After five years of 29% average returns, this portfolio manager is preparing for a shaky U.S. market

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SPECIAL TO THE GLOBE AND MAIL
PUBLISHED JANUARY 27, 2025
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Life is full of memorable milestones. Investors might recall their first stock or when they accumulated enough money to change jobs or retire, without worry.

Today, I congratulate my friend, Trevor Scott, CFA, for reaching an important milestone as the portfolio manager at Tidefall Capital Management. His fund recently turned five-years old and sports a strong record.

Investors in Mr. Scott's fund enjoyed average annual gains of 28.8 per cent (after fees) from Jan. 21, 2020 through Dec. 31, 2024. By comparison, the S&P/TSX Composite Index gained an average of 10.5 per cent annually over the same period, while the S&P 500 Index climbed by an average of 16.2 per cent annually. (All of the returns herein include reinvested dividends and are expressed in Canadian dollar terms.)

Mr. Scott's fund is modelled on the partnerships that Warren Buffett ran in his youth before he grew Berkshire Hathaway (BRK-A-N (/investing/markets/stocks/BRK-A-N/) -0.52% ▼) into one of the largest companies in the S&P 500.

Like Mr. Buffett's partnerships, the fund charges a performance fee equal to one quarter of returns in excess of a 6-per-cent annual hurdle-rate while maintaining a high-water mark. So, it makes nothing when its investors earn less than 6 per cent annually. More positively, when the fund gains 10 per cent before fees, it charges a 1-per-cent fee.

The similarities with Mr. Buffett's operations extend beyond fees because Mr. Scott gravitates to companies trading at a discount to their intrinsic values and hopes to hold them for long periods. He also maintains a concentrated portfolio that contains a small handful of the most attractive companies rather than buying scores of less promising stocks.

But, unlike many old-school value investors, Mr. Scott doesn't have an automatic aversion to technology companies, and his fund made money in its early days by investing in Match Group Inc. (MTCH-Q (/investing/markets/stocks/MTCH-Q/) +1.85% ▲).

Mind you, he thinks the U.S. market is on shaky ground these days because its equity-risk premium recently turned negative for the first time since the internet bubble of the late 1990s. As a result, he's been shifting Tidefall's portfolio away from big technology companies and toward stocks outside the major indexes that have high free-cash-flow yields.

Looking back at his run over the last five years, Mr. Scott says managing emotions is the hardest part of investing and that the biggest risk to any investor is often themselves.

He suggests that having an investment framework can help investors to slow down, rationally evaluate a company's intrinsic value and to process new information in a deliberate way. Investors can also reduce their behavioural biases by using checklists, writing down their investing theses, and periodically updating and retesting them.

Mr. Scott points to Fairfax Financial (

FFH-T (/investing/markets/stocks/FFH-T/) -0.32% ▼) as being one of Tidefall's most successful investments. He followed the insurance-focused conglomerate for more than a decade before buying its shares in volume after the COVID-19 crash in 2020.

Many investors have a hard time loading up on stocks when the market is in a sour mood, and Mr. Scott says he wouldn't have had the confidence to buy and, more importantly, continue to hold Fairfax without a deep understanding of the company.

While Fairfax enjoyed a phenomenal run in recent years, it remains a great value opportunity, according to Mr. Scott. He points out that Fairfax trades at a modest eight times trailing earnings and a little over his estimate of its adjusted book value, which seems more than reasonable for a company that compounded its shareholder's equity (in U.S. dollar terms) at an average annual rate of 18.4 per cent from the end of 1985 through the end of 2023.

Fairfax is also returning money to shareholders through a combination of a modest 1.1-per-cent dividend yield and share repurchases. It managed to reduce its share count by 18 per cent from the start of 2020 through the end of September, 2024.

(I hasten to add that I'm not a disinterested observer when it comes to Fairfax because it is currently my largest stock holding.)

I wish Mr. Scott and his investors the best of fortune and hope they'll be in a similarly jolly mood when his fund turns 10.

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