

# Be a fox, not a hedgehog, when predicting trends

Don't focus on just one big idea when anticipating outcomes; instead, get information from many sources

LESLIE CLIFF

OPINION

Founding partner of Genus Capital, an independent investment management firm that's celebrating its 30th anniversary this year

Certainty-loving humans embrace firm predictions. "Give me a one-handed economist," was a saying former U.S. president Harry Truman was known for – complaining that "all my economists say, 'on the one hand ... on the other.'" People favour simplicity over complexity, and certainty over the unknown.

Yet, only by incorporating these two elements – complexity and uncertainty – are predictions more likely to come true.

Daniel Gardner, the author of *Future Babble*, analyzes the research of Philip Tetlock, a psychologist from the University of California. In 1984, Mr. Tetlock recruited 284 experts including political scientists, economists and journalists. Over the next two decades, he asked these experts to predict political and economic trends. By 2003, Mr. Tetlock had 82,361 forecasts.

It was the biggest exercise of its kind and the results were startlingly clear: In Mr. Gardner's words, as a group, these experts would have been beaten by "a dart-throwing chimpanzee." The experts collectively did not make predictions any more accurately than informed non-experts.

However, among these experts was a wide range of abil-

ities. "Some experts are so out of touch with reality, they're borderline delusional," Mr. Gardner observed. "Other experts are only slightly out of touch. A few experts are surprisingly nuanced and well-calibrated." He concludes: "How one thinks matters much more than what one thinks."

Experts with a poor rate of predicting outcomes (who would have been better flipping a coin) were uncomfortable with complexity and uncertainty. In Mr. Gardner's words, they sought to "reduce the problem to some core theoretical theme." These experts were confident in their predictions. And why wouldn't they be? They were sure their "One Big Idea" was right and so the predictions they made must be airtight, too. Mr. Gardner called these thinkers "hedgehogs."

By comparison, experts whose predictive success rates were high thought differently. Rather than reducing problems to a single theory, they drew information from multiple sources and synthesized it. They were self-critical and questioned whether what they believed to be true was, indeed, really true. When they were shown that they had made mistakes, they didn't try to evade the fact. The author calls these thinkers "foxes."

Our financial investment firm is acutely aware of the public's vulnerability to bold predictions. In fact, the whole industry knows exuding confidence increases clients' comfort level. So it's worth it for prospective investors to be self-aware of their need for certainty. The bolder an adviser's predictions, the more cautious prospective investors should be. You are looking for a "fox," not a "hedgehog." Mr. Gardner demonstrates the science behind the paradox: Confident predictions are more often wrong; complex and considered

predictions are often right.

When considering a new financial adviser, ask what kind of volatility you should expect from the strategy they are recommending. Be clear – you want after-fee annual, four-year and 10-year volatility estimates. While your circumstances may not result in a balanced approach, ask how their "balanced strategy" has performed after all fees over the past year, four years and 10 years. This allows you to judge managers after fees and using the same risk profile. Ask the prospective adviser to show you a database of balanced-fund historical results. You can be sure the adviser is aware of these numbers.

Once you know these numbers, you can make an informed decision: Does your long-term financial plan incorporate that volatility and sustainable future after-fee returns, while still delivering the planned long-term results?

There is no way to know immediately whether you can trust an adviser. It takes at least three years and one bad market to know whether you are a match. However, if the adviser helps you develop a financial plan, then converts that plan into an investment portfolio with expected after-fee returns and volatility, and agrees to send you regular (quarterly is frequent enough) transparent statements, and to meet with you annually – then you are in a good place.

Sometimes prospects don't realize they are being interviewed, too. Advisers don't want unrealistic clients who won't engage in the discipline required to be a successful client. We want to add value to clients for decades and to do that it must be a trusting partnership. A portfolio delivering against your plan needs to be a mutual plan and it takes years to agree this is happening.

## Markets summary

### CANADIAN STOCKS

Canada's main stock index closed lower along with U.S. indexes as mixed earnings results put pressure on markets and questions grew about global growth.

The S&P/TSX Composite Index ended down 0.74 per cent, at 16,488.20 as energy and materials stocks weighed.

The energy index closed down 2.9 per cent as major names such as Husky Energy Inc. closed down 6.13 per cent and Enbridge Inc. was down 4 per cent. The materials index ended down 1.8 per cent as Cameco Corp. closed down 7.65 per cent.

### U.S. STOCKS

Wall Street fell from record highs after a flurry of downbeat quarterly results from Ford Motor Co. and other companies and after European Central Bank chief Mario Draghi's comments disappointed investors aiming for a more dovish stance on monetary policy.

Ford tumbled 7.45 per cent after the automaker reported a lower-than-expected profit and gave a disappointing full-year earnings forecast.

Xilinx Inc. tumbled 3.4 per cent after the chip maker gave a weak quarterly forecast, hit by the impact of U.S. restrictions on selling to Huawei Technologies Co. Ltd.

Facebook Inc. dropped 1.9 per cent after the social-media giant said new rules and product changes aimed at protecting user privacy would slow its revenue growth into next year.

Align Technology Inc. plunged 27 per cent and was the biggest decliner on the S&P 500 after the orthodontic device maker's current-quarter forecast came in below estimates.

### COMMODITIES

Oil prices edged higher supported by rising tensions between the West and Iran and a big decline in U.S. crude stockpiles, but gains were capped owing to lingering worries about slowing economic growth that could reduce fuel demand.

### FOREX AND BONDS

The Canadian dollar weakened to a near one-month low against the greenback as interest-rate differentials moved further in favor of the U.S. currency.

The U.S. dollar index was up 0.1 per cent, led by gains against the yen. The greenback rose 0.5 per cent against the yen after a batch of generally positive U.S. economic data.

Canadian government bond prices were lower across the yield curve in sympathy with U.S. Treasuries and German bunds after Mr. Draghi said the bank sees a low risk of a recession in the euro zone. The two-year fell 3 cents to yield 1.443 per cent and the 10-year was down 19 cents to yield 1.464 per cent.

U.S. Treasury yields rose after Mr. Draghi acknowledged a worsening outlook.

REUTERS, THE CANADIAN PRESS

The Canadian dollar weakened to a near one-month low against the greenback.

## How a stake in the cannabis sector can pay dividends

SCOTT CLAYTON

NUMBER CRUNCHER

MBA, senior analyst for TSI Network and associate editor of TSI Dividend Advisor

### WHAT ARE WE LOOKING FOR?

Sustainable yields from dividend payers branching out into cannabis.

### THE SCREEN

Investors focused on the fallout from regulatory troubles at CannTrust Holdings Inc. may have missed this week's announcement that **Alimentation Couche-Tard Ltd.** has invested \$25-million in Edmonton-based cannabis retailer **Fire & Flower Holdings Corp.** By taking a 9.9-per-cent stake, the convenience store giant, headquartered in Laval, Que., accelerates its move into the cannabis space. Notwithstanding the sector's volatility, Couche-Tard joins a growing list of well-established businesses

### Dividend payers with sound growth prospects that have moved into cannabis

RANKING*	COMPANY	TICKER	DIVIDEND SUSTAINABILITY RATING	POINTS	DIV. YIELD %	RECENT PRICE \$**	1Y TOTAL RTN. (%)	MKT. CAP. (\$ BIL.)**
1	Altria Group Inc.	MO-N	Highest	10	6.4	49.78	-14.2	93.6
2	Loblaw Companies Ltd.	LT	Highest	10	1.9	66.41	20.2	25.0
3	Molson Coors Brewing Co.	TAP-N	Above Average	9	4.0	56.65	-12.1	12.2
4	Alimentation Couche-Tard Ltd.	ATD-B-T	Above Average	9	0.6	81.73	36.3	45.7
5	Walgreens Boots Alliance Inc.	WBA-Q	Above Average	8	3.3	55.20	-15.7	49.4
6	Constellation Brands Inc.	STZ-N	Above Average	7	1.5	204.09	-4.9	38.8

\*Ranking is determined by TSI Dividend Sustainability Score. Where overall points are the same, analysts considered P/E, dividend yield and industry outlook to decide final placements. \*\*Share price and market cap are in native currency. Source: Dividend Advisor

now looking to that nascent market for growth.

Cannabis is a good fit for retailers or pharmacies aiming to expand their sales. It also has appeal for alcoholic-beverage and cigarette makers facing falling demand, and for food makers looking to beef up their offerings.

Our search started with U.S. and Canadian stocks with sound growth prospects – merely strengthened by cannabis. We then applied our TSI Dividend Sustainability Rating System. It awards points to a stock based on key factors:

- One point for five years of continuous dividend payments –

- two points for more than five;

- Two points if it has raised the payment in the past five years;

- One point for management's commitment to dividends;

- One point for operating in non-cyclical industries;

- One point for limited exposure to foreign currency rates and freedom from political interference;

- Two points for a strong balance sheet, including manageable debt and adequate cash;

- Two points for a long-term record of positive earnings and cash flow sufficient to cover dividend payments;

- One point if the company is a leader in its industry.

Companies with 10 to 12 points have the most-secure dividends, or the highest sustainability. Those with seven to nine points have above-average sustainability; average sustainability, four to six points; and below average sustainability, one to three points.

### MORE ABOUT TSI NETWORK

TSI Network is the online home of The Successful Investor Inc. – the group of widely followed Canadian investment newsletters by editor and publisher Pat McKeough. They include our award-winning flagship newsletter, *The Successful Investor*. The

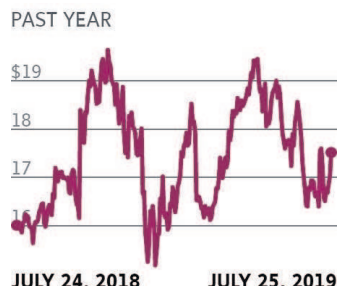
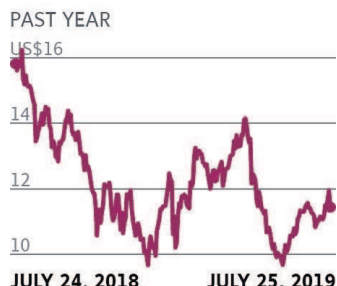
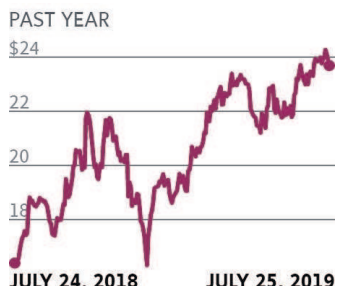
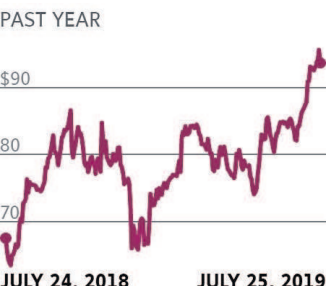
TSI Best ETFs for Canadian Investors is the latest. TSI Network is also affiliated with Successful Investor Wealth Management.

### WHAT WE FOUND

Our TSI Dividend Sustainability Rating System generated six stocks: **Molson Coors Brewing Co.** has joined with Canadian cannabis producer Hexo Corp. to introduce cannabis-infused beverages when Ottawa legalizes edibles this fall. Couche-Tard's investment provides it access to cannabis retailing. **Constellation Brands Inc.**, an international alcohol beverages leader, holds 38 per cent of pot-producer Canopy Growth Corp. Tobacco giant **Altria Group Inc.** owns 45 per cent of Canada's Cronos Group Inc. **Loblaw Cos. Ltd.**'s Shoppers Drug Mart aims to expand medical marijuana sales nationwide. U.S.-based **Walgreens Boots Alliance Inc.** is introducing cannabinoid skin creams in nine states.

We advise investors to do additional research on any investments we identify here.

### EYE ON EQUITIES DAVID LEEDER



**Cargojet Inc.**'s "premium story is getting the premium valuation it deserves," according to Canaccord Genuity analyst Doug Taylor. However, Mr. Taylor lowered his rating to "hold" from "buy" ahead of the release of its quarterly results on July 31. "We believe Cargojet's prospects are receiving a full valuation," he said.

**Target:** Mr. Taylor raised his target to \$100 from \$95. The consensus target on the Street is \$100.63.

Industrial Alliance Securities analyst Elias Foscolos raised his target for **Gibson Energy Inc.** after the assignment of a second "investment grade" credit rating. "It will make a material impact on its annual cost of capital, giving the company more flexibility in its growth strategy and ability to finance its capital projects," Mr. Foscolos said.

**Target:** With an unchanged "buy" rating, Mr. Foscolos moved his target to \$27 from \$26. Consensus is \$25.32.

**Loblaw Cos. Ltd.** stayed "on script" with its second-quarter financial results, Desjardins Securities analyst Keith Howlett said. "We are positive on the company maintaining its focus on delivering high-single-digit EPS growth over the long term," he said.

**Target:** Mr. Young raised his target to \$73 from \$70, maintaining a "buy" rating. Consensus is \$72.18.

RBC Dominion Securities analyst Sam Crittenden said he's "cautiously optimistic" on the outlook for copper in 2020, saying **Freeport-McMoRan Inc.** could "rally along with it." Accordingly, he raised his rating for Arizona-based miner to "sector perform" from "underperform." "We believe softer demand is reflected in prices while the market remains relatively tight," Mr. Crittenden said.

**Target:** He raised his target to US\$14 from US\$12, exceeding the consensus of US\$13.45.

Calling it a "stylish" growth stock, Canaccord Genuity analyst Derek Dley assumed coverage of **Aritzia Inc.** with a "buy" rating. "We believe Aritzia offers investors a robust growth outlook, differentiated omni-channel growth strategy, flexible balance sheet and well-aligned management team, at an attractive valuation," he said.

**Target:** Mr. Dley increased the firm's target by a loonie to \$24. Consensus is \$22.29.