Trust the Process

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Beutel Goodman
U.S. and International Equity Team

Times like these are sharp reminders as to why we follow a simple yet elegant, rigorous, and highly repeatable investment process. Things go sideways sometimes, and we believe trying to predict catalysts that will cause sharp market drawdowns like the current one is a fool's game. History often rhymes, but it does not repeat. In addition, how we emerge from these downturns is very different than how we enter them. Therefore, trying to find the playbook for how to navigate through a drawdown when you are in one is like trying to learn how to sail in a hurricane. Lack of direction is what leads to panic…and panic is not a good investment strategy. We are not panicking. We adhere to our process through market ups and downs, and remain confident in our positioning.

We have not been through a market event like the one we are currently in – no one has. This downturn is very different from the 2000 tech bubble and the 2008 financial crisis. That said, the Beutel Goodman process has helped us navigate through many different types of drawdowns (including those two major examples) and we are confident that it will protect capital over the long term. In fact, the process is designed for times like this, as:

- Our high hurdle rates for inclusion in a Beutel Goodman equity portfolio mean we avoid highly leveraged companies, which tend to suffer most when there are solvency concerns.
- Our focus on business quality ensures we avoid many lower-return (ROE- or ROIC-measured) extraction industries that face deep cyclical questions during most drawdowns, including the current one.
- We naturally cycle out of expensive stocks where expectations may be stretched (and therefore tend to have sharper drawdowns when

expectations are not met), and into high-quality franchises that are attractively valued due to already-low market expectations.

- By buying into great franchises (defined by sustainable free cash flows, high returns, financial flexibility via under-leveraged balance sheets and strong management alignment), we add contrarian positions in stocks most investors are throwing away. We are confident these stocks offer solid capital preservation and return potential over the long term.

We do not know how long the current downturn will last, nor the shape of it (a V-shaped quick recovery, or a longer-term U-shaped recovery), nor do we pretend we can time the market. We are cognizant that the short-term direction of the market is unpredictable, and that saves us from the overconfidence that investors may suffer from when focusing on the short term.

What we do know is that if we can find a great franchise trading at a significant discount to our long-term view of its intrinsic value, we will add that stock to our portfolios, according to our process. Buying like this often means that there is a perceived near-term issue with the stock — arguably the toughest time to buy into it. It's when we ask ourselves, "*What are we missing?*"

Rightfully or not, stocks can spend a long time in the penalty box. We trust that the arduous path that any new stock idea must travel to qualify for a Beutel Goodman portfolio will lead to a high-probability investment decision. When we find these stocks, if they clear all of our challenging investment hurdles, as difficult as it may feel at the time, we jump in. We know these opportunities are rare and we have to take advantage of the market anomalies. While markets are extremely volatile now, we are excited by the opportunities we are seeing to buy into outstanding long-term franchises, both new ideas and current holdings. With patience and discipline, we plan to do so.

The bottom line: trust the process — we do.

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BG BEUTEL GOODMAN
Investment Counsel