

RUSSIA AND UKRAINE CONFLICT

As the news surrounding military action by Russia intensifies, we think it's important to remind ourselves of our investment philosophy. Firstly, we focus on the fundamentals of each business owned by clients. We look for events which might permanently damage the future prospects of each company. Our conclusion is that military action between Russia and Ukraine will not damage the future prospects of the companies our clients own.

We think of three different businesses that our clients own which help to illustrate this viewpoint. Microsoft's customers (of which KAI happens to be one) will not stop using and paying for their software services; the college student who was supposed to meet their friend for a coffee and study session at Starbucks this morning is doing it as we type this; and the family who banks with Royal Bank will pay their mortgage, transfer funds, and use their credit card this week.

The other side of what makes investing difficult is the power of human psychology, specifically fear and greed. It is difficult to watch share prices go down and some clients might be wondering if we should "get out until things settle" or "time the market". At the end of the second quarter of 2019 we made a comment on similar issues, here is a summary of what we shared:

As market "flare-ups" and concerning news headlines flip across the screen we get the occasional question from our clients whether we should try to actively time these market swings. We think it would be valuable to share some interesting research from JPMorgan Asset Management on the subject:¹

“ Being fully invested is especially important when there is market volatility, because the best and the worst days of the market tend to cluster together. If you are lucky enough to miss the bad days, you will also likely miss the best days. ”

The article was released in late 2018, where they had performed analysis on a \$10,000 investment in the S&P 500 over the last 20 years.

- If the \$10,000 had remained invested for every single trading day over the 20 years (1998 – 2018) it would have been worth \$40,135 which is equivalent to an annual compound return of 7.2%.
- If the same portfolio had missed only the 10 best days in the market over the 20-year period, the result would have been cut in half to \$20,030 with an average annual return of 3.5%.
- And finally, if the portfolio had missed the 20 best days in the market the result would have been \$12,569 with an annual return of 1.15%.

At the time we wrote this in 2019 there was mounting tension between the U.S. and China and investors were fearing a trade war between the two largest economies in the world. Then nine months later a new fear emerged in the form of a global pandemic. Here we are today with fears of rising inflation and military conflict to the east. It is worth mentioning that in spite of these many fears and challenges, our flagship equity portfolio, the KAI Core Equity Pool, has increased in value by 47%² since the time we wrote that note in 2019. We draw attention to the performance not to suggest that we expected the portfolio value to rise through these fears but rather to reinforce that day-to-day market movements are random and we choose to focus on the long-term. Looking back, we believe it was better to stay invested in high quality companies in spite of fear rather than try to predict un-knowable events and we continue to hold that belief today. All that we can control as your portfolio manager is the type of businesses that you own. We work diligently to select businesses which we believe can navigate great uncertainty, protect your purchasing power, and build your wealth for many years to come.

¹JPMorgan Asset Management, *Navigating Volatile Markets* (Nov 9, 2018) ²Performance is calculated in Canadian dollars, before portfolio management fees, before your taxes, and assumes that distributions are reinvested. Returns are not guaranteed, and past performance may not be repeated. The performance quoted is the change in value of owning Class O Units of the KAI Core Equity Pool from June 30, 2019 to Feb 22, 2022. | © KAI Asset Management Inc. (KAM) 2022 | KAM is a Portfolio Manager and Exempt Market Dealer registered in the provinces of Manitoba, Saskatchewan, British Columbia, Alberta and Ontario. The firm is also registered as an Investment Fund Manager (IFM) in the provinces of Manitoba and Ontario. This communication is directed only to persons resident in those jurisdictions. The information contained herein is for general information purposes only and does not constitute an offer or solicitation of securities, managed account services, or advice on any specific security. The opinions set out herein are effective as at the date of publication and the authors do not undertake to notify the reader of subsequent changes. Certain general or market information contained herein has been obtained from sources believed to be reliable however KAM cannot guarantee their accuracy. Any opinions expressed in this newsletter are just that, and are not guarantees of any future performance or returns. 220213