ISSUE 125

A Peek into the PRIME QUADRANT®

We are pleased to announce Stanley Bergman will be joining the Prime Quadrant Conference on November 2, 2016.

Registration limited to 300 seats. To request an invitation, click here.

STANLEY M. BERGMAN

Very few people can claim to having done twice as well as Warren Buffett, but Stanley Bergman is one of them. Stanley Bergman is the Chairman and CEO of Henry Schein, a Fortune 500® company and provider of health care products and services to dental, animal health and medical practitioners, with sales of $10.6 billion. Join us on November 2nd to hear how Stan has produced a 1400% return for his investors since taking his company public in 1995.

Upcoming Investor IQ Series

July 14, 2016:
Investment Lessons From Fraud

August 15, 2016:
Common Investment Mistakes

September 20, 2016:
Manager Selection Workshop

What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.

STORIES OF INTEREST

[Profiting from Illiquidity]
If you're not getting the liquidity from public markets, why not consider the upside of private markets?

[The Upside of Academic Finance]
There is no singular theory or formula that can explain why markets do what they do at any point in time.

[The Jewelry Effect]
Why lures are designed to catch more fishermen than fish, and its application to financial services.

[Shared Delusions]
We all want to believe that you can name your preference for volatility and then find the manager who can produce it. If only it was true.

THE WAY WE SEE IT

The following was provided by Jeremy Rosmarin, CFA.

Nifty Fifty Redux?

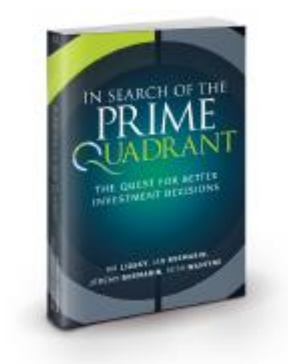
Almost forty years ago, the term "Nifty Fifty" was coined to describe fifty exceptional large U.S. public companies traded on the New York Stock Exchange. The consensus among market pundits was that you could buy shares in the Nifty Fifty companies and hold them forever because these companies were so exceptional and growing rapidly. This investment strategy proved to be a complete disaster for those who followed it.

The table below shows three companies that were included in the Nifty Fifty: McDonald's, Disney and Coca-Cola. In each case, investors expected great things from these companies and paid high valuations. Although investors were correct in their expectations for the companies, their expectations of the investment returns were completely wrong. By the time the stock market plummeted in 1974, declines in these stocks ranged from 68% to 85%. It took

Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better investment decisions.

In Search of the Prime Quadrant: The Quest for Better Investment Decisions is now available at Amazon, Barnes & Noble and Indigo.



around a decade before investors could recoup their capital (before inflation, which was as high as 15% during this period). For those who participated in other Nifty Fifty companies like Polaroid and Kodak, the results were even worse. The overall market, on the other hand, declined far less and recovered much quicker over this period.

Company	Valuation (P/E)	Subsequent Price Decline	Time to Recovery*
McDonald's	86 times earnings in 1972	-72.3%	9 Years
Disney	82 times earnings in 1973	-85.7%	9.5 Years
Coca-Cola	54 times earnings in 1973	-68.2%	12 Years

*Measures how long it took for investors to recoup their capital, excluding dividends and inflation.

Lessons from the Nifty Fifty

There are three important investment lessons to learn from the Nifty Fifty debacle.

1. **Risk is primarily determined by how much you pay; not by what you are buying** – Every asset in existence, no matter how exceptional it is, becomes a risky investment if you pay too much to buy it.

2. **It is dangerous to blindly listen to pundits and the market consensus** – Although market valuations and consensus opinions are often right, there are times when they are extremely wrong and foolish.

3. **The benefits of "buy-and-hold" do not offset all other investment considerations** – It is critical to have a long-term time horizon, but this alone will not avoid disastrous investment outcomes.

Today, there are millions of investors who are not heeding these important lessons. Consider the following:

- Several widely-held large public companies today trade at valuations much higher than those of the Nifty Fifty.

- The prices for some high quality bonds have risen so much that their yields are negative.
- Trophy” real estate in many parts of the world is priced with no regard for the income that can be generated from owning it.

As has been the case throughout history, there are many good investment opportunities today that do not carry such high levels of risk. Investors who take the lessons from the Nifty Fifty to heart will be the ones who protect and grow their wealth safely over time.

> **“Once we realize that imperfect understanding is the human condition there is no shame in being wrong, only in failing to correct our mistakes."**
>
> ***- George Soros***

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