdings (VRT)	448%	Albemarle (ALB)	-43%
Apollo Global Management (APO)	93%	Nutrien (NTR)	-25%
General Electric Company (GE)	85%	Saputo (SAP)	-23%
Amazon.com (AMZN)	78%	Brookfield Renewable (BEPC)	-19%
TransDigm Group (TDG)	71%	TELUS (T)	-11%
Constellation Software (CSU)	62%	Granite REIT (GRT.UN)	-11%
Microsoft (MSFT)	56%	Starbucks (SBUX)	-9%
Canadian Natural Resources (CNQ)	49%	Kraft Heinz (KHC)	-7%
Alphabet (GOOG)	45%	CAE Inc. (CAE)	-6%
Brookfield Corporation (BN)	41%	Brookfield Infrastructure (BIP.UN)	-4%

¹ All stocks held for 12 months, except APO (bought in April 2023), BEPC (October 2023) and GE (February 2024).



Contrarian investing has generally not worked well in recent years; it has been more profitable to ride the winners. That might seem intuitive, but it isn't always the case. In the Model's first 10 years, we regularly collected profits from our winners and reinvested them into the losers. This strategy produced a compound annual return of 20% between 1994 and 2005, the best 10-year stretch in the Model's nearly 30-year history.



Before we address the laggards, it's useful to appreciate the general economic context. As of mid-March, the S&P/TSX Composite and S&P 500 were up 16.6% and 31.4%, respectively, from a year ago. Sentiment is buoyant, with investors anticipating a Goldilocks scenario whereby the economy and corporate profits continue to expand, annual inflation recedes to 2% and central banks lower interest rates later this year. Large growth stocks have been the winners in this environment, led by technology firms that are expected to benefit from the revolution in artificial intelligence (AI).

Indeed, our best-performing stock, Vertiv, is riding the AI wave. Vertiv provides critical power and cooling systems for data centres. Over the last 12 months, the stock has returned 448%, considerably more than the 261% gain in Nvidia, the AI darling. Not long ago, Vertiv was in the doghouse. In 2022, shares were down more than 60% from our purchase price after management disclosed that cost inflation was severely depressing margins. They'd made a huge mistake in not including inflation escalators in their customer contracts. Fortunately, we trusted management's claim that they could fix it, and they did.

Our worst-performing stocks fall into three broad categories: (1) capital-intensive businesses with meaningful debt and hefty dividends; (2) consumer-oriented businesses adversely impacted by COVID-19 and associated inflationary pressures; (3) cyclical resource companies.

Shares of Utilities, Communication Services and Pipelines experienced considerable selling pressure as inflation and interest rates increased. Such factors influence these capital-intensive enterprises in three ways. First, their dividends are relatively less attractive compared to bonds. Second, the debt that supports them is more costly in a higher interest rate environment. Third, investors worry that regulators won't let them pass on higher costs to consumers. However, if the economy slows and interest rates decline as we expect, the factors presently weighing on these stocks will become tailwinds. Moreover, we believe these businesses provide an important hedge against recession, a risk that the more popular stocks don't seem to be discounting.

In the consumer space, Kraft Heinz and Saputo are turnaround examples where valuations remain low despite fundamental improvements in the companies. Starbucks is down due to depressed consumer sentiment toward the company, labour issues and exposure to China. While the concerns are valid, we feel they are adequately factored into the share price. Apple is vulnerable to the Chinese market as well, and it is expected to grow its earnings to a much lesser degree than Starbucks over the next three years, yet Apple's stock commands a 50% higher price-to-earnings multiple.

Our two worst-performing stocks are lithium producer Albemarle and fertilizer producer Nutrien. In both cases, we didn't anticipate the meaningful price declines in the underlying commodities. The price of lithium significantly corrected as growth in electric vehicle (EV) demand slowed and lithium supply increased. While we regret not selling more before the share price dropped, we have traded the stock reasonably well. We sold 64% of our position on the way up for a weighted-average gain of 125%, recouping 140% of our initial investment. Our remaining shares are still roughly 50% higher than our purchase price. Longer term, ongoing growth in demand for lithium-powered EVs should propel greater profits and a higher share price.

Regarding Nutrien, we believed sanctions would keep meaningful amounts of Russian fertilizer off the global market. That didn't happen. Consequently, the war-driven surge in fertilizer prices and Nutrien's share price reversed. Nonetheless, we still see a positive cycle ahead; it's just going to take more patience.

It's only natural to want more of the stocks that are rising and fewer laggards, yet our experience has taught us the importance of balance; today's stragglers are often tomorrow's leaders.

Contrarian investing has generally not worked well in recent years; it has been more profitable to ride the winners. That might seem intuitive, but it isn't always the case. In the Model's first 10 years, we regularly collected profits from our winners and reinvested them into the losers. This strategy produced a compound annual return of 20% between 1994 and 2005, the best 10-year stretch in the Model's nearly 30-year history.

Today, with the best businesses well appreciated by investors, we believe it's increasingly important to own less-popular stocks. They provide important diversification and potential for market-beating returns in the long run.



MURRAY LEITH, CFA
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* The Odium Brown Model Portfolio was established on December 15, 1994, with a hypothetical investment of \$250,000. The Model provides a basis with which to measure the quality of our advice. It also facilitates an understanding of how we believe individual security recommendations could be used within the context of a client portfolio. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

COMPOUND ANNUAL RETURNS¹ (Including reinvested dividends, as of March 15, 2024)

	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION ²
Odium Brown Model Portfolio*	8.7%	21.4%	11.8%	11.8%	10.8%	11.2%	14.1%
S&P/TSX Total Return Index	4.9%	16.6%	8.1%	9.6%	7.6%	7.9%	8.5%
S&P 500 Total Return Index (\$CDN)	10.4%	31.4%	13.6%	14.9%	15.1%	10.2%	10.6%

¹ Except for YTD. ² December 15, 1994.

Unlocking Hidden Gems: Maximizing Your Living Benefit Contracts

Imagine you bought a \$100,000 critical illness (CI) insurance policy and tucked the contract pages away with your other estate and health documents. Nine years later, life takes an unexpected turn as you are diagnosed with cancer. In the midst of processing this news, you reach out to your insurance advisor to submit a claim, seeking the lump-sum payment of \$100,000 guaranteed by your policy. As you grapple with the reality of your diagnosis, the tax-free funds will undoubtedly provide financial relief, helping recover income losses from missing work, covering the cost of prescriptions and providing relief for some of your living costs, such as mortgage payments. But what else does this contract have to offer you?

Living Benefits

Critical illness (CI) insurance provides a lump-sum payment if you are diagnosed with a covered condition, such as cancer, cardiac arrest or stroke.

Disability insurance (DI) replaces monthly income if an accident or illness prevents you from working.

Living benefit policies may offer a number of features and benefits beyond a simple monetary payout, depending on the carrier and product. Let's take a look at some of these potential features:

Access to Virtual Care and Second Medical Opinions

Facing a medical condition can be overwhelming, especially when navigating through a sea of information. Virtual care platforms such as Teladoc Medical Experts provide you with access to board-certified doctors, dermatologists and mental health professionals. They offer a range of services aimed at providing you with confidence in your diagnosis, addressing your medical queries and concerns, assisting in finding a specialist or treatment facility (both in and outside Canada), and guiding you through the health care system with valuable resources.

These services are often available not just to you as the insured or policy owner, but also to your spouse, dependent children, parents and parents-in-law. Teladoc's services include:

- **Expert Medical Opinion:** Access world-renowned specialists who can review your existing diagnosis or treatment plans and offer confirmation or recommend a modified path forward.
- **Personal Health Navigator:** Receive condition-specific information to help you better understand your health.
- **Find a Doctor:** Obtain a list of local specialists who meet your specific criteria.
- **Care Finder:** Get a list of specialists outside of Canada who meet your specific criteria.
- **Ask the Expert:** Receive personalized answers to questions about a medical condition, treatment options or symptoms.
- **Mental Health Navigator:** Receive guidance on a mental health condition that isn't improving or if you are questioning a treatment plan.

Virtual care platforms are typically available 24/7, making it easy for you or your family to get the care you need, when you need it.

Health and Wellness Support

To help you and your family deal with the emotional impact of your condition, services like LifeWorks provide access to professional counselling, family support services, financial and legal consultation, registered dietitians, and resources for health and wellness. They offer a holistic approach to providing support, ensuring that individuals have the resources they need to cope with their illness. Additionally, they can help you maintain a sense of normalcy and routine during a challenging time, as they offer practical advice and resources for managing daily life. For one year after the diagnosis of a covered critical illness, you and your primary caregiver have access to these resources.

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GREATER VANCOUVER
BOARD OF TRADE

Governors' Gala and
Rix Awards
April 22, 2024
Vancouver, BC

Last year, we were thrilled to share that Odium Brown is the recipient of the 2024 Rix Award for Engaged Corporate Citizenship, presented by the Greater Vancouver Board of Trade. On April 22, we are proud to be a Gold Sponsor of the 36th annual Governors' Gala and Rix Awards, at which the award will be presented, along with the 2024 Rix Award for Engaged Community Citizenship to recipients Arran and Ratana Stephens.

We are very proud to receive this award, which honours our ongoing commitment to making a meaningful and lasting difference in the communities where our clients and team members live and work.

To learn more about the Governors' Gala and Rix Awards, please visit boardoftrade.com.

Remote Health Monitoring Services

Providers like Cloud DX offer remote patient monitoring services that become available to clients who have filed a critical illness claim. This innovative technology allows individuals to track their health metrics from the comfort of their own homes, providing real-time data to both the individual and their health care providers, by continuously monitoring vital signs such as blood pressure, heart rate and other key indicators. This service is not only convenient but also offers peace of mind to clients, knowing that their health is being monitored closely, especially during challenging times.

Having access to this type of program within your insurance contract as a benefit offers a multitude of advantages. First, it provides continuous monitoring and support for your health. You won't have to take additional time off from work to go to doctor's appointments to run these tests as they can be done in the comfort of your own home (or in your office). This proactive approach to health care allows you to monitor and address health concerns immediately and to prevent other potential health problems, ultimately leading to better health outcomes. Additionally, these services promote a sense of empowerment and control over one's health, as individuals can actively engage in their health care journey by monitoring their progress and making informed decisions.

Access to Specialists with Medical Confidence™

Programs such as Medical Confidence™ provide you with the necessary information to understand your diagnosis and ensure access to proper care and treatment within a suitable timeframe. They include timely access to care and access to the right physician specialists, which can lead to more accurate diagnoses and shortened recovery times. This service provides one-on-one support from a registered nurse, plus:

- Identifies 2–3 specialists with the right skills and availability from a network of over 5,500 Canadian physicians in more than 800 areas of sub-specialization;
- Helps secure the first available appointment and provides guidance to prepare for it; and
- Co-ordinates with primary care practitioners.

To understand what your insurance policy can do for you, or to learn more about the insurance products available, please contact us through your Odium Brown Investment Advisor or Portfolio Manager.



ERYN DENROCHE, CLU®, CFP®
Associate Estate and Insurance Planner
Odium Brown Financial Services Limited

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The Odium Brown Forum Pitch Finale April 25, 2024, Vancouver, BC

THE Forum

Odium Brown is the proud Title Sponsor of The Odium Brown Forum Pitch Program, including The Odium Brown Forum Pitch Finale on April 25. Odium Brown has been supporting The Forum and its incredible industry-leading educational and mentorship programs for self-identifying women, trans-femme and non-binary entrepreneurs since its inception 22 years ago.

At The Odium Brown Forum Pitch Finale, we'll watch some of Canada's most promising entrepreneurs pitch their business visions and cheer them on as they walk away with \$90,000 in the different forms of capital needed to accomplish their goals.

For more information on this event and The Forum's important work, visit theforum.ca.

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