THE LESSONS TO BE LEARNED

Instrument (Inception)*	January 2019 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**5.3%**	**5.3%**	**11.3%**
Venator Investment Trust (September 2007)	**5.5%**	**5.5%**	**8.1%**
Venator Income Fund (August 2008)	**1.9%**	**1.9%**	**10.8%**
Venator Select Fund (September 2013)	**8.4%**	**8.4%**	**15.0%**
S&P/TSX Total Return (March 2006)	8.7%	8.7%	5.2%
Russell 2000 (March 2006)	11.3%	11.3%	7.2%
S&P Toronto Small Cap (March 2006)	7.7%	7.7%	1.4%
S&P 500 (March 2006)	8.0%	8.0%	8.2%
Merrill Lynch High Yield Index (August 2008)	4.6%	4.6%	8.0%

Like the markets, the Venator Funds rebounded nicely from December's carnage, and are off to a good start in 2019. Our equity mandates, specifically, were more aggressively positioned in January than they were in December, so we had expected more asymmetric performance given what happened. This is not unusual for us, as our lowest liquidity names tend to lag market rebounds due to the inability of market participants to get their money back to work quickly in them.

In our letter last month, we wrote that much of the aggressive selling near the bottom was due to an unusual tax-loss selling situation where everyone was up in the fall, yet down by mid-December, and facing a tax bill from profits realized earlier in the year. This was brought on by a government shutdown, a trade war with China, and the Fed positioning to increase rates throughout 2019. As it turns out, January ended up being an about face for all these factors. Tax-loss sellers cycled into new positions that were themselves the victims of tax-loss selling; the government shutdown ended, with nothing resolved; and the Fed reassured people that their rate decisions would be 'data driven' (FYI, it's always been data driven). It also looks like some deal with China will be completed in the first quarter. Just so we're clear - that was a 20% correction that the broader markets experienced in Q4, which is technically a 'bear market'. Hard to believe that it happened, and then almost entirely corrected itself, in just a matter of weeks. With the S&P 500 now only 7% off its all-time high, we aren't even in a correction anymore.

As always, there are lessons to be learned from such a violent market move. In this case, these weren't *new* lessons as much as they are from the same plot that most bear market exits follow:

- **When the market drops 20% start looking for bargains:** A simple rule that works almost every time (2008 was an exception as the market was down over 55% from its highs at the bottom). In such a severe market decline, stocks will show varying levels of volatility and some will overshoot to the downside. We keep a shopping list of companies that we have been itching to buy over the years and if we get the opportunity to buy 30% of them at bargain prices we are probably near the bottom. Interestingly, if we get a chance to buy 70% or more of them, we are probably nowhere near the bottom.

- **When the market rebounds sector leadership often changes:** Technology did not lead the way out of 2000, and resource stocks did not lead the way out of 2008-2009. This current market move was too short lived (and not economically driven) to draw any conclusions from, but it is worth noting that FAANG stocks are still far further off their high's vs the S&P 500 (Facebook down 23%, Amazon down 20%, Apple down 27%, Netflix down 18%, Google down 11%).

- **Markets rebound quickly due to lack of sellers:** The rebound started at 3pm on December 27th, not coincidentally the last day for tax-loss selling in 2018. Within the Founders Fund portfolio, we had completed our flip from being +40% net long equities coming into December, to +70% net long equities at that time, for precisely that reason. When the selling was done, the bids started chasing the market up. Conviction that you are buying stocks at bargain prices is a must.

Despite the market rebound we are still looking for, and finding, bargains. Some sectors have been neglected for too long, while others have experienced such massive corrections that even last month's turnaround wasn't enough to bring them to within shouting distance of where they were previously.

As always, we reserve the right to change our mind!

Brandon Osten, CFA
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