April 2017

QUIC INSIGHTS – VOLUME 1, EDITION 1

QUIC's Investment Philosophy

Our View on What Makes a Good Investment

Introduction

Investing in the stock market is not easy. Having the potential to compound one's wealth at high rates comes with a fair degree of risk. We believe that buying good businesses and holding them for long periods of time can help mitigate the risk that comes from the stock market.

QUIC's Principles for Investing

- **QUIC follows a bottom-up, value driven investing philosophy**
- We seek to find the **best businesses** on the stock market and **hold them for years or even decades**
- **A good business is one that holds a sustainable competitive advantage.** This will allow the company to generate constant high returns, which management can then reinvest into the business
- **Management is essential.** How management is redeploying its capital will determine how successful the business is for the long-term. We prefer management teams that take advantage of their runway for growth and constantly reinvests, rather than "rewarding" shareholders with buybacks and dividends
- **We seek to find businesses that have room to grow**. If a company can't grow its market share, geographic reach or operates in a dying industry, it will be difficult for the business to naturally expand
- **Valuation is still important.** Although we would always rather buy a great company at a decent price than a decent company at a great price, it is imperative to not overpay for an investment. Discipline is as important to making money as is an investor's investment approach
- **Good Investments are a Diamond in the Rough.** An investor must understand that they may only come up with a dozen excellent investment ideas that play out in their lifetime
- **Again, investing is not easy. But, it can be this simple.**

Our Investment Philosophy

Buying a Business ... Not a Stock

Everyone wants to make money on the stock market. Everyone also knows that it's not easy to make money on the stock market. Having the potential to make 10% or more a year doesn't come with a little bit of risk. It's nearly impossible to predict how stocks are going to change in a month, a quarter or even a few years. However, an investor can erase much of the risk that comes with investing by buying good quality businesses and holding them for long periods of time. That is how we like to invest.

What Makes a Good Business?

Businesses operate in dozens of different industries. They can be as complex as building electronic, self-driving cars, or as simple as selling hamburgers and French fries. However, regardless how the company makes money, a good business is one that can consistently earn strong, growing cash flows due to a competitive advantage, with a management team able to reinvest capital in highly profitable projects.

Moats

In order for a business to rise superior to its competitors it must hold a competitive advantage, or in business terms, a "moat". Moats can come from scale (Costco), a brand allowing a company to charge higher prices (Nike), or a patented formula that customers crave (Coca Cola) among others. In order for the business to achieve long-term success, the moat must be sustainable for decades to come. Without a moat, the business is no different than all its competitors and it won't achieve strong returns.

High Returns is only Half the Battle

Generating high returns on invested capital is imperative for a business to succeed, and it will only exist in the long-term if the business has a sustainable competitive advantage. However, what management does with the cash flow it generates is vital for the business's future success. Take a look at how the business's management is redeploying capital – are they reinvesting it in the business, or are they concerned with the company's short-term stock price performance and spending it all on distributions? Digging deeper, understand how capital is being reinvested. Does the business require constant capital intensity, or is it a capital light model, allowing for spending to be allocated on initiatives to grow, rather than maintain the business.

What is the Runway for Growth?

Finding a good business is one part. However finding a good business for the next decade is much more important. If a business has run out of space to grow geographically, has no room to grow market share, or is in a dying industry, it will be hard for that business to keep getting bigger. We seek to find businesses that have the potential to keep growing.

And of Course, Valuation

All too often, investors can get too caught up in a company's valuation. However, the longer an investment is held, the less the initial price matters. Valuing a company also brings back uncertainty. Nobody can perfectly predict how a company's revenues will change in the near future. What can be predicted, is if the business possesses the right fundamentals to succeed. Yet, it is still key to not overpay for an investment – that's why discipline is as important in investing as is an investor's process.

Putting It All Together

At the end of the day, what matters most is finding a good quality business that an investor is comfortable investing in, regardless as to whether the stock market opens tomorrow. Good businesses possess a sustainable competitive advantage to generate high returns on the capital invested in the business, with management reinvesting that capital back into the business. If the business can steal market share from competitors, operates in a growing industry, and is trading at a favourable valuation, an investor should not hesitate to pull the trigger. However, it's only with thorough analysis, discipline and patience that investors will reap the rewards of staying true to a sound investment philosophy.

"When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever" – Warren Buffett