

Good Bets, Bad Bets, Winning Bets, Losing Bets

Most people think there are two kinds of bets: good bets and bad bets. If you win, it's because you made a good bet and if you lose it's because you made a bad bet – the quality of a decision is determined by its results.

The notion that the outcome of a decision is the sole determinant of its efficacy is not logical in situations where luck or randomness play a part and in which you can't completely control the results. According to legendary investor Larry Hite, there are four kinds of bets: good bets, bad bets, winning bets, and losing bets. Whereas winning and losing bets refer to the outcome, good and bad bets represent the odds. According to Hite, good bets involve an accurate assessment of risk and reward and have favourable odds. Conversely, bad bets entail unacceptable risk and have unfavourable odds.

Under certain circumstances, good bets can be losers and bad bets can be winners. In these situations, you can't judge the quality of a decision by its outcome. The best decision maker isn't necessarily the one with the most success, and the worst decision-maker isn't always the least successful.

Luck vs. Skill: It Depends on the Situation

There are occasions when success or failure is purely dependent on luck. For example, in roulette, there is no such thing as skill. It is a game of pure chance which is entirely based on random events that are completely out of players' control. At the opposite end of the spectrum, there are settings in which results are entirely driven by skill. In chess, for instance, there's no such thing as luck. Victory or defeat is completely dependent on your skill vs. that of your opponent.

When Both Luck and Skill Matter: Blackjack and Investing

Finally, there are circumstances under which both luck and skill are influential. In blackjack, the remaining cards in the deck are determined by which cards have already been dealt. Players who can keep track of the cards that have been dealt know something (although not everything) about the cards that will appear. This doesn't mean that skilled card counters are guaranteed to win. They cannot control which cards are played and can still be foiled by bad luck. It simply means that they are better than less talented players at calculating the odds and have a better chance of victory.

Investing is like blackjack. In the same way that even the most skilled blackjack players are not guaranteed to make money, it is not certain that skilled investors will always achieve the best results. In blackjack, expert card counters calculate the odds and adjust their bets accordingly to improve their chances of making money. Similarly, in financial markets skilled investors are those who can best assess future risk and reward and adjust their portfolios to maximize their probability of producing superior results.

Time: Skill's Friend and Luck's Enemy:

In areas where both luck and skill affect results, both factors can impact short-term results. Over the course of a few hands of blackjack, the winnings or losses of skilled and unskilled players may not be noticeably different. However, over the course of hundreds or thousands of hands, skill tends to dominate luck, and a skilled gambler will almost certainly outperform an amateur.

Similarly, luck can play a prominent part in determining investors' performance over the course of days, months, or even years. Yet, as with blackjack, the role of skill will dominate that of chance as time passes. Over the long-term, those investors who have the best investment process will produce superior results.

We believe that a better process leads to better outcomes. The Outcome strategies rely entirely on data analysis, machine learning and pattern recognition to measure both risk and reward to develop investment models that can deliver superior results over the long-term. This approach has produced strong risk-adjusted returns since our inception. We firmly believe that this will continue to be the case over the long-term.

Investment Strategy and Objectives

The Outcome Wealth Management Global Tactical Asset Allocation strategy manages portfolios comprised of large, liquid ETFs. The strategy is designed to provide efficient global diversification, offer better protection in bear markets, and deliver higher long-term returns.

Monthly Results:

GTAA (CAD-based accounts)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017					1.7%	-0.1%	1.9%	0.1%	0.5%	1.6%	0.5%	1.3%	7.7%
2018	1.3%	-2.7%	-0.3%	-0.2%	0.6%	0.8%	0.9%	0.9%	-1.1%	-1.7%	0.2%	1.6%	0.2%
2019	0.0%	0.7%	1.4%	1.5%	-2.9%	0.7%	-0.2%	3.7%	0.4%	0.6%	0.7%	2.0%	8.8%
2020	-0.8%												-0.8%

GTAA (USD-based accounts)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017								1.3%	0.9%	1.1%	0.5%	1.4%	5.4%
2018	2.0%	-3.4%	-0.2%	-0.1%	0.4%	0.6%	1.0%	0.7%	-0.4%	-2.0%	-0.1%	0.9%	-0.8%
2019	1.1%	0.3%	1.6%	1.5%	-2.9%	1.3%	-0.2%	2.9%	0.6%	1.1%	0.7%	2.3%	10.7%
2020	-1.0%												-1.0%

Portfolio Allocation

In January, the GTAA strategy had a 50% exposure to stocks, which was equally divided between the U.S., Japanese, Canadian, European and emerging markets. Canadian markets were the clear leader with a gain of 2%. Nearly all our other stock exposures declined for the month, with Eurozone stocks falling 3.1%, Japanese stocks declining 2.5%, emerging market stocks plummeting 6.1%, and U.S. stocks basically flat.

The additional 40% of the portfolio which was allocated to “risk-on” positions was equally spread across emerging market sovereign bonds, international REITs, U.S. preferred shares and U.S. high yield bonds. These rate-sensitive positions generally fared better than their pure equity counterparts, with EM bonds rising 1.2%, international REITs advancing 0.1%, and U.S. preferred shares gaining 1.5%. U.S. high yield bonds were a clear laggard with a decline 0.5%.

The remaining 10% of the portfolio which was allocated to “risk-off” assets was entirely invested in short-term U.S. investment grade corporate bonds, which rose 0.9% for the month.

Investment Strategy and Objectives

The OWM Enhanced Dividend Fund seeks to produce a dividend yield that is 1-1.5% greater than that of the TSX Composite Index, while exhibiting higher total returns and approximately 20% less volatility over an investment cycle.

January 2020, Year-to-Date and Inception-to-Date Results

For the month of January, the Outcome Enhanced Dividend Fund rose 3.5%, as compared to a gain of 1.7% for the TSX Composite Index.

On a year-to-date basis, the strategy has risen 3.5%, outperforming the TSX Composite Index by 1.8%.

Since its inception on October 10, 2018, the strategy has returned 23%, outperforming the TSX Composite Index by 9.2% while achieving lower volatility and drawdowns.

Monthly Results

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018										-2.9%	2.0%	-4.0%	-5.0%
2019	5.8%	3.2%	1.5%	1.3%	3.2%	0.9%	0.4%	1.9%	2.2%	-2.5%	3.0%	1.9	25.0%
2020	3.5%												3.5%

Top 10 Positions

Company
TELUS Corporation
BCE Inc.
Rogers Communications Inc. Class B
Maple Leaf Foods Inc.
Premium Brands Holding Corporation
Loblaw Companies Limited
SmartCentres Real Estate Investment Trust
George Weston Limited
Canadian Apartment Properties Real Estate Investment Trust
NFI Group Inc.

Sector Exposures

Sector	Weight
Commercial Services	0.0%
Communications	18.2%
Consumer Durables	0.0%
Consumer Non-Durables	14.2%
Consumer Services	3.1%
Distribution Services	0.9%
Electronic Technology	0.0%
Energy Minerals	0.9%
Finance	19.1%
Health Services	0.0%
Health Technology	0.0%
Industrial Services	6.8%
Non-Energy Minerals	0.0%
Process Industries	0.1%
Producer Manufacturing	3.7%
Retail Trade	11.3%
Technology Services	0.6%
Transportation	0.8%
Utilities	20.4%

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