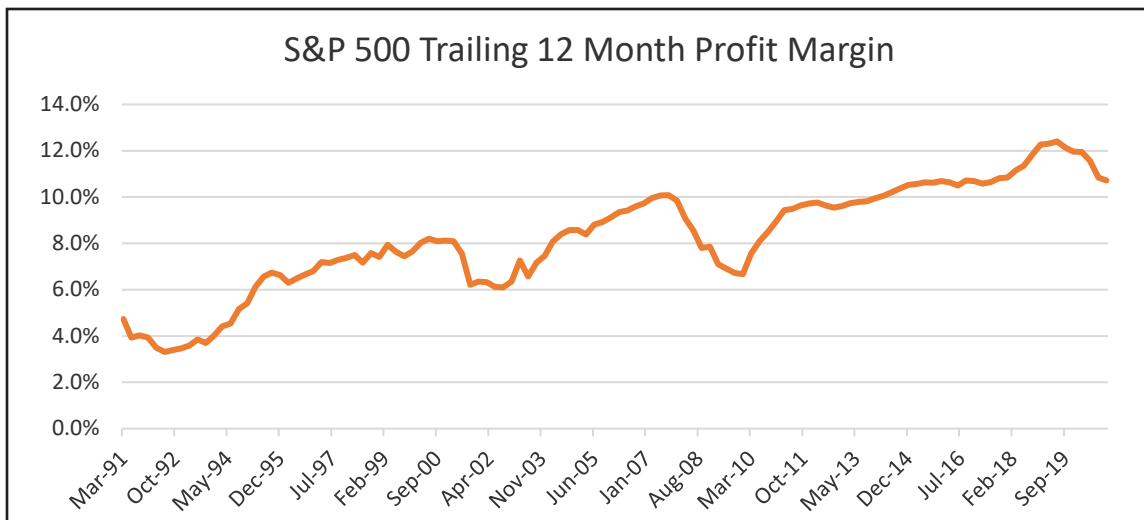


## Quality at Any Price? Quality with no Margin of Safety?

As you can see in the many charts further below, the multiples of high quality, well-managed businesses have expanded steadily for most of those from 2009 to 2020 before COVID. Despite interest rates being up 500 basis points, multiples are even higher. During COVID, we went through all sorts of distortion making numbers less reliable.

Typically, high multiples are reflective of investors' views of future strong financial performance. Recently, we've seen a step-up of multiples, as it seems even marginal positive news from either industry dynamics, macro or financial performance is met with shares moving meaningfully higher. In fact, when we remove the 2020-2023 period (like we have in the charts), it looks like most stocks have just kept getting more expensive vs. 2019. 30x price to earnings multiple seems like it may be the new 20x from a few years ago. Maybe 30x is the new 20x and we'll have to get use to this 'paradigm shift' but for now we are not convinced.

In addition to historically elevated multiples, profit margins of the S&P 500 is at ~12.2% which is near historical highs outside of 2021. The high likelihood of margins reverting to the mean could serve as a headwind against earnings growth.



Source: FRED

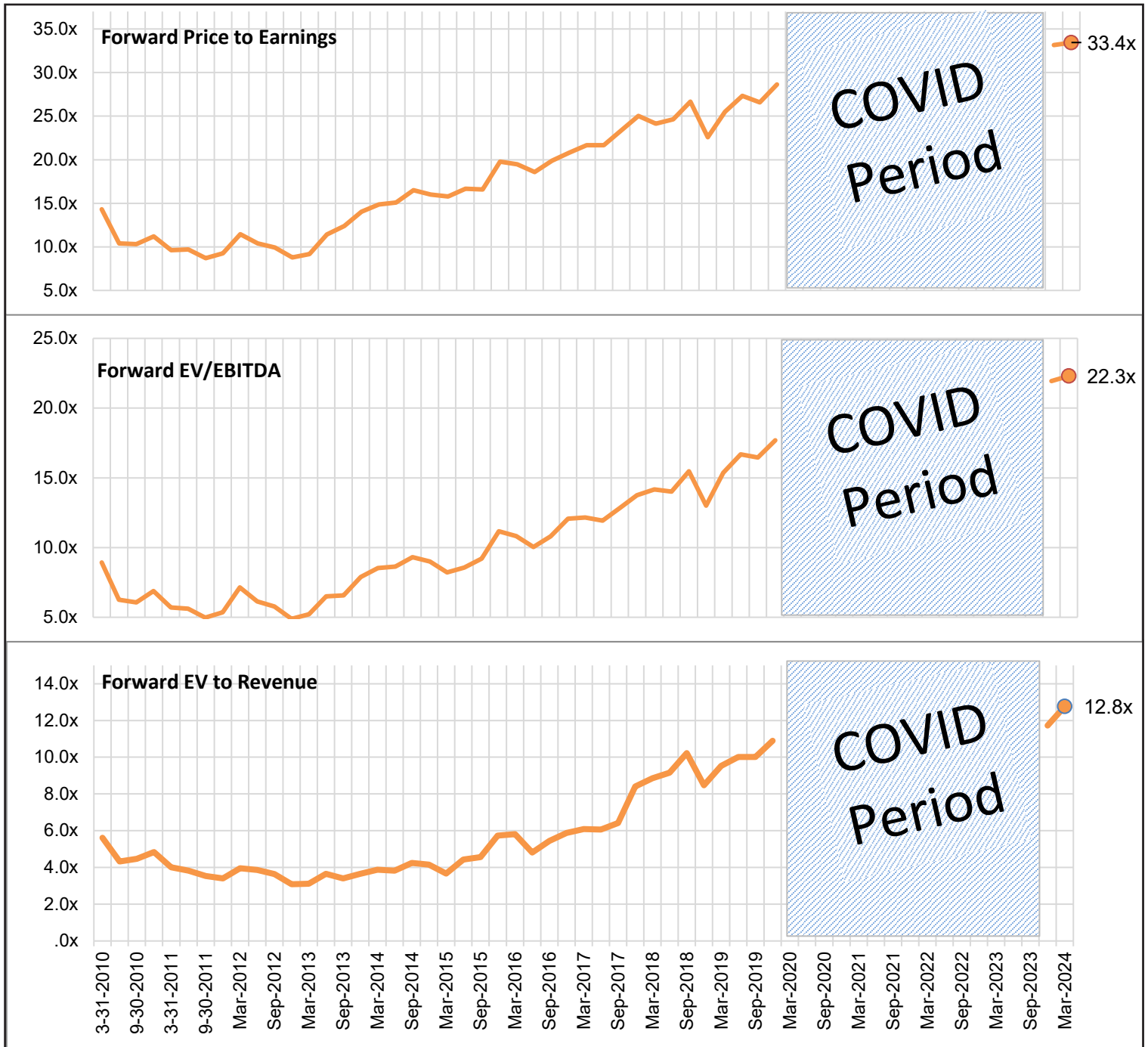
**With both margins and multiples of high-quality companies near peaks we believe the margin of safety of these companies is much lower today than we've seen historically. We take this as a sign that we should be cautious about being long these stocks.**

### Portfolio Positioning

With the large run-up in high quality companies, we are now increasing our positioning in put options. We have focused on trying to increase exposure to put options when the markets have had large run-ups and volatility is less expensive, that is where we see the markets today. We believe with put options we are taking a limited amount of risk but it provides us with large exposure to potential sudden downside moves.

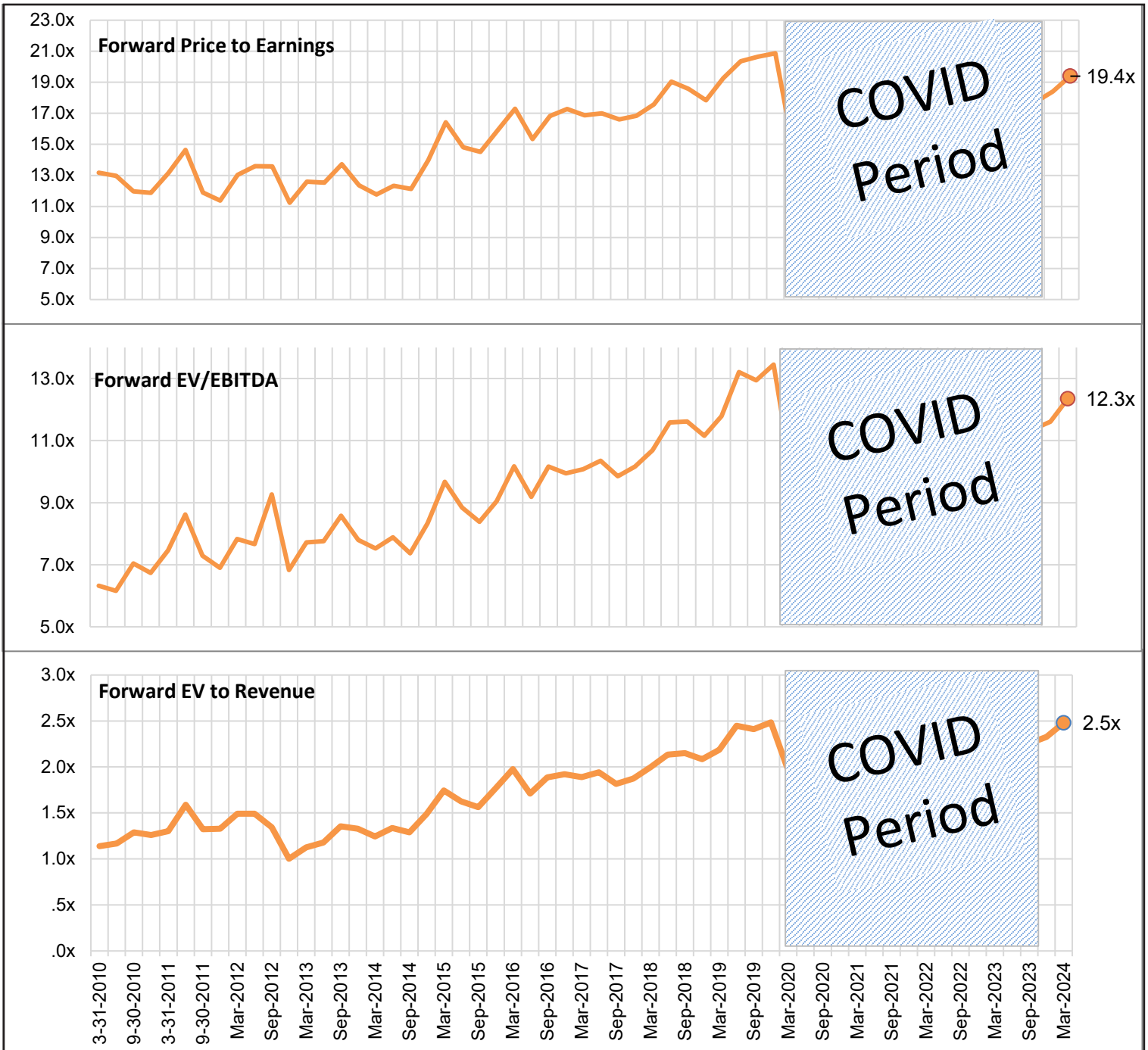
Further below you'll see a wide range of examples of companies which have continued to get more expensive. Repetitive yes, but we hope you'll see our point.

**Microsoft (MSFT)**



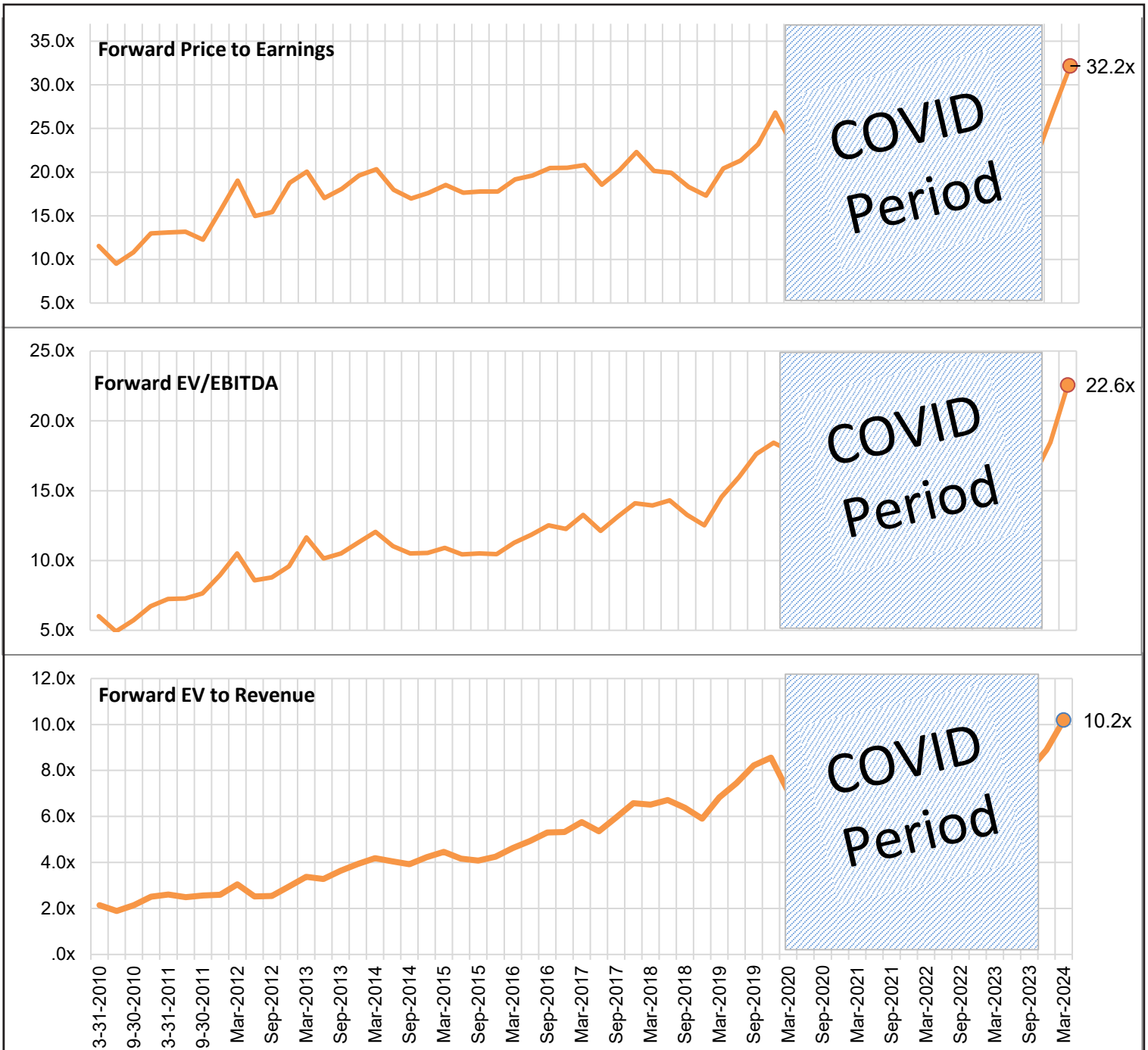
Source: Bloomberg

CGI Inc. (GIB)



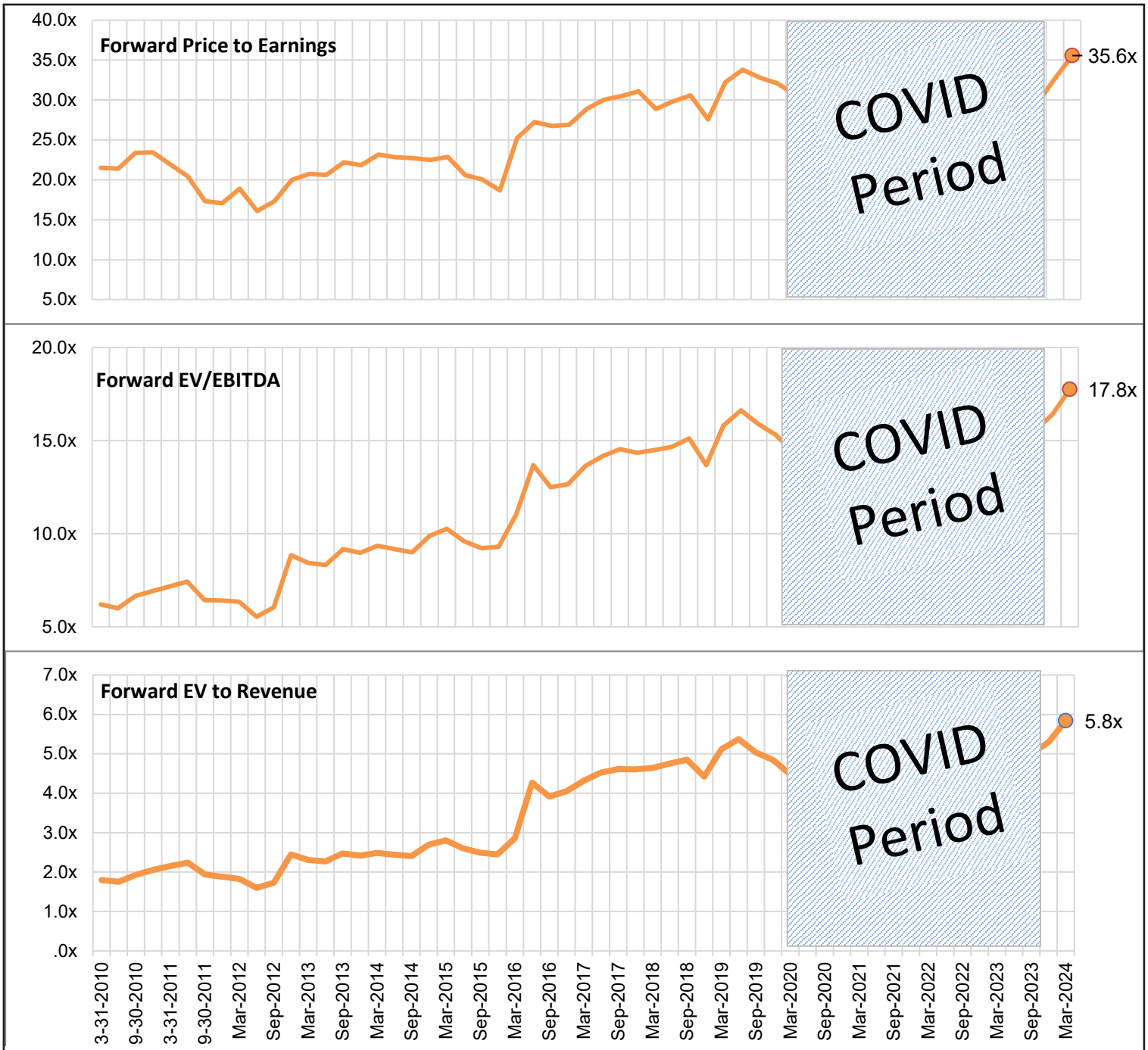
Source: Bloomberg

Texas Instruments (TXN)



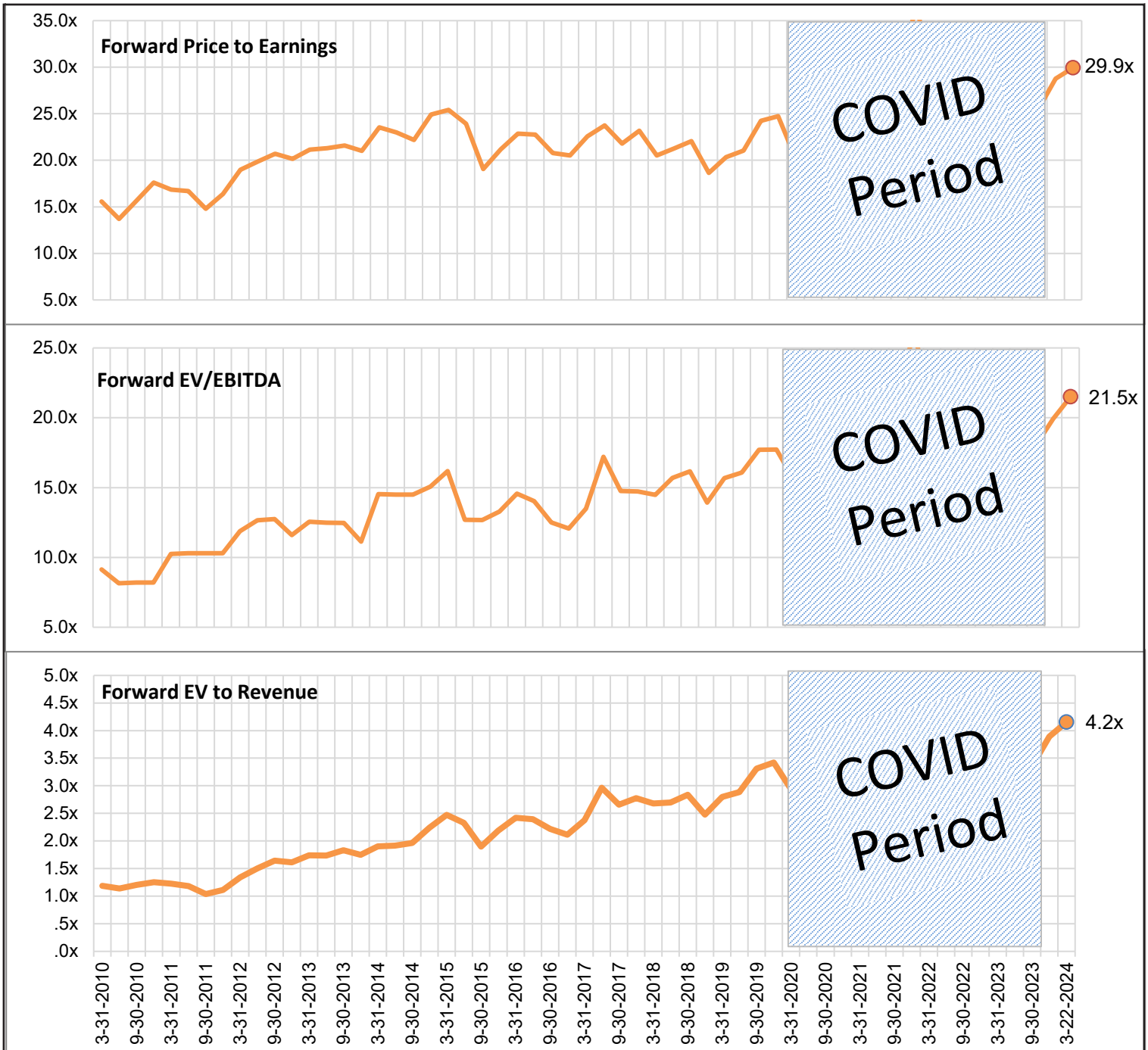
Source: Bloomberg

Waste Connections (WCN)



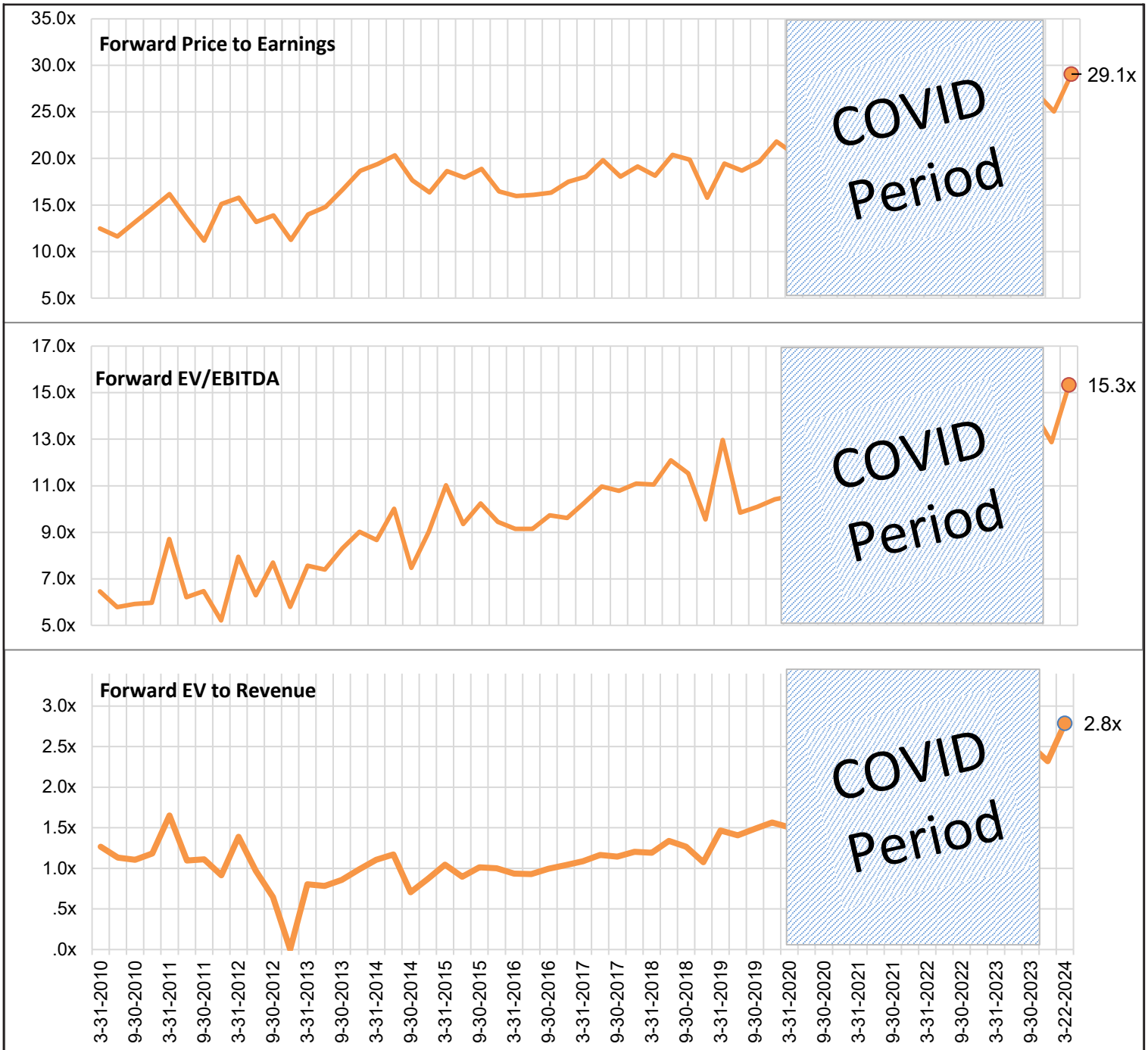
Source: Bloomberg

**Sherwin Williams (SHW)**



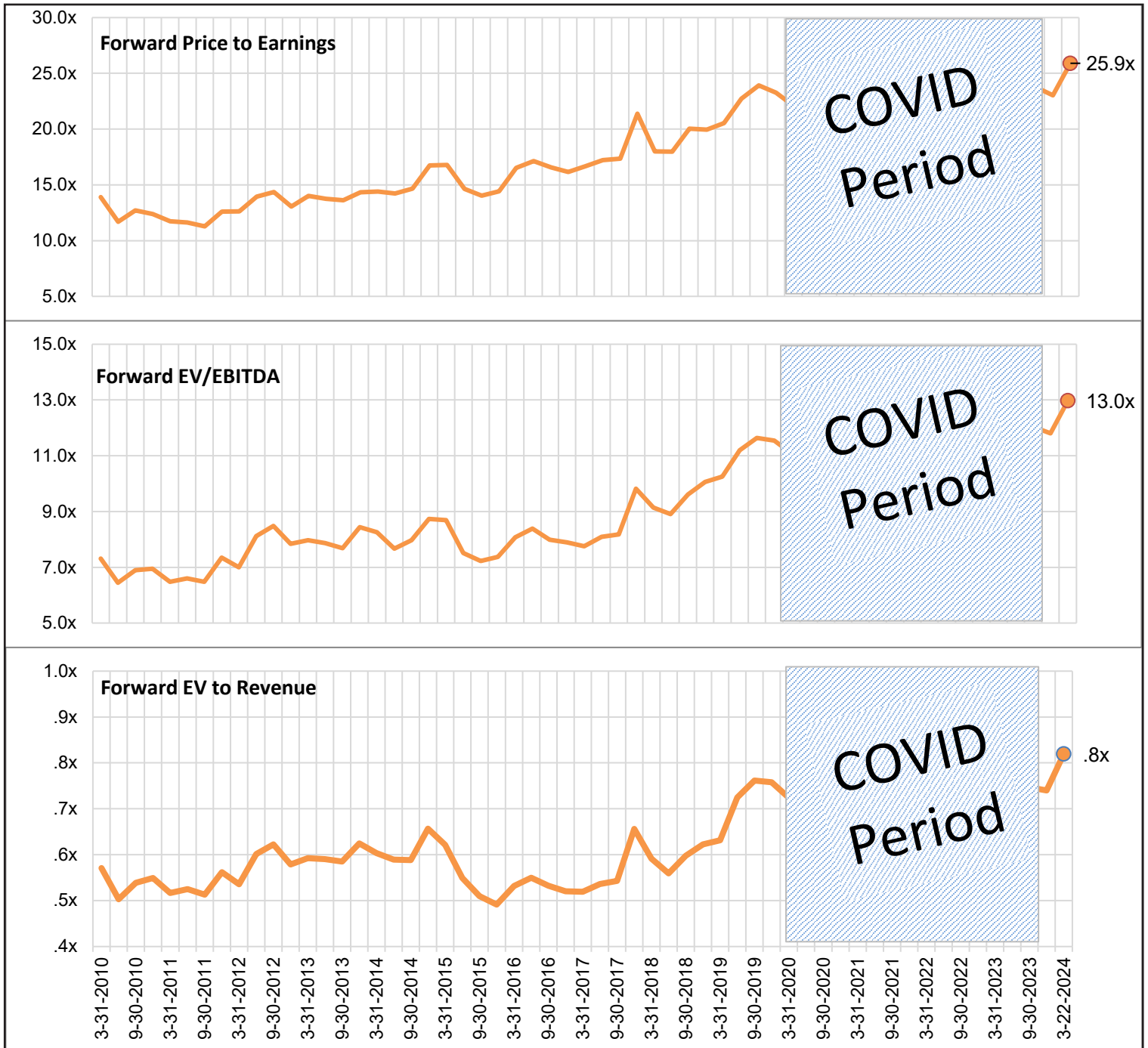
Source: Bloomberg

**WSP Global (WSP)**



Source: Bloomberg

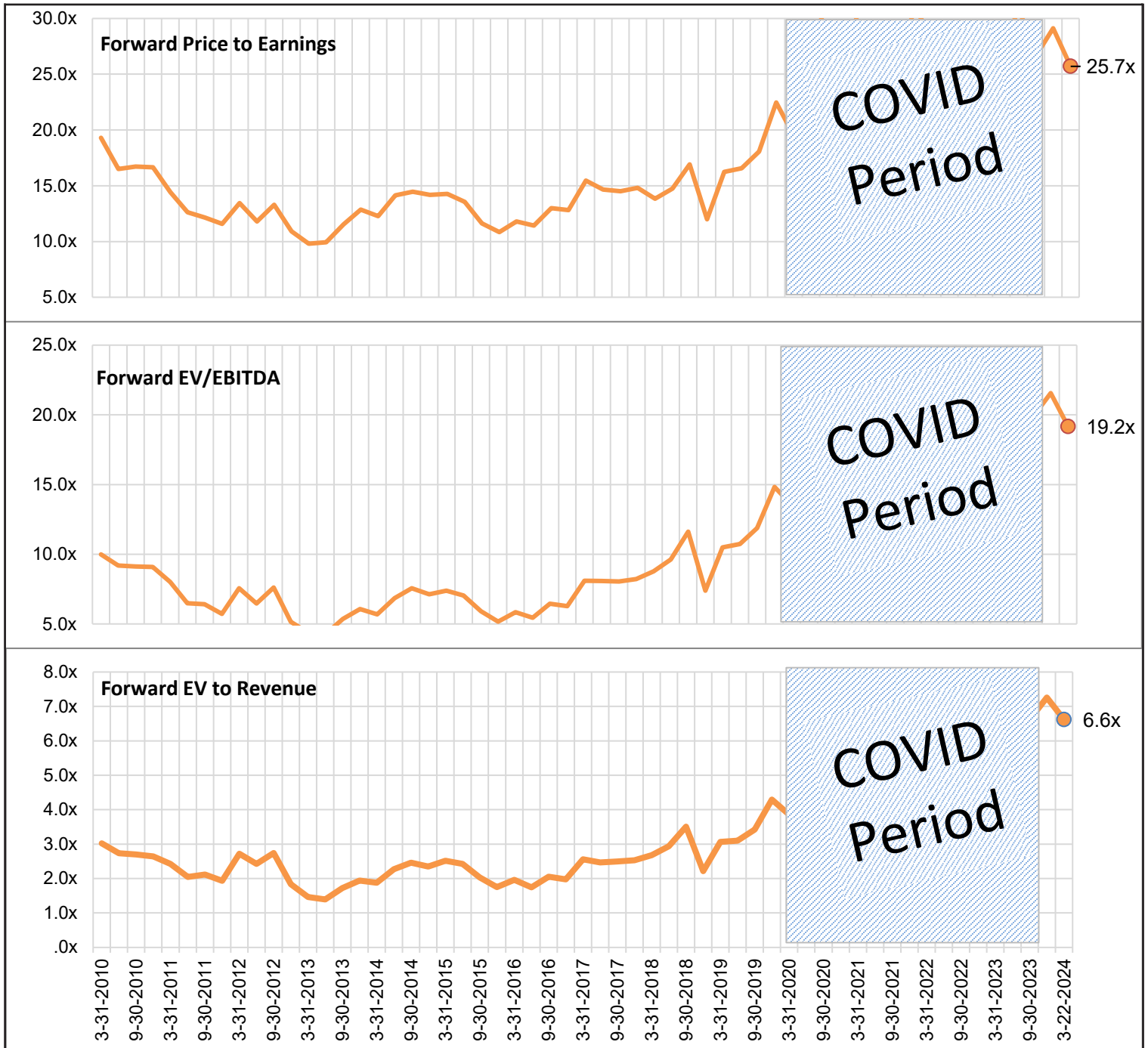
**Walmart (WMT)**



Source: Bloomberg

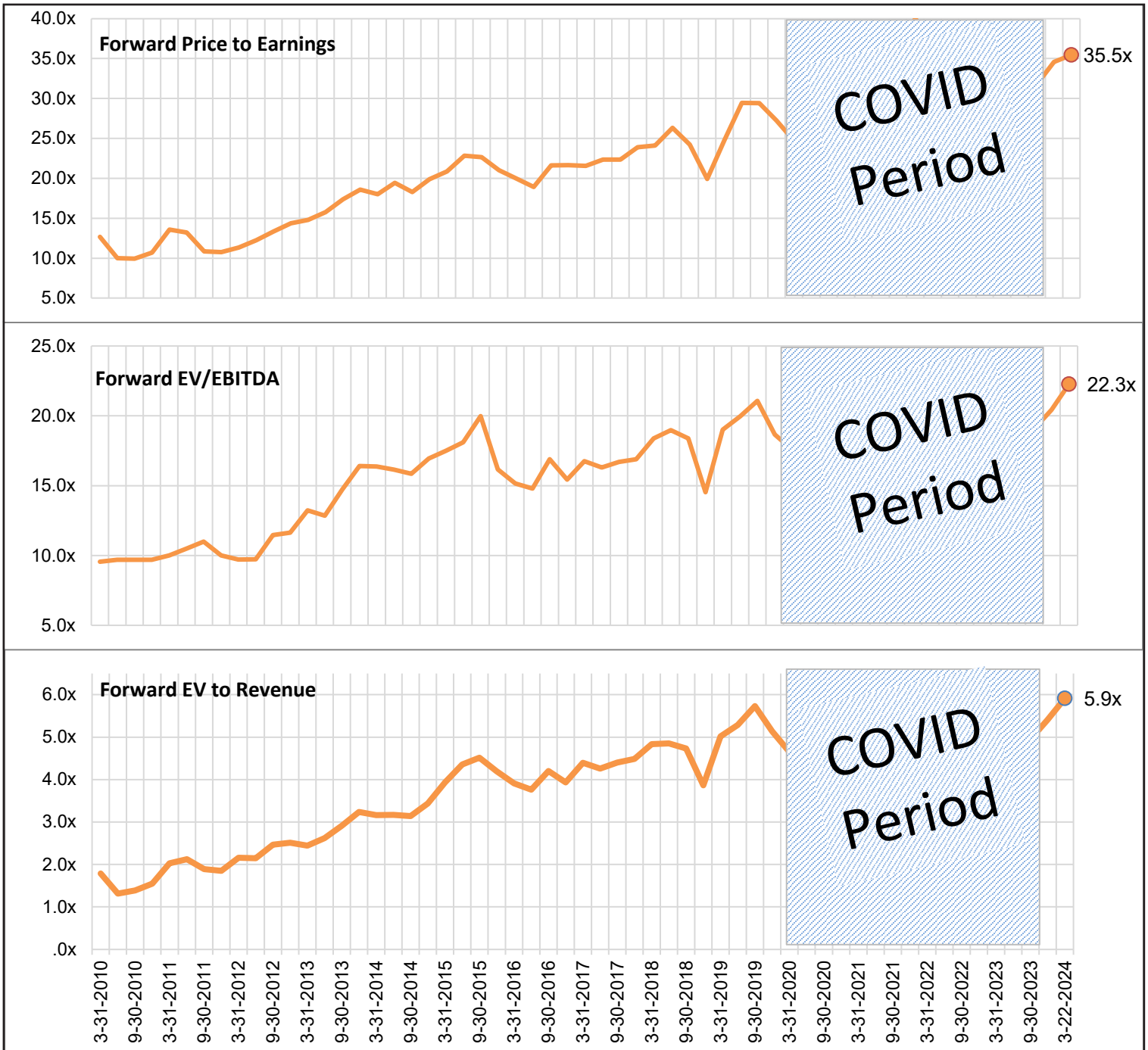


Apple (AAPL)



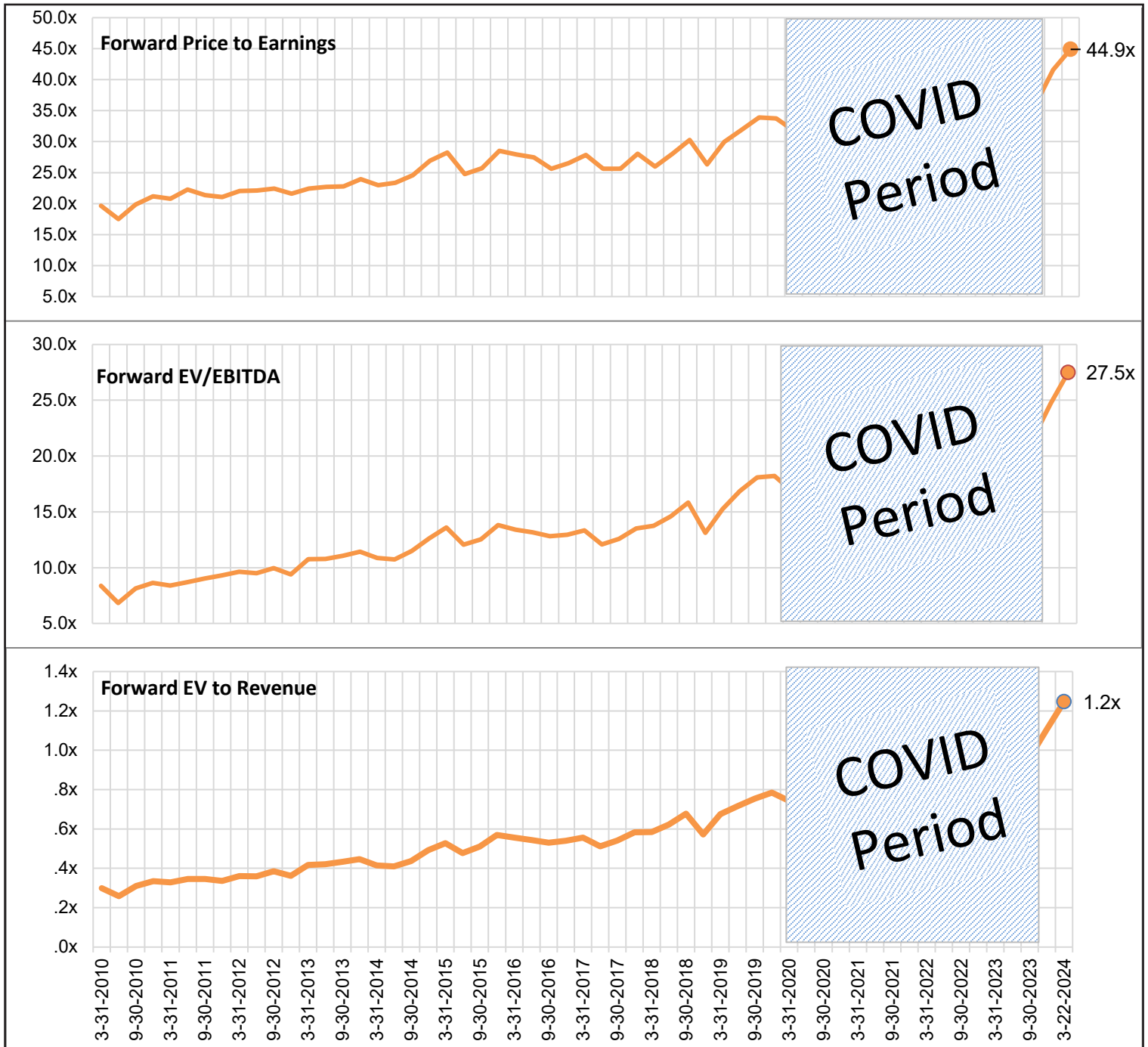
Source: Bloomberg

**Constellation Software (CSU)**



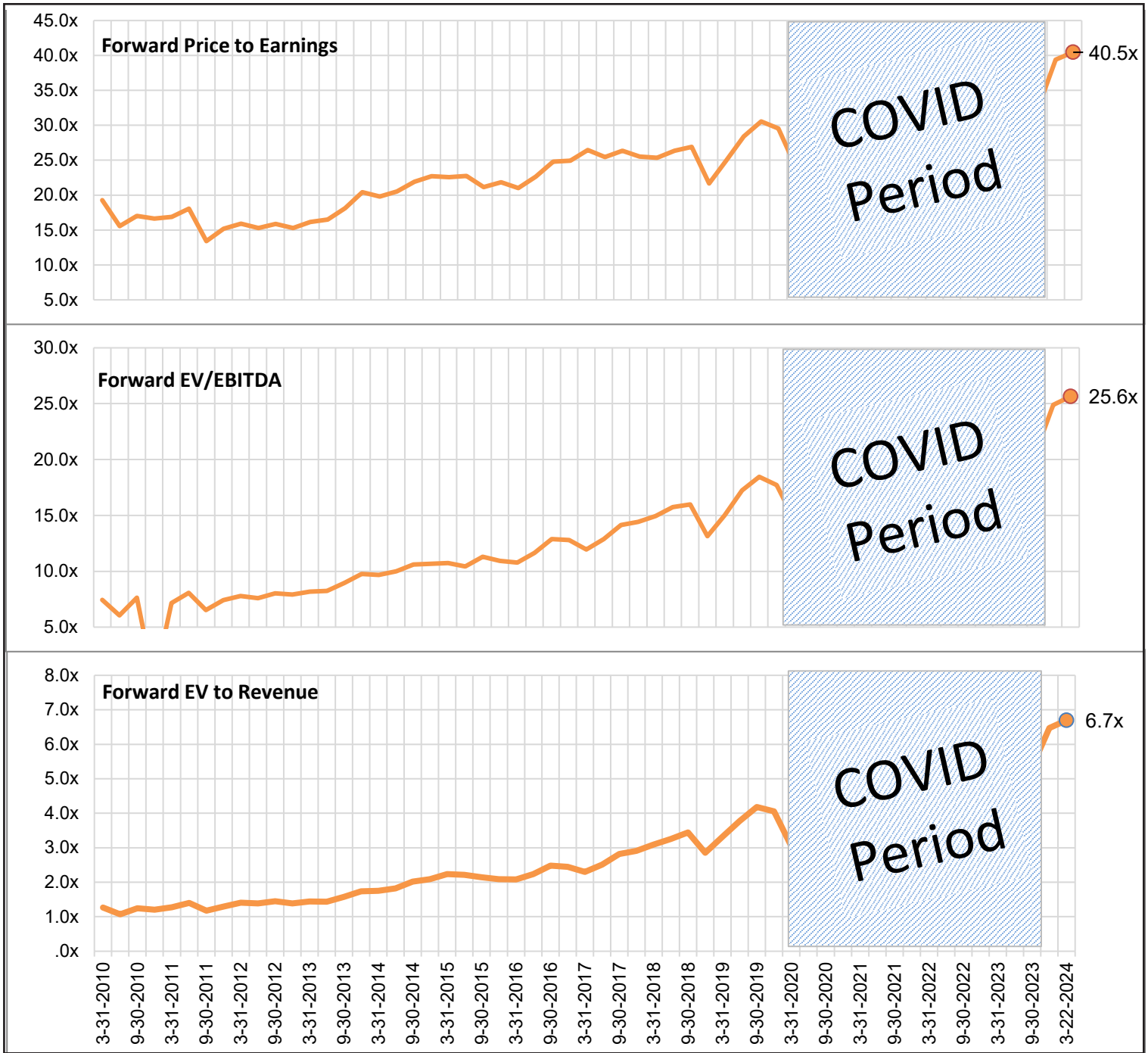
Source: Bloomberg

Costco (COST)



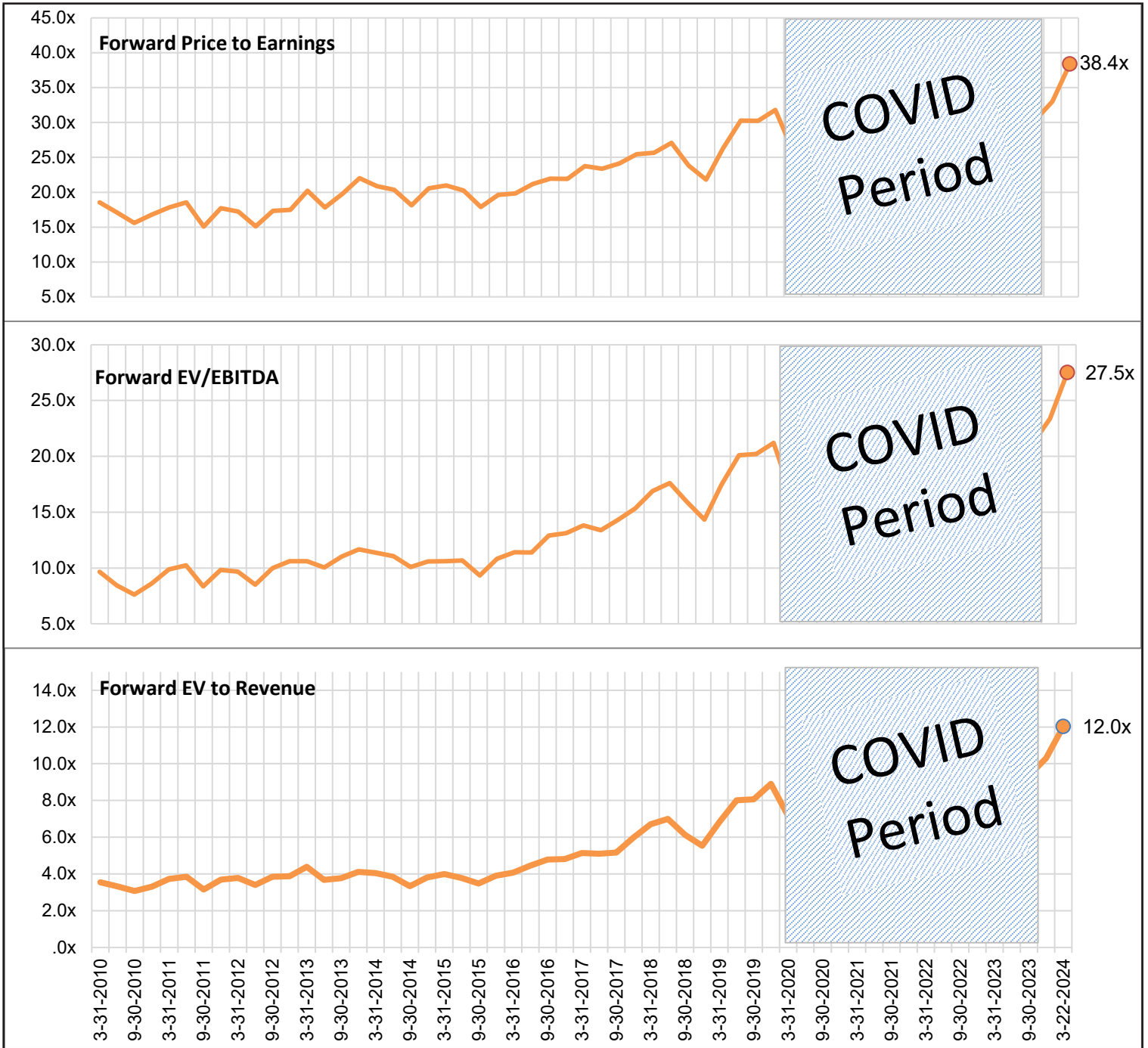
Source: Bloomberg

Cintas (CTAS)



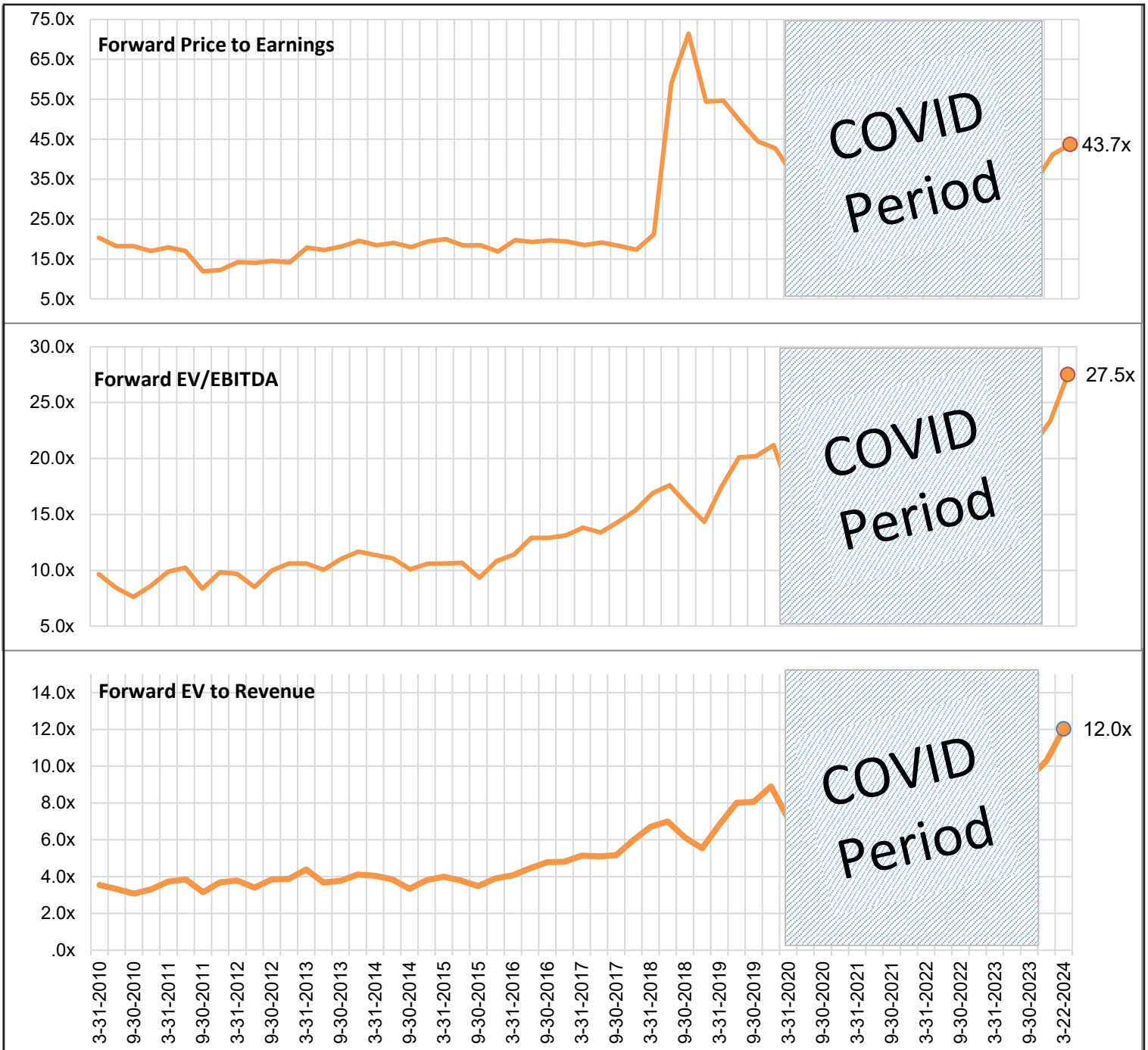
Source: Bloomberg

Copart (CPRT)



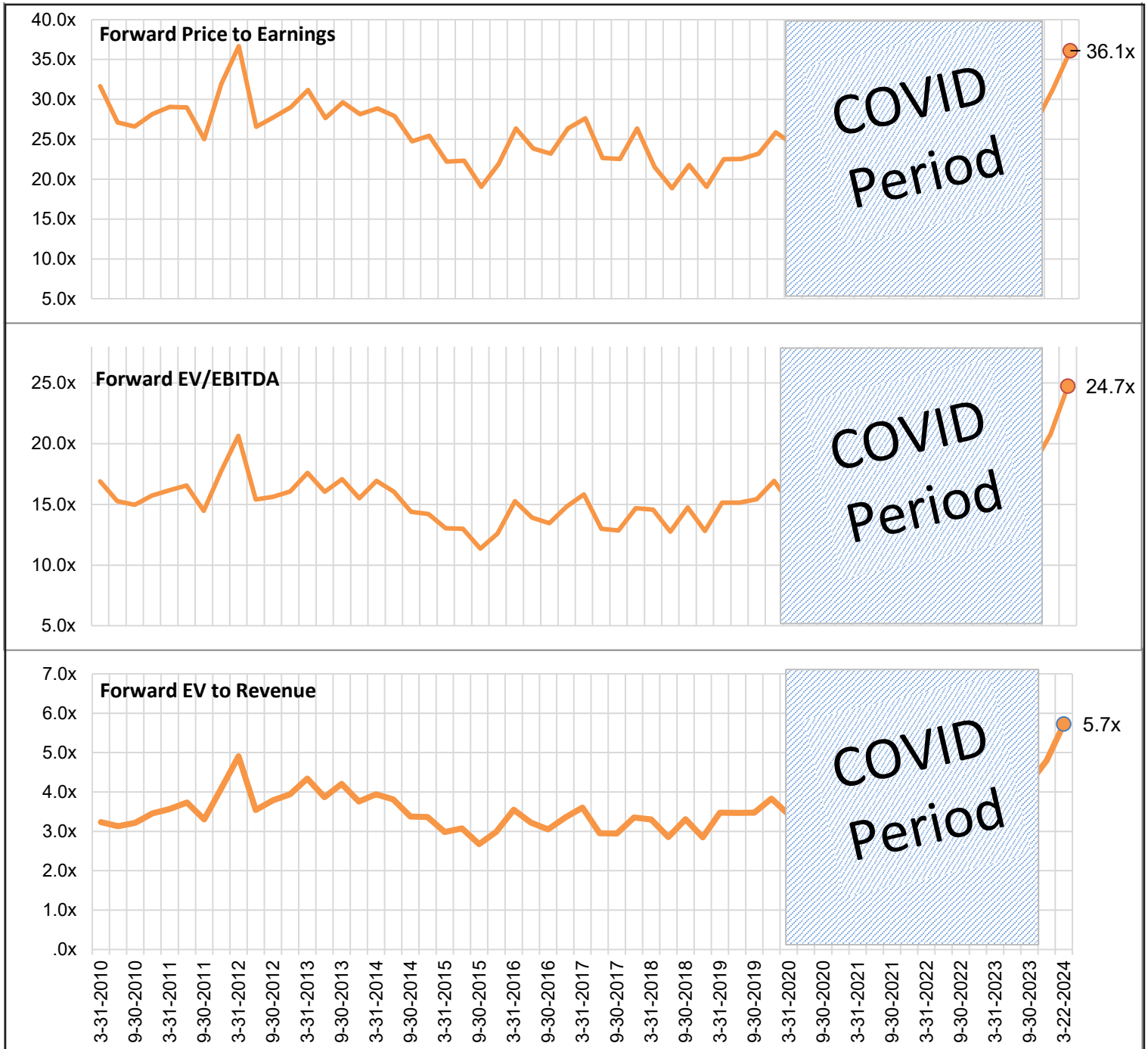
Source: Bloomberg

**Thomson Reuters (TRI)**



Source: Bloomberg

**Fastenal (FAST)**



Source: Bloomberg

Jean Francois Tardif  
President & Portfolio Manager  
Timelo Investment Management Inc.

For more information please contact:  
Timelo Investment Management Inc.

647-725-2865  
Info @riskreward.ca

372 Hollandview Trail Suite #305  
Aurora ON L4G 0A5

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