

Do deadlines really matter?

"I love deadlines. I like the whooshing sound they make as they fly by."

Douglas Adams, The Salmon of Doubt

Julian Cane, manager of the BMO Capital and Income Investment Trust, discusses deadlines – namely the etymology behind the word (its origin and how its meaning has changed over time) and why they lack significance in his portfolio.

The word 'deadline' has a rather sinister and descriptive origin, dating back to the 'do-not-cross' lines in American Civil War prisons. For a prisoner to step past the deadline in the jail – well you can imagine what happened next. But the intensity of focus which the original "deadline" brought has been lost. These days, political deadlines come and go with growing regularity and no real consequences seem to arise. Perhaps we're living through a mass exercise in exposure therapy; when you've been driven repeatedly to the cliff edge only to discover more pastures beyond, the end result must be that we've all become desensitised, much diminishing the original threat of deadlines.

How is this relevant to investment?

We don't claim to be political experts and I wouldn't want to argue politics and economics are totally irrelevant to investment outcomes. It's just that most of the time we believe the drivers of most companies' share prices are down to more micro factors – is their product or service attractive to customers? What's the competition doing? What are the market dynamics like? Against this background, most political and economic scenarios are largely irrelevant – if a company's product is inferior to a competitor's, nothing in the wider economic or political environment will save it. Whether inflation is 1.5% or 2.5% or interest rates are 0.5% or 0.75% are surely rounding errors, but these macro factors seem to distract many.

The specific drivers of a company's success (or failure) are hardly ever found at a macroeconomic or political level, and as a result, we have always focused more on investing in companies that can succeed almost regardless of the wider environment. Political deadlines can come and go; we won't chop and churn the portfolio based on a hunch as to what will happen next. Whether we are in or out of Europe, or in a hybrid Hokey Cokey, I'm sure most people just want to get on with their lives. People and companies are inventive in ways that aren't necessarily easy to predict. Yes, we don't have a clear vision as to the philosophical direction of the country, but collectively there is a clear sense (and necessity) to carry on and make progress.

Focusing on what matters most

The media needs to create news to sell, and brokers aren't averse to encouraging their clients to trade. With the abundance of news around, it's important to focus on the most important issues. The true interests of long-term investors are best served by investing in companies that generate high returns; being able to ignore the distraction of political deadlines and the hypothetical consequences can only be counted as a considerable extra benefit.

Investing for the long term

We believe investment, particularly in equities, should be for the long term. In this context, short-term deadlines are also less relevant. Our shareholders rightly demand strong performance, but to expect this each week, each month and each quarter would be to misunderstand the volatility and slightly random nature of individual share prices and stock markets. We can't guarantee to perform to short-

term deadlines, but over longer periods our results show the logic of this approach and strength of our process.