Leith Wheeler
INVESTMENT COUNSEL LTD.

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FALL 2014

INVESTMENT OUTLOOK

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

-Warren Buffett

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Thoughts on a Market Correction

Everyone knows that the stock market does not always go up.

But when the world news is full of pessimistic headlines, the stock market is dropping, and you see your investment portfolio falling in value, it is hard not to be rattled.

The following thoughts are meant to give perspective in uncertain times.

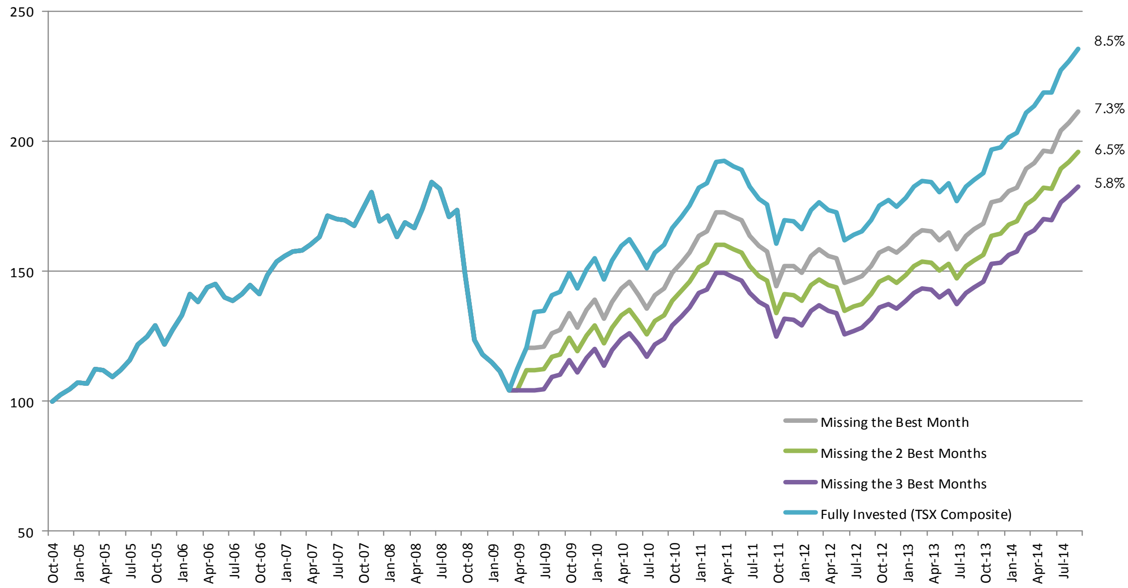
Time in the Market vs Timing the Market

The great recession of 2008 taught investors many valuable lessons; one of the best was the impossible task of predicting the bottom of the market. Declining equity markets have a habit of grabbing headlines and tugging on investor emotions at the worst possible times. In these periods we hear questions from investors related to moving some, if not all, of their portfolio to cash to avoid further declines.

Using the 2008 recession as an example, we remind investors that moving to cash and out of the market in that period would have had a profound negative impact on their long-term returns. When it comes to market timing, investors would have to get the point of the sell and subsequent decision to re-enter the market right in order to outperform. If you are lucky, you may get one those investment decisions right but typically not both.

When stepping out of the markets, an investor risks missing out on the gains when they happen. Markets are unpredictable at the best of times and typically recover quickly and strongly. The following chart shows the impact of missing the best one, two and three month returns of the past decade, in the Canadian market, versus staying invested for the entire period.

Timing the Market
Missing the Best Months Performance Sept 2004 to Sept 2014



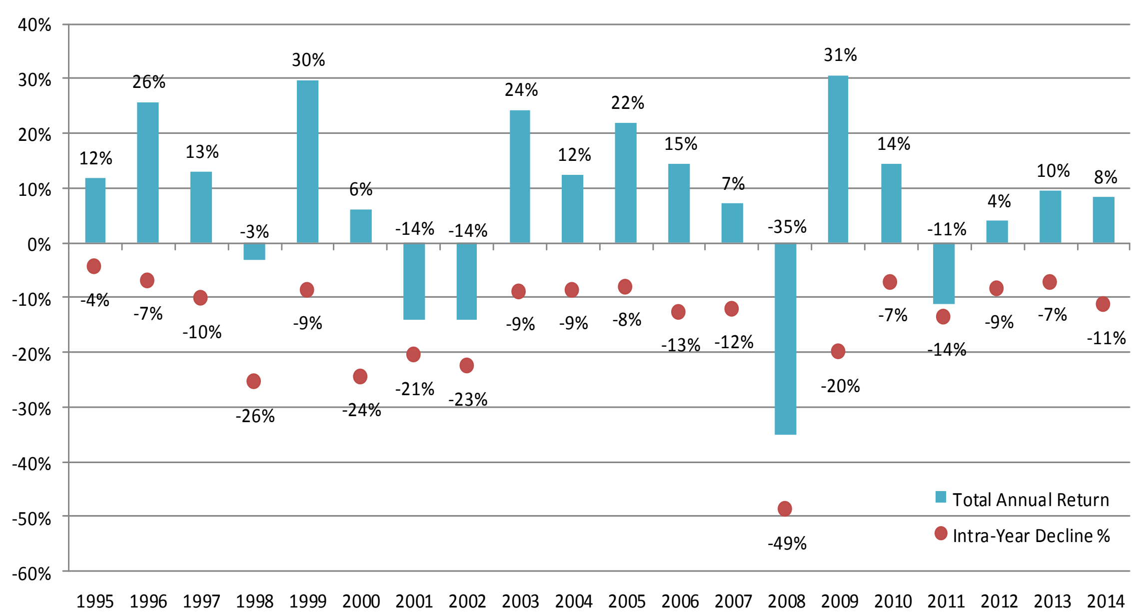
Source: Bloomberg

Stock Market Corrections are Normal

Even though each new stock market correction feels like the first one, it's important to remember that volatility is a normal part of any investment cycle.

The chart below shows the calendar year returns of the S&P/TSX Composite Total Return Index. Also indicated is the intra-year decline. In the last 20 years, the TSX has been negative five times. Of the 15 years of positive calendar returns, each year had an intra-year correction ranging from -4% to -24%.

TSX Composite Intra-Year Declines vs. Calendar Year Returns



Source: Factset
2014 data is YTD to November 11

Review Your Investment Policy Statement

Be sure that your investment objectives, asset allocation and risk tolerance make sense for a long-term investment plan when you first write the Investment Policy Statement (IPS). That way when the market is dropping and you might be influenced more by emotion than logic, revisiting the decisions you made when the IPS was created are reminders to stay invested for the long-term.

It is easy to believe your risk tolerance is higher than it truly is when stock markets are going up. The sleep check is a good indicator. If the world is full of worry and stock markets are dropping, are you still getting a good night's sleep? If not, it may be time to reconsider your IPS.

Don't Let the Media Create Anxiety or Stress

"Will You *Ever* Be Able to Retire?
With Stocks Plummeting and Corporations in Disarray, Americans' Financial Futures are in Peril"

This was the featured headline in TIME magazine in July 2002.

By July 2002, the S&P 500 had dropped from it's highs in March of 2000 to the lows of July 2002. The publication of this headline article in TIME magazine coincided closely with the bottom in the market.

Today, the proliferation of 24-hour news and social media coverage can be unnerving. If you find yourself feeling anxious remember the following points to maintain your perspective.

July 29, 2002 Time Magazine

Consider the Source of the News

The financial media have a dependable topic that generates "eyeball" traffic …
"what is going to happen in the future?". Unfortunately there is seldom accountability to go along with predictions that are made.

Many "expert" forecasters rely on the one prediction they got correct to give them credibility, but they seldom talk about their misses.

Ask yourself what is the motivation of "experts" that appear in the media. Often they're promoting a newsletter or their company. Why would someone who truly has an edge, some relevant but underappreciated information, want to altruistically make it public?

Many of these headline grabbing articles are interesting … but truly just noise. It is important to distinguish between what is interesting and what is relevant. Follow the maxim by Don Coxe "Never invest on the basis of a story on Page One—that is the efficient market. Invest on the basis of a story on Page Sixteen, that is headed on its way to Page One."

Don't Fall into the Trap of Confirmation Bias

Confirmation bias occurs when news you read, or hear confirms what you already believe. Any contradictory opinion is dismissed as not pertinent or relevant.

Leith Wheeler Investment Counsel Ltd. ("Leith Wheeler") is an employee owned firm providing portfolio management services for individuals, pensions and foundations.

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Consider reading the "Classics"

The following books and articles provide truthful, time tested, advice for value investors.

- Berkshire Hathaway Annual Reports - www.berkshirehathaway.com
- *One Up on Wall Street* by Peter Lynch, Penguin Books, 1989
- *The Only Three Questions that Count* by Kenneth Fisher, John Wiley & Sons, Inc., 2007
- *The Intelligent Investor* by Benjamin Graham, Harper & Brothers, 1949

Own a Portfolio of Great Stocks and not the Stock Market

We believe holding a diversified portfolio of stocks trading at attractive valuations is one of the best defences against market declines. As a bottom-up value-oriented stock picker our view is that regardless of the economic climate we are in, there are always great companies to own and buy. They may have a temporary cloud over their business, often unwarranted in a market downturn, that makes them attractive relative to their long term valuation. We also seek out companies that have a distinct competitive advantage that allows them to maintain their pricing power through all market cycles. This allows them to continually throw off great cash flow either for reinvestment into the business or to shareholders. We also believe time is the best friend of a great business and we tend to buy companies earlier than other managers and hold them longer to allow for events to unfold.

Volatility and market corrections have historically presented us with opportunities to buy companies that meet all of our investment criteria but never traded, in our view, at an attractive price. To beat the market you need to look and think differently than the market. By owning a portfolio of great stocks bought at the right price investors can have that ability.

Markets will always move up or down and are unpredictable in the short term. Investing in an asset mix that is appropriate for your objectives, through all markets, is the approach we recommend you stick with. We are not suggesting doing nothing during market corrections – quite the contrary - volatile markets represent great opportunities for us to buy great companies when others are selling them. Above all, stick to the classic reads, have a thorough understanding of your risk or sleep tolerance, ignore the headline noise and stay the course. Market corrections are opportunities!

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