ANTARES
INVESTMENT MANAGEMENT

QUARTERLY REPORT

*For investors who care as much about the return **of** their principal as the return **on** their principal*

Tiptoe Through the Tulips

We couldn't help but notice the "Cocktail Party Gauge" flashing amber-orange in December. The Gauge is used by portfolio managers at holiday get-togethers to assess investor sentiment. It flashed red-hot at the turn of 1999 into Y2K, when internet stocks were all the rage and company valuation was seen as irrelevant. It was similarly red in 2007-08 at housing seminars, when it was claimed confidently that U.S. real estate never goes down in value.

People are starting to talk about equities at cocktail parties, an indication that the bull market is getting old.

It's too bad the Gauge was not used in Holland back in 1637, when a peculiar investment bubble known as the Tulip Mania occurred. The Dutch were traders and a significant maritime power in those days, leading to a relatively high standard of living and idle time to dabble in financial speculation. Tulips had come to Europe from Turkey and gained in popularity in the early 1600s; by 1634 tulips had become so sought out that "it was deemed a proof of bad taste in any man of fortune to be without a collection of them."[1] Some of the rare and more colourful varieties commanded astonishingly high prices. As the flower's popularity spread, trading in tulip bulbs expanded to all Dutch urban centres and prices climbed fast. Tulips were seen as a sure way to make a ton of money. Figure 1 shows what a single Viceroy tulip bulb, costing 2,500 florins, could have purchased back in the day.

The Tulip Mania that took over Holland in the 1630s is a sobering reminder that asset prices get far away from true value when speculation runs rampant.

Figure 1 – Cost of a single Viceroy tulip bulb in 1637

	Cost
Two lasts (four tons) of wheat	448
Four lasts (eight tons) of rye	558
Four fat oxen	480
Eight fat swine	240
Twelve fat sheep	120
Two Hogsheads (358 bottles) of wine	70
Four tons of beer	32
Two tons of butter	192
One thousand lbs. of cheese	120
A complete bed	100
A suit of clothes	80
A silver drinking-cup	60
	2500

Source: Charles MacKay, page 95.

Suffice to say, the Tulip Mania was an investment bubble and when it burst it ruined more than a few households. Expensively-purchased bulbs with no buyers in sight were reduced to the lowly status of *pretty flowers*. We believe it is dangerous to regard the Tulip Mania as a quaint historic event. Humans have behavioural tendencies that include wanting to be part of a crowd and wanting to make an easy dollar. We have seen at least two bubbles in the past two decades: the internet stock bubble that culminated in 2000 before destroying massive paper wealth, and the 2008 credit bubble that led to the collapse in U.S. housing, global equity markets, Greece, etc. Recently, cocktail conversations have turned to questions about Bitcoin and cannabis stocks: "What do you think of them? Should I invest in them?" Our responses: "They are hard to value" and "No".

We have seen two comparable manias in our investment careers: the technology bubble that burst in 2000 and the credit bubble that took down the U.S. housing market and global equity markets in 2008.

To be clear, we don't know that Bitcoin is a bubble. But we do have experience with bubbles and know what they smell like. They are associated with a fervent belief that it is easy to make money. Risk is grossly underestimated. There is a willingness to borrow money to invest – and why not if it's easy to make money and there's no risk? And Wall Street gets involved – when there's money to be made on a newfangled

1. Charles MacKay, "*Extraordinary Popular Delusions & the Madness of Crowds*", Three Rivers Press, 1980, originally published in 1841.

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security, Wall Street is always there to "help". In addition to Bitcoin, there were some 1,380 cryptocurrencies at the end of 2017 (says Wikipedia), and there are now exchange traded funds to facilitate purchase, as well as derivatives in the futures markets. A similar phenomenon is occurring in Canada with cannabis stocks, which are in a bit of a wild-west period of issuing shares before investors can analyze profitability. Bay Street is making money. If our reading of the Cocktail Gauge is accurate, as 2018 begins we are collectively oozing across the line from confidence to complacency.

Cocktail chatter is heating up around Bitcoin and cannabis equities. This makes us nervous. Their worth is un-analyzable.

The majority of our clients – and this includes us and our families – invest in Antares portfolios for retirement. If you are part of this majority, your portfolio with us is your pension. Our responsibility is to manage your assets prudently, as any pension manager would. First and foremost, we aim to protect your capital by investing in reasonably-valued shares of good businesses that typically pay a reliable dividend. From this, it follows that we aim to grow your capital as these businesses become more valuable. We operate cautiously, but the conviction we gain from our research allows us to be bold when opportunity knocks. That is what we are paid to do, make research-based decisions on behalf of private investors who do not have the time or the knowledge – or in some cases the stomach – to make such decisions. The most common decision we make is to **not** invest, typically because a company does not meet our stringent criteria, and occasionally because it does not offer enough reason to sell an existing portfolio holding. In the case of cannabis companies, our view is that it is too early to separate the winners from the losers. If we had a gun to our head and had to buy a company that produces an intoxicant, we'd order a share of a beer company over that of an unproven cannabis start-up.

Figure 2 – Molson Coors Compared to Canopy Growth

	Molson Coors (US dollars)	**Canopy Growth (Canadian dollars)**
Stock market value	$18 billion	$6 billion
Sales last 12 months	$11 billion	$58 million
Profits	$1 billion	Loss of $15 million
Dividend yield	2%	n/a
5-Year Dividend Growth	5%	n/a

Source: Bloomberg. Not a recommendation; just an illustration.

Overvalued assets eventually get re-priced lower. Buyer beware.

For most of us, our portfolio is our pension. Retirement investments require careful analysis and sound judgement; "hot investment tips" don't make the grade.

On an optimistic note, in the later stages of bull markets when investment dollars crowd into a small number of securities, others get overlooked and create opportunities for the discerning investor. We have been actively "looking under rocks" and are hopeful that some will meet our criteria and get added to one, or more, of our investment strategies. As usual, we will be careful with your, and our, family's money. We will deploy capital only when the potential reward is attractive relative to the risk. We will favour companies that pay sustainable dividends. We will not invest in anything we cannot analyze: Bitcoin and cannabis stocks are therefore ruled out. During a January deep freeze in Winnipeg, on the other hand, it is a good time to be thinking about tulips as a harbinger of warmer weather. And they only cost 8¢ a bulb.

Thank you for your continued trust, best wishes for 2018,

Your Portfolio Management Team

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