November 2022

HOW HILLSIDE LEADS WITH INFORMED OPINIONS

IN THIS ISSUE

Michael Preto, CFP®, CIM®

The other day I ticked someone off. I suggested ***now*** is a great time to invest fresh cash into their portfolio. This individual came back to me and said:

"Let me give you a piece of advice Mike, and you're not going to take it very well." (Thanks for the vote of confidence 😉) "It really pisses me off when you tell me it's a good time to invest when my portfolio is down in value."

We have a few rules of thumb here at Hillside. One of them is this: if you tell us something on your mind, there are at least 10 others who are thinking the same thing. We also have a commitment to ***lead with informed opinions***. The combination of the said rule and commitment makes this too good of a learning opportunity to pass up.

We're going to use a short story and a little data to back up our informed opinion. Imagine you own a business, let's call it Realizing Dreams Inc (RD Inc), with the following characteristics:

1. Run by people, owners, who care about the future of the business.
2. Has no debt.
3. Is a global market leader in their field.
4. Makes a healthy profit*.

**Please refer to our June Informed Investor for a refresh on revenue, costs, profit etc.*

RD Inc is a great business, top of the table. You've owned it for a while and others have taken notice about how great RD has been for you. They wanted to own a piece of RD and so they kept knocking on your door, calling/texting you, and doing whatever they could to convince you to let them in as an owner.

You owned most of RD and you had a certain percentage of the business you were willing to sell to others. It got to the point where people where tripping over each other trying to get of piece of the action, it was getting a little ridiculous. You kept raising the price of the shares and people were buying - life is good.

Eventually you had no shares left to sell, so people started trying to contact those who already owned shares and offering to pay more. You were happy; all this frenzy was driving up the value of the shares you owned in RD.

Then suddenly people stopped tripping over each other, things got quiet. There was a shift in sentiment that had nothing to do with the operations of RD. Fear crept in and people were scared it couldn't continue, they didn't want to overpay and be stuck "holding the bag".

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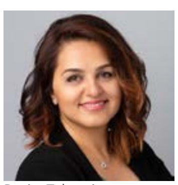

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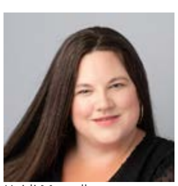

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You found this interesting because RD had never done as well as it was right now, there was no problem with the business - smooth sailing and happy days. It bothered you a little bit as people's emotions were driving down the value of RD's shares and as a result your business was worth 30%, then 40% and 50% less than it was a year ago.

Then you realized something: it was ***logic*** which originally created demand for RD's shares. Then logic turned to ***emotion*** which caused the frenzied run up in RD's valuation. Yes, the same coin, just the flipside of it, which caused the drop was also responsible for a good portion of the rise.

You recognized this as an opportunity. Knowing everything within RD's business had never been better and the long growth path in front of RD, you had confidence in the future. You decided to knock on the other owners' doors and ask them if they wanted to sell their shares back to you at a reduced price- a bunch of them took you up on your offer.

Now, once again, you had more of what everyone would want in the future: shares in a fantastic, world class business, AND you were able to buy them at a ***discount*** which would make your future returns on those last purchases even better. Yes, you can profit by leaning on logic when others lean on their emotions.

Today you are the owner of multiple businesses who are going through the same story described above. Perhaps the best example we can point to is Evolution Gaming (EVO). Here's a high-level view on EVO:

1. No debt.
2. Revenue and profit are both at all time highs and growing healthily.
3. Founder run - the people at the helm care deeply about "our" business.
4. Share price is down ~40% from it's all time high in Spring 2021.
5. Valuation is down ~70% from it's all time high in Spring 2021.

CLICK HERE for Hillside's quick 5-minute video to learn more about EVO.

Now please tell us which of the following 3 options would you choose and why:

a) Sell shares?
b) Hold shares? or
c) Buy more shares?

Please, take a minute and [CLICK HERE] to share your answers with us!

You are empowered by having people who care about you, are passionate and have the expertise required to make these decisions on your behalf. We want to give you more power by providing you with more knowledge. This will give you the confidence required to make decisions which will make you wealthier and allow you to realize more and bigger dreams.

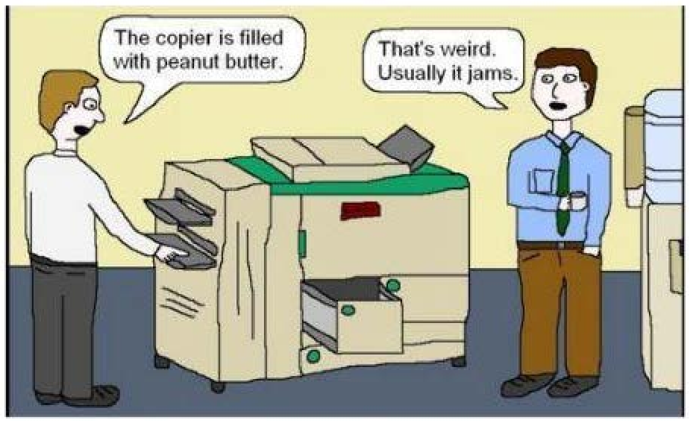
PORTFOLIO UPDATE: A STRATEGIC REPRODUCTION

Jason Del Vicario, CFA

This month's focus is our commitment: ***Lead with informed opinions***.

Mohnish Prabai is a famous value investor who turned $1m into $1b by copying Warren Buffett. Mohnish was once asked: ***"Why don't most people clone in a systematic way?"***

He replied: ***"They're not as shameless as me. They have more ego. To be a great cloner, you have to check your ego at the door."***



We are not trying to put a human on Mars, but rather we are attempting ***to provide our clients with meaningful outperformance in their investment portfolios which will allow them to realize their big meaningful dreams***.

Warren Buffett and Charlie Munger have assembled one of the strongest and most durable investment performance records in history; they have compounded capital at ~20% since 1965. Given our goal is to manage money for thousands of families across multiple generations it seems to reason that Berkshire's strategy is worthy of study and emulation. This has been done before and thus it seems to reason that our probability of success is higher if we lean heavily on those who have gone before us. As long as the rules of capitalism hold (profit seekers bid up predictable and growing cash flow streams and bid down shrinking and unreliable cash flow streams) we don't need to re-invent the wheel to be successful.

Where we copy Berkshire shamelessly: "The best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return."

A sensible question might be "If Berkshire is so awesome, why not just own them and be done with it?" The challenge is that Berkshire now suffers from the law of large numbers… meaning that at $625B market cap there is no way they can compound capital at 20%+/year as they did in the past. In fact, based on our calculations the returns on capital at Berkshire have fallen to the low double-digit range. Still good but not anywhere close to the market trouncing returns they generated in the 20th century.

According to Peter Lynch: "With investment, the person who works hard, spends their time on research and analysis of the stocks to find a good one at cheap price will make big profit."

Our promise to you is that we will lead with informed opinions and work hard to uncover businesses that we feel present us with the highest probability of achieving our collective goals.

HILLSIDE IN THE NEWS

- "Just like winter, a recession is coming"

In case you missed in, Jason was recently a guest on BNN Bloomberg to discuss the importance of finding companies with strong fundamentals, even if the stock price is slightly down and he provides his top stock picks for this sector. **Watch Jason on BNN HERE**.

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

THE HILLSIDE FACTOR(Y) FOCUS: A BLESSING IN DISGUISE

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know." Ken Galbraith's quote can't be more relevant when it comes to many stock investors obsessed with macro news recently (think inflation, interest rate, recession). The Hillside crowd belongs to the former group (i.e., those who don't know) and we think it is advantageous to stay away from forecasting the economy and have a laser focus on uncovering those rare high-quality businesses across the globe.

Someone may start to wonder – shouldn't tough economic conditions impact our investment in stocks? On the contrary to "common sense," we believe in terms of high-quality businesses, the impact would be more on the upside for long-term shareholders than on the downside over the near term. To illustrate, let us take you through one of our portfolio companies –

Credit Acceptance is the leading subprime auto loan lender in the US and is well-known for its disciplined underwriting and conservative capital allocation in the industry. That is to say that the company may forgo some businesses that deliver low long-term shareholder return on capital during good times as peers are relatively aggressive in lending. At the same time, it could harvest more highly profitable businesses when the economy turns south – why? Financially weak competitors simply retreat, leaving a bigger slice of the pie to Credit Acceptance.

Earlier this year, the management at Credit Acceptance had the following comment during one of the earnings calls –

"You've also had what appears to be somewhat of an improvement in the competitive landscape, which generally seems to increase dealers' interest in our program as well."

What exactly drove the "improvement in the competitive landscape" here?

The management went on –

"It seems like the competitive environment has improved some, exactly why it's difficult to say, but I think likely candidates are increases in interest rates, the choppiness in the capital markets that we discussed earlier, and potentially operators being concerned about future trends in credit due to things like inflation and potentially declining used car prices."

You heard that right – high interest rate, poor capital market condition, and rising inflation – none of these sounds favorable to a business owner in a traditional sense. But Credit Acceptance has been actually growing its loan volume at a double-digit percentage rate this year, literally turning industry headwind into tailwind for itself.

All in all, although seeing no one (including ourselves) in the position to consistently make accurate predication of the economy, we do regard any economic downturn as a likely blessing in disguise – for good companies only.

HILLSIDE CO. OWNERS' GUIDE

Amanda Baxter, BA

Here's a month by month (step by step) guide to being a Hillside Co. owner. Each month we will feature different rules/engagements of note. These are meant to help frame your thinking when it comes to being invested with Hillside Co.

2022 has been a year full of ***volatility***; it isn't the first and it won't be the last. As we move through volatility, we want you to remember it is a **positive**.

Three ways to take ADVANTAGE of the DOWNSIDE volatility:

1. **Do nothing**: HillsideCo companies produce free cash flow and allocate capital increasing your ownership
2. **Do nothing**: We will add to HillsideCo companies (or new ones) when prices fall below our fair value estimate.
3. **Do <u>something</u>**: Buy when HillsideCo is on sale – aka when the market is down, these companies are on sale.

Two ways to take ADVANTAGE of UPSIDE volatility:

1. **Do nothing**: Build cash during periods of rich valuations and wait for better value to present itself (it always does).
2. **Do <u>something</u>**: Work with us and use your Dreampool to achieve your big meaningful dreams!

In either situation the key is to keep your emotions in check. The low feels like an endless pit, and the high feels like nothing can stop it. Both these trains of thought are wrong.

**HillsideCo = the group of companies comprising your portfolio*

EXCITING NEWS TO SHARE

Our team at Hillside Wealth Management is incredibly proud to share that Jason has been named one of ***Canada's Top Wealth Advisors*** by The Globe and Mail & SHOOK Research. Read more HERE.

Jason shared a few words about this award:

"I love my work. Portfolio Management is one of my passions, and I would be doing this even if it wasn't my "job". It's humbling to be recognized - thank you to Mike, our incredible team at Hillside Wealth Management, and our encouraging clients - all of whom share this honour with me."

OCTOBER 2022 PERFORMANCE RESULTS

An overview of our three portfolios to date.

Performance to October 31, 2022	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	5 Yr**	Inception **
Hillside Conservative Growth*	**-14.96%**	**-1.10%**	**-6.01%**	**-11.68%**	**1.71%**	**4.08%**	**5.70%**
HCG Benchmark[1]	*-14.26%*	*1.89%*	*-5.03%*	*-12.96%*	*0.44%*	*2.10%*	*3.10%*
Hillside Balanced Growth*	**-17.00%**	**-0.66%**	**-7.41%**	**-13.43%**	**2.96%**	**5.06%**	**7.65%**
HBG Benchmark[2]	*-14.60%*	*2.68%*	*-5.36%*	*-13.38%*	*1.49%*	*2.88%*	*3.76%*
Hillside Focused Growth*	**-21.31%**	**1.44%**	**-8.22%**	**-16.40%**	**4.51%**	**5.19%**	**7.31%**
HFG Benchmark[3]	*-15.59%*	*5.62%*	*-6.52%*	*-14.20%*	*5.66%*	*5.31%*	*6.14%*

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.