

SAGE PAGE



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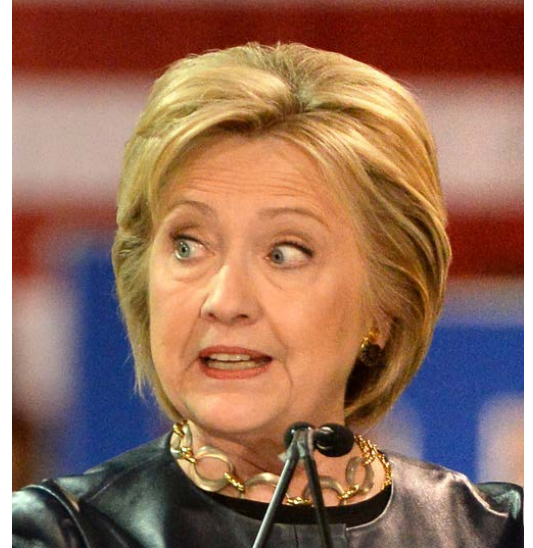


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MAKING AMERICA GREAT AGAIN...REALLY?!?



With the US election fast approaching we have been receiving many queries about the possible scenarios that could unfold on November 8. We thought it timely to dedicate this newsletter to explaining how our portfolio is constructed to harvest volatility. A great example of this can be seen with how our model behaved in response to the most recent stock market calamity –Brexit.

BREXIT: SAGE'S STEADFAST DISCIPLINED APPROACH PROVES ITS METTLE DURING MOMENTS OF CHAOS



Price driven investment processes transcend the emotions and hysteria of the moment and instead they prompt actions based on known facts. The uncertainty sparked by Brexit prompted many investors to sell off their European assets and a rush to the “safety” of the US markets (as we noted in our investment brief sent out on [June 24, Day 1 of Brexit](#)). Their emotional response pushed European valuations down and US valuations up. Using a logical process based on fundamentals and prices prompted us to do the opposite – we ran against the herd and invested in the EU.

1. Highly profitable as measured through the metric of return on equity
2. Excellent relative value based on the price to earnings ratio
3. Paying a growing dividend ([read more about our investment selection criteria in 2016 Q1 issue](#))

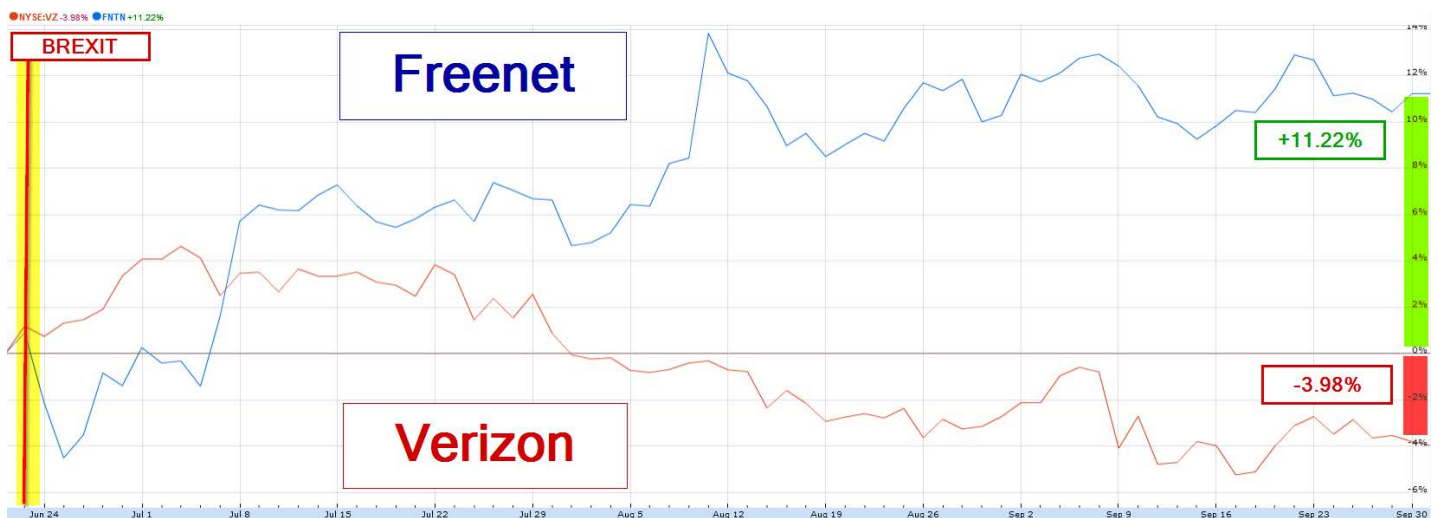
The graph below shows the story of two telco’s - both profitable, fundamentally sound companies, however, our process identified one as overvalued and one as undervalued....

BREXIT: A TALE OF TWO TELCO’S:

The biggest change we made during Brexit involved two telecommunication companies. The telco space meets our three primary criteria:

US Telco, Verizon versus German Telco, Freenet

Date: June 23, 2016 – Sept 30, 2016



**“BE FEARFUL WHEN OTHERS ARE
GREEDY AND GREEDY WHEN OTHERS ARE
FEARFUL”**

– WARREN BUFFETT

While everyone ran for the EU exit, SAGE’s investment process directed us to sell our US telco, Verizon (at a 55.75% profit - dividends included and adjusted for CAD, 5/7/2014 - 6/28/2016) and buy the German telco, Freenet. Our process effectively directed us to take advantage of the market’s knee jerk reaction to the Brexit vote...

**POSSIBLE OUTCOMES: HEADS WE WIN, TAILS
WE WIN**

- **Heads (Brexit happens)** – The EU financial markets soften along with the euro and sell off giving way to a price opportunity, nothing changes fundamentally about the German telco and high quality companies benefit from a “flight to safety”.
- **Tails (Brexit doesn’t happen)** – The market rallies based on the fact that the EU market stabilizes and Freenet benefits as the euro rallies.

As one of our clients says, “The world comes to an ‘end’ every six months...” and on June 23rd the world was supposed to have come undone as Brexit came to fruition.

HOW HAS IT PLAYED OUT?

As of September 30, Freenet has gained 11.2% (USD) while Verizon fell -3.98% (USD) since we sold it. In fact, Freenet recently beat analysts’ earnings expectations:

- Boosting sales and free cash flow through customer base and TV media growth created an 18% increase in Q2 (EBITA EU104.8M)!
- A 6.3% increase in earnings per share year over year.

**WE EXPECT TWO THINGS TO OCCUR UP TO
AND POST NOVEMBER 8**

1. Regardless of who is elected on November 8, the 40 holdings in our SAGE equity model will remain highly profitable. As we have seen with Brexit, the market tends to overreact in the short term to news that often times do not even impact corporate fundamentals (case in point = Freenet).
2. Stock prices will fluctuate more than their corporate fundamentals. This is precisely the situation where our trading process profits from volatility. We welcome these price opportunities as we construct portfolios based on fundamentals and value.

A CLOSING NOTE – AND A PARTING GIFT

The design of our trading process was inspired by the concept presented in the book *Antifragile: Things that Gain from Disorder*. Author, Nassim Nicholas Taleb, who also wrote *Black Swan*, identifies three different systems and how they respond to stressors:

1. Fragile: breaks under stress.
2. Robust/resilient: resists shocks and stays the same
3. Antifragile: thrives and improves.

Antifragile: Things that Gain from Disorder is a fascinating book that spans business, politics, biology, software programming, society, exercise regimes and investing. If you are interested in reading it, it would be our pleasure to give you a copy - just click [here](#).

We welcome your thoughts and feedback. Please contact us at info.SAGE@raymondjames.ca or (403)221-0308.

From everyone at SAGE, have a great fall!



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