COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

INVESTMENT COMMENTARY: FALL 2026

"You pay a very high price in the stock market for a cheery consensus."

– Warren Buffett, Forbes, 1979

This has been a strange year, and a good one. Since our last edition, war in the Middle East escalated, oil traded above US$100 a barrel, more tariffs were imposed, and interest rates increased in the United States and Canada for the first time since 2023. Stock markets reached record highs anyway.

From January to the end of September 2026, measured in Canadian dollars, U.S. stocks (the S&P 500) gained about 17%, world stocks (MSCI World Index) about 16%, and Canadian stocks (the S&P/TSX) about 13%. Clients' portfolios did well too. We will give you the full details in our next letter.

Back in the spring, when markets were nervous, many people were tempted to step aside. Those who did missed one of the best six months for U.S. stocks in 70 years. Nobody saw it coming, and we did not try to guess. We never do.

Instead, we regularly ask the same two questions about each company we own, namely: Is this business worth more or less than at our last assessment? And would we pay today's share price for it? In our view, when the price falls and the business has not changed, that is an opportunity, not a warning.

With markets pushing higher, we want to use this letter to share what we believe is an important idea in investing. We believe that feeling safe and being safe are not the same thing.

The most expensive mistakes are rarely made in a panic. They are made when people feel comfortable: when prices keep rising, when everyone around them is making money, and when someone is offering a product that sounds sensible. This comfort breeds a false sense of security. Below are four places where we see that comfortable feeling today. For each one, we offer our perspective and share what we believe to be pertinent questions that should be answered before committing capital.

1. THE COMFORT OF THE CROWD

The S&P 500 Index holds 500 companies, so it feels like your money is spread across 500 businesses. In practice, it is not. The ten biggest constituents currently make up nearly 40% of this index. And, since late July, just five companies (Microsoft, Nvidia, Meta, Apple and Alphabet) supplied about 93% of the index's gains. In September, nearly 8 out of 10 stocks in the index

actually declined. Canada is similar: our ten largest companies make up about 38% of the S&P/TSX and contributed the bulk of the index's gains.

Investors feel strength in numbers. When everyone owns the same winners and the prices keep climbing, it feels safe. But a higher price does not make a company safer. It only means you are paying more for the same business. Today, buyers of U.S. stocks pay nearly $20 for every $1 of profit those companies are expected to earn next year. The 10-year average is about $17.

Picture a rowing team of 500 people where only five are doing all the rowing. It looks like a big team. It behaves like a small one. Ultimately, this is unsportsmanlike and the team will disintegrate.

As your team's coach and general manager, we want every player to contribute. Otherwise, you end up like the Toronto Maple Leafs! We choose to own 25 to 30 businesses, each one chosen on its own merits. The question we put to every company we want to own, and that you can put to every investment you are considering, is this: am I buying it because it is a good business selling at a fair price, or because everyone else owns it? In a year like this, standing apart from the crowd can feel uncomfortable. It is also the only way to get a different result from the crowd.

2. THE COMFORT OF A GREAT STORY

Artificial intelligence is real, and it will change how we all work. That is exactly what makes it risky for investors. When a story is true, people stop asking about the price.

This year, the four biggest U.S. technology companies are on track to spend about US$700 billion building AI. Now the companies that make AI are preparing to sell shares to the public. Anthropic, the maker of the Claude AI assistant, is one of them. According to press reports of its draft prospectus, its sales grew about 15-fold in a year. The same reports show a very large loss. They also say the company plans to spend hundreds of billions more on computers and hopes to be valued at US$1.5 to US$2 trillion.

History is a good guide here. Railways and the internet changed the world, yet many of the people who paid for them lost money, because most of the rewards went to a few winners. A wonderful business can still be a poor investment if you pay too much for it. It is also worth noticing when something is offered to you. New shares are usually sold when excitement is at its highest, because that is when the seller gets the best price. The questions worth asking of any exciting story are these: Who will actually make money from it, how much, and what am I being asked to pay for it today?

We are interested in what AI can do over the long run. We will wait until we can buy a business we understand, at a price that makes sense.

3. THE COMFORT OF SIMPLICITY AND CONVENIENCE

Index funds and ETFs began with a good idea: Own the whole market, keep costs low, and stop paying for trading that rarely helps. We have always said that a low-cost, broadly diversified index fund is hard to beat.

But good ideas get stretched. There are now

more ETFs than there are stocks to put in them, including funds that hold just one company. A product designed to discourage trading has become a tool for trading, bought and sold every second the market is open.

Even the word "passive" can mislead. When you buy an index, you buy whatever it holds, at whatever price it happens to be. Today the 10 largest companies make up over 40% of the S&P 500. Someone chose how that index is built, and choosing an index is itself a decision. A fund that sounds simple can hide a very concentrated bet. So before buying one, ask yourself: Do I know what I actually own inside it, and why I own it?

We would rather own businesses directly, one at a time, where we can see exactly what we have and what we paid.

4. THE COMFORT OF A STEADY STATEMENT

Bonds, GICs and savings accounts feel like the safest place to be. Their value barely moves from day to day, and today they pay more than they have in years. The steadiness is real. The safety is not.

Here is the simple math. Put $100 in a 2-year Government of Canada bond and you earn about $3.40 a year. At the top tax rate in Quebec, about $1.80 of that goes to taxes, leaving you $1.60. Meanwhile, prices in Canada rose 3.1% over the past year, so what cost $100 now costs about $103.10. Your statement says you have more money. Your grocery cart says you can buy about 1.5% less with it, every year. So, the question to ask of anything that feels safe is this: After taxes and after inflation, is my money growing or shrinking?

Milton Friedman called inflation "taxation without legislation." It is the cruelest tax, because it comes on top of the one you already pay, and nobody sends you a bill. We define risk as permanently losing what your money can buy. Inflation does exactly that, just slowly enough that no one notices.

Many of you have run a business, so you know the remedy. When your costs go up, you raise your prices. A bond cannot do that. A good business can.

That is why bonds in your portfolio have one narrow job: to cover roughly the next 3 years of your spending. We keep them short-term and sized to that job. Your long-term protection comes from owning good businesses.

FINAL THOUGHTS

These four sections are really one lesson. The crowd feels safe. A great story feels safe. A simple product feels safe. A steady statement feels safe. In each case, the comfortable feeling hides the thing that matters most: what you are paying, and what you are getting in return. And the feeling is strongest exactly when prices are highest, which is also when Wall Street and Bay Street work hardest to sell you something.

Warren Buffett put it plainly almost 50 years ago: You pay a very high price for a cheery consensus. When everyone agrees that something is safe, that comfort is already built into the price. Most investors learn this the expensive way, by chasing what has already gone up, jumping to the next exciting idea, or reaching for a yield that does not keep up with the cost of living. Every generation learns it again.

We would rather learn from other people's mistakes than pay for our own. So, whenever something feels safe, we ask two questions: What am I really paying, and what am I really getting? We invite you to ask these too, about anything anyone offers you.

For us, the answer leads to the same quiet habits: Own a limited number of businesses we understand, pay only prices we think are reasonable, and do nothing when nothing needs doing. It is not exciting. It is the most dependable way we know to keep your wealth working for you.

Thank you for your continued confidence and trust.

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