INFORMED INVESTOR NEWSLETTER

September 2022

IN THIS ISSUE

STOP WORRYING AND KEEP DREAMING

Michael Preto, CFP®, CIM®

You worry too much. And by "you", I mean human beings in general.

A study conducted at Cornell University found 85% of what we worry about never actually occurs. Of the 15% which does materialize, 79% of people found they handled these events much better than they anticipated. In other words, of all the things humans worry about, 97% don't even happen or are not as bad we thought.

Even more ridiculous is *spending time worrying about things we can't control*. Humans do this - it's part of evolution - it's the mind's way of making sure we're ready to act so we can survive. The problem is, we don't have the same dangers in our lives today we used to thousands of years ago. No sabre-toothed tiger is going to jump out from under your bed and eat you. Times have changed, but our minds and propensity for worry have not.

Worrying can cause executive function, your high-level thinking and decision-making, to weaken or shut down completely. **This shutdown cannot happen because the decisions you make today will have an impact on your future**. Your future will be made up of retirement and Dreams. Hillside has a commitment to ***protect your future***. In other words, our job is to help you make good decisions today so you can enjoy your retirement and realize your Dreams.

Here's how we're going to stay true to our commitments:

1. Review your retirement planning targets which consist of:
    a. Your target retirement date.
    b. Your target savings rate.
    c. Your target retirement lifestyle.
2. Review your financial situation to make sure:
    a. You have all your long-term money invested in great companies.
    b. You have all your short-term money in cash.
3. Track your Dreampool annually and keep Dreamscaping.

This is the Hillside Difference and by sticking to it you will force yourself to ***protect your future*** and to ***realize your dreams***. All you need to do is stay engaged and show up for your regular reviews- we'll take care of the rest.

HILLSIDE WEALTH MANAGEMENT

iA Private Wealth

HILLSIDE WEALTH MANAGEMENT | FREEDOM | FAMILY | PERFORMANCE

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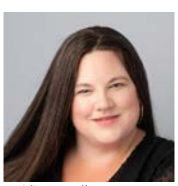

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IF YOU:

Are overdue for a checkup, email us.

Have surplus cash, now's the time to put it to work, email us.

Have dreams you haven't told us about, email us.

Looking forward to seeing you soon,

Mike

PORTFOLIO UPDATE: ZIG WHEN OTHERS ZAG

Jason Del Vicario, CFA

In the past 18 months we have conducted ***dozens*** of management interviews. These meetings last generally 1-hour in length, and involve Steven and myself asking a company's management and/or investment relations personnel questions about their businesses.

If you've ever listened to an analyst call (please only try this if watching paint dry isn't boring enough for you!) you'll know that most of the questions are short term focused, such as "What will your CapEx (capital expenditures) be next quarter?" or "Why did SG&A expense rise 1% this past quarter over last year?"

Steven and I make a point at the beginning of each call to inform the other parties that ***we are long-term focused investors*** looking to learn more about their business with the goal to helping us formulate a framework for what the business might look like in 5, 10, or even 20 years.

We are playing the long game.

We recently had the pleasure of interviewing the founder of a new investment of ours: Kaare Danielsen of Jobindex in Denmark.

Kaare founded this company 26 years ago with infusion of his own capital, and still owns 92% of the outstanding shares. To suggest that Kaare has a large incentive to 'do right' by the shareholders would be an understatement.

Jobindex owns 66% of the online jobs classifieds market share. They have built this dominant position over time but particularly during periods of economic weakness and market turmoil, which makes sense when we think of the Tech Bubble of 2000, 2008's Great Financial Crisis, and most recently the Covid upheaval in March 2020.

On the surface it would seem that Jobindex has a unique competitive advantage: namely they have firsthand information as to the ebbs and flows of the job market. It's not a stretch for us to accept that when job postings plummet (they fell 50% overnight in 2020 in Denmark!) this portends to challenging economic conditions and conversely when job postings pick up (as they did in early 2009) the opposite is true.

Unfortunately (or fortunately for us now that we are shareholders!) this doesn't explain the contrarian behaviour of Jobindex. I questioned management on this subject by asking:

> *We see that Jobindex has been successful zigging while others zag… and on the surface this makes sense given you have intimate information on job posting/hiring data, but we have to assume that job posting/advertising competitors have access to the same information, so why is your behaviour different during these periods?*

Kaare's answer was a thing of beauty and the reason we take the time and care to conduct such calls: he proceeded to explain that he's been an outsider his entire life. His parents and family all work for the government, he's the only one in his family to go out and start a business.

In school, he was interested in computers and coding before his classmates even knew what a computer was. In high school, he developed a chess program that is still being sold today and used the proceeds to fund genesis of Jobindex.

He went on to explain that being different is all he's known and he's comfortable running against the herd. He opined that competitors are short term focused; professional management teams (who don't have stakes in the business) either aren't able to act differently (as they answer to higher ups), can't act differently (purse strings are pulled shut when conditions are challenging) or simply don't care because their current posting is simply a stepping stone to career advancement. So while others were giddy during the good times, Kaare and Jobindex pulled back the reigns earlier than most (think 2007 & March 2020) and began advertising and hiring for the eventual rebound earlier than competitors who were paralyzed by fear and worry (think early 2009 and 2021). Beautiful.

I'd like to extend this example to the Hillside Factory and how we are managing your financial future. Outsized returns and rewards are not available to those who blindly follow the herd and zig when others are zigging. This means we want to be adding to positions or buying new ones when sellers are being forced to sell out of fear or otherwise (margin calls, for example). We want to be trimming or selling when buyers are being forced to buy due to FOMO or the perceived need to run with the herd.

So, this is happening in your portfolios however there is one more piece to the puzzle that can turbo charge your returns and that's you… in conjunction with Mike and Amanda's guidance,

HILLSIDE IN THE NEWS

Jason was recently a guest on BNN's The Open, where he discussed why we like companies run by their founders. Watch HERE.

Tune in to Hillside Wealth's Factor(y) video on Kaspi, developers of a "super-app" and based in Kazakhstan with Hillside's Amanda Baxter, Jason Del Vicario & Steven Chen.

Visit our LinkedIn page for the latest news, videos and articles.

For more information, send us a message at info@hillsidewealth.ca

you make the ultimate decision on when and how much capital to allocate to your investments.

We strongly encourage you to employ a contrarian mindset which we are more than willing to assist in nurturing. I have no idea when this bear market will end but I know based on experience (I've seen 3 major bear markets in my career) that it will end and no one will show up at our doorstep to announce it! My best guess is there is more pain (opportunity!) ahead and for those who can think beyond next quarter or year, this is precisely the time to allocate capital and set oneself up to enhance long-term returns.

Read more about the comprehensive history of Jobindex (use Google Translate) or Kaare's Resume (1981-1996) (note awards earned while he was still in high school from 1980 to 1984).

If you're ready to Zag when everyone else is Zigging, click here to email Mike so we can help you succeed!"

THE HILLSIDE FACTOR(Y) FOCUS: EASY MATH TO SOLVE THE INFLATION PUZZLE

Inflation is here - should you get worried about your portfolio? Well, owners of average businesses may say yes, simply thinking about the profit, which is what's left from sales after all costs are deducted. Prevalent inflation pushes up cost of doing business, and hence, squeezes profit in the end.

To protect our portfolio from cost inflation, we tend to overweight capital-light and labor-light business models. For instance, Singapore-based street snacks outlet operator Snack Empire

ON A PERSONAL NOTE…

As many of our Hillside family know, Amanda is a competitive rider.

For the past two years, Amanda and her friend Christine ride to whistler (for fun!) **<u>and back the same day</u>**.

It is now an annual event for these friends, and although they only (only!) went one way this year, it was an amazing day with personal best times on quite a few segments and for the first time, neither had tire punctures!

employs a franchise model to expand outside of its home market – that is, essentially, using others' capital to open new stores.

Now, take a look at the formula again –

Profit = Sales – Cost

And, you may have noticed that another way to alleviate inflationary pressure could be an increase in sales without a material impact on cost – that is, to sell the same items but sell them at a higher price. Unfortunately, not many businesses can enjoy a strong pricing power, in our opinion. But we capture a few in our portfolio, including Microsoft, which decided to raise the price of its Office products by 15%-20% last year.

Here comes the question – how big of a price increase would be sufficient to fully compensate business owners for lost profit due to cost inflation? The answer may not be as straightforward as you expect. The key factor here is profit margin –

Profit Margin = (Sales – Cost) / Sales

Here is an example. We estimate the average operating (profit) margin for S&P 500 to be around 15%, while Hillside Co. (basically, a hypothetical entity representing the weighted average of companies in our equity portfolio) has an operating margin of over 30%. Let's say both S&P 500 and Hillside Co. have sales of $100 this year; the former would incur a total cost of $85 and generate a profit of $15; the latter a total cost of $70 and a profit of $30. Now, inflation is expected to cause a 20% increase in cost for both next year. Here is what would happen theoretically –

	Sales	Cost (after inflation)	Profit (without a price increase)	Price increase needed to bring back profitability
S&P 500	*$100*	*$102*	*-$2*	*$17 or 17%*
Hillside Co.	*$100*	*$84*	*$16*	*$14 or 14%*

As indicated in the table, higher-margin businesses are less vulnerable to inflation in terms of profitability. Also, they can afford to bring profit back to the pre-inflation level through a smaller price increase.

In a nutshell, low-cost operations, strong pricing power, and superior profitability provide protection for shareholder value in face of high inflation. These are also some of the traits of high-quality companies we exclusively focus on.

AUGUST 2022 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to August 31, 2022	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**-11.61%**	**-1.29%**	**-5.20%**	**-9.45%**	**2.37%**	**5.77%**	**6.34%**
HCG Benchmark[1]	*-12.38%*	*-2.82%*	*-8.47%*	*-11.85%*	*1.39%*	*3.02%*	*3.45%*
Hillside Balanced Growth*	**-13.18%**	**-0.86%**	**-5.50%**	**-10.69%**	**3.76%**	**7.18%**	**8.43%**
HBG Benchmark[2]	*-12.64%*	*-2.82%*	*-8.61%*	*-11.82%*	*2.59%*	*3.91%*	*4.13%*
Hillside Focused Growth*	**-18.08%**	**-0.74%**	**-6.31%**	**-13.51%**	**5.07%**	**7.61%**	**8.01%**
HFG Benchmark[3]	*-14.09%*	*-2.43%*	*-9.56%*	*-12.05%*	*7.35%*	*6.87%*	*6.51%*

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] Hillside Conservative Growth Benchmark: 100% Vanguard Conservative ETF
[2] Hillside Balanced Growth Benchmark: 100% Vanguard Balanced ETF
[3] Hillside Focused Growth Benchmark: 100% Vanguard All-Equity 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.

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