Making Money Work with a Hook in the Water

Did you know Mike worked as a fishing guide when he was young? Find out how his love of the sport transcends to Hillside's work today.

As you know, fishing is one of my passions. I love it but understand that fishing is not for everyone; however, I do believe that everyone can learn very valuable life lessons from it. One of my favorite sayings is: "you can't catch a fish without a hook in the water." The analogy works for finding a life partner or job, growing a business and much more. The link to investing is obvious: you aren't going to make any money unless you put your money to work.

I was recently invited on a Sturgeon fishing adventure with a great group. I started chatting with one of the fishing partners, whom I had never met before, and he asked me what I did for work. After I told him that I was a Portfolio Manager, this exchange occurred:

> Fishing Buddy: "I'm with [so and so] and I'm getting double digit returns in my RRSPs – I can't complain about that, can I?."
>
> Me: "That's great. How are you getting those returns? What do you own?"
>
> Fishing Buddy: "I have no idea, ***I don't care either***."

I found this response very interesting, and ***I wondered that if things weren't going so well – would he start to care then?***

By the way, this gentleman was a pleasure to be around; smart and professionally successful, certainly not foolish. In fact, I'm sure many Canadians would respond to my questions in the same way. When everything is going up; stocks, bonds, gold, real estate (global – not local) like it has so far in 2019, people become complacent. People tend not to ask the tough questions when times are good, which is a mistake. By the time they've realized they have a lot of unanswered questions, it's generally too late; the damage has been done.

One of our commitments is to ***Recognize and Honour our Responsibilities***, and we're thrilled to have the responsibility of leading you and yours into the financial future. By no means do you need to become an expert in the world of finance, that's why you have us.

Think of us as your fishing guides; and, although fishing may not be a favourite hobby, you've decided to join us for a fishing trip! What can we do as guides to make your trip as fruitful and enjoyable as possible? Knowing what to expect is a great place to start. Here are the three distinguishing characteristics of our portfolio management strategy and what to expect as a result of these differences:

1. There are over 13,000 publicly traded companies in North America. We own ~20 (give or take) which means we can't expect to look like the markets (nor do we want to) or most other portfolios. If we don't look like the markets, then we can't expect to perform like them. This is key to understanding why your monthly statement may not coincide with what you're hearing on the news. We could be up when the market is down (August 2019 for example) or down when the market is up (October 2019).

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2. We will sell 50% of a position if the price of the position drops below a price level that we've drawn in the sand and 100% if it drops below the second level. These prices are generally meaningfully lower than the current price of the security. This means that the price of a security could drop 10%, 20% or even 30% or more before a stop price is triggered. The takeaway here is that your portfolio could drop in value on any given month without us having sold anything.

3. We will only own companies that consistently produce more profits for shareholders than the average company. Companies report their results 4 times/year; there are a lot of days in between reports where the stock price will change regardless of how the company is operating. All we do know is that if the company continues to perform well, the stock price will eventually take care of itself. It should come as no surprise that our efforts are focused on tracking how well the company is operating and what the likelihood is that they can keep it up. The message here is simple, we own companies that are operating at the very highest standards, but that doesn't mean their stock prices are immune from short term price fluctuations.

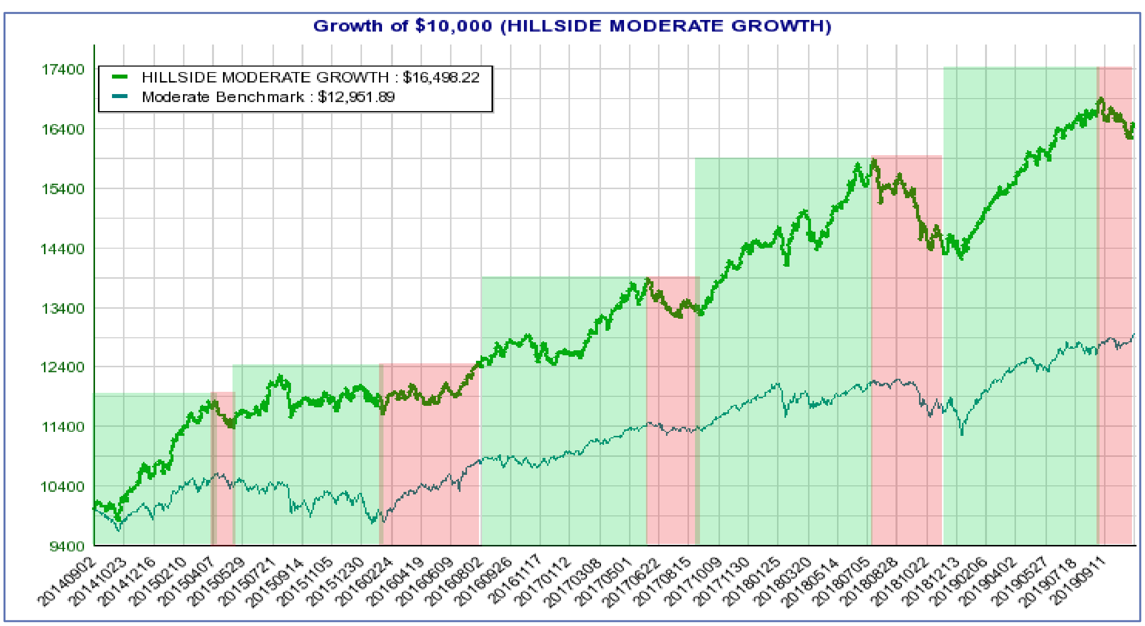
We've never been more optimistic about your and Hillside's future than we are today. Rather than simply tell you we're excited, we want you to understand, just enough, so that you can share the excitement and begin to dream a little (or a lot).

We promise to keep your hooks sharp, take you to our best spots and only use our best lures. Remember to pack your rain gear-just in case, but never forget your hat (full brimmed is preferred), sunglasses or sunscreen. We're going to make the most of our trip, regardless of the weather.

Portfolio Update

Jason describes why we do not "Hug the Index" and why investments should never be in a product that looks like an index but still charges active fees.

October saw a continuation of a trend in underperformance which began most recently for us in September 2019. The chart below is one we've seen before that highlights periods of outperformance (green) and periods of underperformance (red). We stress 'most recently' because as the chart below illustrates, this has happened no fewer than 4 times prior and we can assure you this will happen again.



Source: SIACharts.com & **Hillside Wealth**

We are certain of the following:

1) The nature of capitalism has not changed. If we continue to focus on our process of identifying companies that possess above average financial metrics, we will more likely be rewarded; maybe not today or tomorrow but over time.

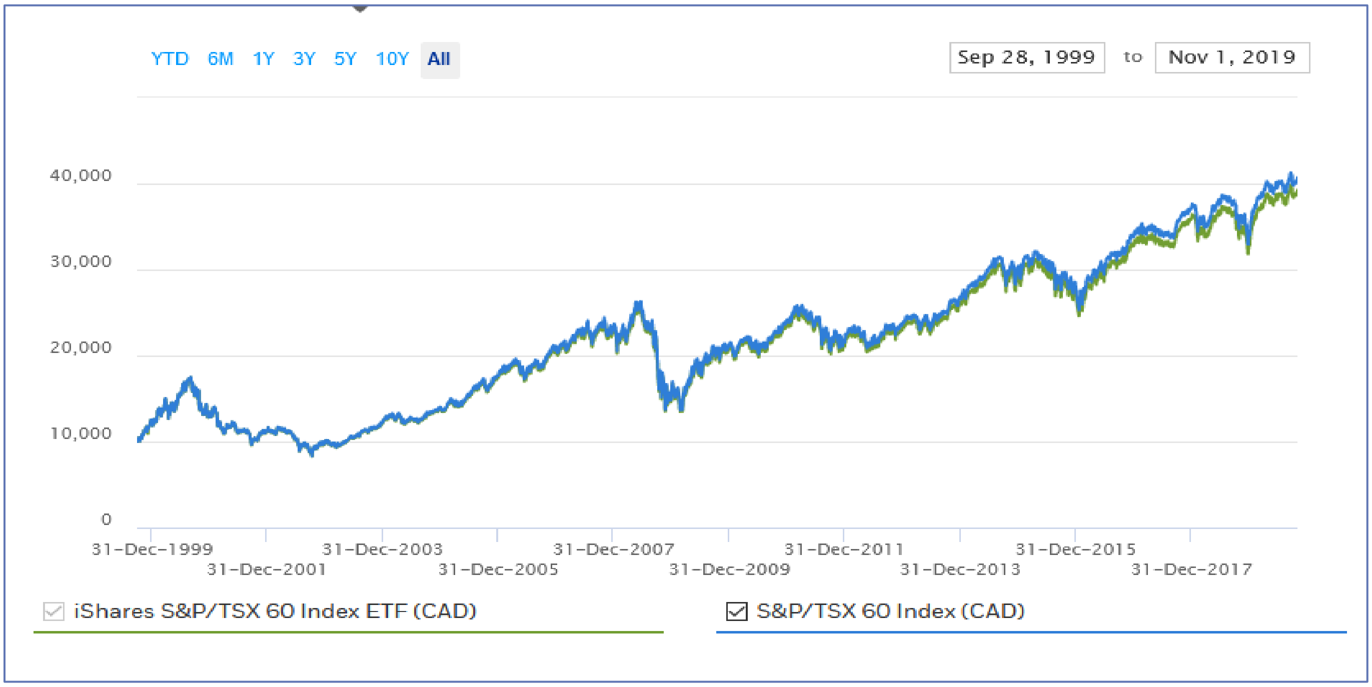
2) By not looking like the markets (benchmarks) we will go through periods when our basket of holdings outperforms our benchmark (noted in green zones above) which, by definition, also means we will go through periods when our basket of holdings underperforms (red zones). We cannot have the green without the red.

3) In the short term, when you invest (end of green period or the likes) matters. In the long term, the starting point becomes less and less important.

We do not know the following:

1) The length of these periods (green/red) is unknown. Some of the periods are weeks in length (April-May 2015) while others (Sept 2016-June 2017) span months. Fortunately for us, the longer periods have tended to be green while the shorter red.

At the risk of stating the obvious, the only way to avoid the green/red experience is to hug an index. That experience looks like the following:



Source: www.blackrock.com

It's very difficult to see but there are two signals in the chart above. The green line is the index fund and blue line is the index the index fund seeks to replicate. No periods of outperformance and no periods of underperformance. In our minds, the question that we, as clients and portfolio managers, want to ask ourselves is: are we being compensated by employing an active approach and not looking like our benchmark/index/market? Since 2014, our Moderate Growth portfolio is up 65% gross of fees (55% net of 1.5% avg fee) while our benchmark is up 29% over the same period. Our process has nearly doubled the return of a passive index hugging process. In dollar terms, this is an extra $29,000 per $100,000 invested.

One of our commitments at **Hillside Wealth** is to recognize and honour responsibilities. In our minds, the worst thing an investor can do is be in a product or strategy that looks like an index or benchmark but charges active investing fees. Friends don't let friends own expensive index funds! We know none of our clients, their family or friends (!) own expensive index hugging funds, but there is over 1 trillion dollars invested this way in Canada!

Index-like performance that goes up and down in concert with an index can be achieved through index products like Vanguard or Blackrock at a fraction of the cost, and are appropriate for investors who have expectations and objectives that are aligned with that level of advice and performance. For us at **Hillside Wealth**, we place a great deal of value in helping you, a real person with real dreams, formulate meaningful dreams and we get great joy from working with you to realize those big dreams! We believe that we are far more likely to help you accomplish your most meaningful goals if we charge fairly for what we do, proactively manage your portfolio, and do our very best to deliver above average performance net of fees. Let it be known that, at **Hillside Wealth**, we hug dreams, not indices!

October Performance Results

An overview of our three portfolios to date.

Performance to October 31, 2019	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception**	Added Value vs. Benchmark **
HILLSIDE MODERATE GROWTH*	**13.21%**	**-0.65%**	**3.15%**	**13.31%**	**8.37%**	**9.86%**	**10.14%**	**+5.07%**
MG Benchmark[1]	*12.31%*	*0.55%*	*2.79%*	*10.56%*	*6.12%*	*5.4%*	*5.07%*	
HILLSIDE GROWTH*	**15.41%**	**-1.02%**	**0.74%**	**8.5%**	**6.16%**	**7.96%**	**8.89%**	**+2.5%**
HG Benchmark[2]	*16.8%*	*1.31%*	*0.98%*	*11.32%*	*8.94%*	*7.1%*	*6.39%*	
HILLSIDE INCOME & GROWTH*	**12.22%**	**-0.3%**	**0.75%**	**12.36%**	**6.9%**	**7.58%**	**7.88%**	**+3.21%**
IG Benchmark[3]	*11.14%*	*0.45%*	*1.43%*	*10.46%*	*5.29%*	*4.96%*	*4.67%*	

Past performance is not an indication of future returns.
* *Performance is presented gross of fees.*
** *Inception: Sept 2, 2014. Results beyond 1 year are annualized.*
[1] *MG Benchmark: 100% Vanguard Balanced ETF*
[2] *HG Benchmark: 100% Vanguard All-Equity ETF*
[3] *IG Benchmark: 100% Vanguard Conservative ETF*
Source: SIACharts.com

The performance presented in this portfolio report is hypothetical and does not represent a specific client account. Details regarding actual returns of an investment account are available from the client's advisor.

Performance is calculated using month-end market values of the model portfolio. Since we use a model portfolio to calculate performance there are no client-initiated cash flows (deposits/withdrawals) to account for. Performance is calculated by dividing the change in the model portfolio's market value by the model portfolio's market value at the beginning of the performance period. Also, all income generated by the portfolio's holdings are held within the model portfolio in cash and is accounted for in the portfolio's month-end market value - this results in a total return measure of the model's performance.

Returns for periods less than 1 year are shown as periodic returns while returns for periods greater than 1 year are annualized. Returns do not include fees and actual returns experienced by an investor may differ from those shown. Past performance is not a guarantee of future results.