

Dollars & Sense

Investments need stories by Briar Foster

Investment has become one of the largest industries of the Canadian economy. Every financial institution has a stunning array of investment products to offer. Investment advisors dominate the financial service industries, while loan officers and mortgage brokers have been relegated to the support group. At posh social gatherings, money is no longer an unacceptable topic when ladies are present. All print, electronic and social media provide a steady flow of investment advice.

Giving investment advice is easy only when the advisor doesn't know the circumstances of the recipient. On the other hand, taking investment advice is, or should always be, difficult. What makes this guy such an expert, you might ask. Or how much is he being paid to push this stuff? What part of the story is being left out? I wonder if he would show me his portfolio. Who can I ask to vet this idea?

Every investment idea has a story that makes it at least a little bit special. Often the story is true. Sometimes not. Recently I talked to a commodities specialist who, without being asked, told me he had 30 percent of his portfolio in silver. One of his reasons given for the plunge was that silver had an historic price relationship with gold; that for many years, 15 ounces of silver would buy an ounce of gold. In his opinion, conditions were right for a return of that ratio. With gold at \$1,350 and silver at \$20, silver will need to increase to \$90 for 15 ounces to buy an ounce of gold.

True enough, the price ratio of gold to silver was 15 in the late 1800s. It was decreed by governments because gold and silver were used as currencies; a turn of events unlikely to happen again any time soon. In the mid-20th century, the U.S. government decreed that silver was \$.90 and gold was \$35 an ounce, a ratio of 38. There is much to be said for owning silver for its growing demand

in the electronics industry, but not for any mystical connection to the price of gold. (For the ultra-cautious, physical gold is possibly the most secure way to store wealth, because a gold bar can't be hacked into.)

When looking at investments, you need to find the story.

Apple Inc.: Plenty of cash and cash flow for investment and dividends with one of the elite "brands" on the planet. Bound to attract the best startups. Warren Buffett is a significant shareholder. Growth will be slow because the asset base is too big.

Hudson Bay Company: Gradually upgrading its Canadian stores, but the extra value is in their real estate holdings. The net value of the real estate is at least double the present stock price of \$15.60. The company has one of the best retail management teams in North America, but the outlook for retail is soft.

Bombardier, Inc.: The story has shifted from Quebec to Ottawa and become more complicated. The company used to be heralded as a Quebec success story when the shares traded above \$25, but a steady stream of business misadventures over many years has brought the shares down to less than \$2. The Beaudoin family controls the company through ownership of special voting shares. At the moment, the management is concentrated on production of the C Series aircraft. They have orders for over 300 planes and claim they need additional working capital to produce them in a timely manner.

Given management's reputation for ineptitude and unwillingness to give up voting control, institutional investors are shy about supporting yet another financing. So with the Quebec government at its side, the company approached the federal government for \$1 billion, matching the \$1 billion Quebec had already invested directly in the C Series subsidiary. Ottawa faces a monumental political dilemma. On the one hand,

supporting a Quebec manufacturer trying to expand their business is good politics and good for the economy.

On the other hand, Bombardier's lack of financial success does not inspire confidence. Their convoluted share and debt structure cry out for a total reorganization prior to any future financing. Of course, an "investment" in a Quebec company puts pressure on Ottawa to quickly approve at least some of the pipeline proposals from western Canada. Furthermore, given Bombardier's inability to deliver streetcars to the TTC on time increases the chances that the billion dollar "investment" might be a billion dollar embarrassment in the 2019 election campaign.

On questions of corporate handouts, the federal cabinet and their advisors really earn their pay: endless meetings listening to the economic pros and cons and weighing their political effects - on the one hand this, on the other hand that- have no doubt caused much sleep deprivation. As an aside, Harry S. Truman, in one of his campaigns for re-election, was organizing a swing through the farm belt where there was much demand for family relief as well as price support for crops. In desperation, he asked his assistant if there were any one-armed economists available for him to take with him.

Investment stories are important. They can give comfort, like knowing just enough about your neighbours. Along with the financial numbers, the stories create loyalty while the investment performs well and provide guidance when the company or the economy hits a speed bump. Most of all, investment stories are a good way to keep in touch with the world beyond our living rooms.

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