FALL 2012

INVESTMENT OUTLOOK

Celebrating 30 Years of Leith Wheeler

We have learned a lot through 30 years of market ups and downs. The first lesson was not to launch an investment firm in the middle of a bear market like that of 1982! But we did. Thankfully with conviction, a strong belief in how clients' investments were best managed and a core group of founding clients, we persevered.

Over the years, many of our views were recorded in 120 quarterly newsletters to clients. While I can't say that all our views were right, these newsletters are a treasure trove of thoughtful analysis and commentary over many market cycles and events, as seen through the lenses of our analysts and portfolio managers.

So let's take a look back at 4 lessons learned. Perhaps these gems can help get us through the next 30 years.

1. History is a Guide

"History doesn't repeat itself, but it does rhyme."
Mark Twain

Nobody rings a bell at the bottom of the market and it is difficult to know if the market is recovering. What can help is to heed the advice we gave in the 1990's newsletter ***Are We There Yet*** when we said "...stock markets can turn up without good corporate earnings. So it is not only possible but is usually the case that we see the bottom in stocks well ahead of the end of a recession."

Download previous newsletters, and read some of Our Ideas online at:

LeithWheeler.com

Human emotions also play a big part in bear markets. As we commented in 2001, after traders on the New York Stock Exchange booed when the Federal Reserve Board cut rates 0.5% instead of the expected 0.75%, "With the history of rate cuts being so beneficial to the stock market you would wonder how the traders could be such ingrates!" In 2002's ***Was That the Bottom?*** we noted that "Psychology will improve and apprehension will fade as the market rises!" and that "... bear markets end long before there is any 'logical' reason to explain why this should happen." Lastly, our advice from the last bear market in 2009 is worth repeating: "While we cannot forecast the timing of a market recovery, we can forecast that there will be a recovery and that the upswing will be met with skepticism."

We feel that disruptions serve to create opportunities by allowing patient investors to purchase excellent companies at discount prices. Above all, investors should adopt a long -term perspective to get them through the journey that lies ahead.

2. Culture Counts

While markets have gone up and down and Leith Wheeler has grown, the one thing that hasn't changed is the importance of culture. We believe that one of the hallmarks of a strong culture is the ability to support candour and debate in a team-based environment. One of our founders, Bill Wheeler, pointed out in 2007's ***25 Years: A Personal Retrospective*** that while our values haven't changed, new people do bring "new ideas and new approaches" that lead to improvements.

As we have highlighted in various newsletters, our culture is intertwined with our belief in employee ownership and independence. We believe this provides alignment between the interests of our clients and Leith Wheeler by allowing us to control the growth in our assets, to attract and retain the best people for the stewardship of clients' assets, to build portfolios that look very different from the market in order to add value, to invest alongside our clients and to take a longer term perspective.

When I talk to CEO's in other businesses about controlling our growth, they often look puzzled and ask why we wouldn't maximize the amount of assets under management to maximize profits. While it seems like a crazy business decision, as we mentioned in 2007's ***Applying the Brakes*** we are a "company, owned by its employees and founders, and we can take a long term view." We continue to believe it is vital to have enough investment opportunities to provide added value and better risk control than passive investments such as ETF's (Exchange Traded Funds). Since 2006 we have restricted the growth of our Canadian equities under management, and as a result, have turned away a lot of institutional business.

Our culture helps us adhere to one of the biggest lessons we have learned: time is an important part of investing. As we wrote in 2000's ***Value Investing in a ".com" World*** "it is tough to stick to one's value investing discipline when you have 'substantially' underperformed the major indexes." Without a strong culture and well defined values, we wouldn't have been able to keep "maintaining strong investment disciplines, and refusing any temptation to participate in what we view as the mania aspects of the market" that was, not owning the ".com darlings".

3. Stand Up For Your Rights

As owners of businesses on behalf of our clients, we have always stood up for shareholder rights and good corporate governance. We study management and how they run their business and, when needed, take action. By focusing on shareholder rights we take care of our clients' interests. In our 2003's ***Shareholders Take Up Arms!*** we highlighted a number of issues that we were taking a stand on. We asked our clients to imagine that "...a dictator stands for re-election on a ballot that contains only his name. He (are there any female dictators?) gets re-elected with 100% of the vote. Thank goodness, you say, that doesn't happen here. But it does. Why is this different from the election of the officers and directors for most corporations?" We also mentioned how we have voted against the reappointment of directors that did not attend at least 75% of their meetings, auditors that were also doing consulting work for the business, we have voted for proposals to separate the role of CEO and Chairman and to have the CEO and CFO personally certify the accuracy of the company's financial statements. We revisited this area in 2005's ***Corporate Governance: the Good, the Bad, and the Ugly*** as we were shocked that some companies still passed resolutions at Annual General Meetings through a show of hands, arguing that legislation was required to have all voting done by proxy ballot, with full disclosure of the voting results. Over time, we have developed voting policies to protect and advance the interests of shareholders. While rules and regulations help, our advice back then still stands: "Our first line of defense is to avoid companies where the Board and Management don't 'get it' and run the company in management's interest."

4. Don't Lose Your Patience, Stay Disciplined

It is difficult to time the markets, despite the fact we are inundated with forecasts from economists and reams of information. In 2009's ***The Unexpected Will Happen*** we wrote that "Our approach is to build diversified portfolios comprising strong companies that can weather economic storms, that are acquired at sensible prices and that give our clients exposure to long term economic growth. There is no evidence that portfolio results can, over the long term, be enhanced by market timing." We added "... managers don't live long enough to experience a statistically significant number of market swings required to prove proficiency. On the other hand, stock selection skills can be confirmed statistically because there are many stocks and many decisions in a portfolio. Leith Wheeler has proven selection skills and that is the hand we play."

That doesn't mean we should ignore the big picture, as it helps inform our views on the likelihood of various economic scenarios, market risks and what that might mean for long run returns. In early 2011's ***We'll Get By With a Little Help From Our Feds*** we referred to some terrific economic research (footnote) on severe financial crises that concluded "The good news is that economies do recover; the bad news is that most of the time they take 10 years or more!" For further direction, it is helpful to look at overall market valuations. In 2012's ***A look At the Next Decade of Investing*** we examined the returns

Contributor:
David Schaffner
President, CEO

Editor:
Andrew Hoffman
Vice President,
Portfolio Manager

of the S&P 500 index over 10 year periods based on the level of its fundamental price (using a price to earnings ratio) at the beginning of the period. History shows a negative correlation, or that the lower the price, the higher the subsequent return. That 2012 issue also summed up our view on how to weather tough times that are difficult to forecast: "In the coming decade, investors need to accept the reality that disruptive events will occur and not to lose their patience or investment discipline. We feel that disruptions serve to create opportunities by allowing patient investors to purchase excellent companies at discount prices. Above all, investors should adopt a long-term perspective to get them through the journey that lies ahead."

Life beyond 30

Managing to survive infancy and some awkward adolescent years, we have reached 30. Over the years, many lessons have been learned and many more will be learned over the next 30. We will continue to share the views of our analysts and portfolio managers in our newsletters, blogs and client meetings. We are grateful to each and every Leith Wheeler client. Without your patronage and belief in us, there would be no birthdays to celebrate.

Leith Wheeler
INVESTMENT COUNSEL LTD.
Well Into the Future

1500 — 400 Burrard Street
Vancouver, BC V6C 3A6
Phone 604.683.3391

Toll Free 1.888.292.1122

570 — 1100 1st St. SE
Calgary, AB T2G 1B1
Phone 403.648.4846

LeithWheeler.com

Celebrating 30 YEARS