



Brad's Musings

Do Onions Make You Cry?

For many years, my mentor and former colleague, Ira Gluskin, informed and entertained his clients with his publication, *Ira's Musings*. His unique wisdom and insights are gained, at least in part, from constantly asking the right questions. With respect and admiration for Ira I have decided to name this publication, *Brad's Musings*. My intention is to educate, inform and entertain. Another intention I hold is that over time you will get to know me better and understand how I analyze businesses and approach investing. The stock market is a great teacher and over the course of my career I have gained many insights which aid me in my investing. I look forward to sharing these insights with you in this and future letters.

Now, let's talk onions. On your way to the cottage or to the ski hills, you may have noticed some very productive (and aromatic) farmland alongside highway 400 known as the Holland Marsh. It's ironic because as far as anyone can see from the highway, there doesn't appear to be much marsh. Before the area was drained between 1925 and 1930, it was a vast wetland home to bulrushes, ducks, birds and fish.¹ Today, it is among the most productive agricultural land in North America. As the song says, good things do indeed grow in Ontario. Onions, carrots, and celery all come out of the Holland Marsh and in copious amounts.

The idea to drain the marsh came from a Bradford grocery store owner, David Watson, around 1910.² He recognized the opportunity to profit from growing vegetables in the rich organic soil known as muck.³ Watson took the idea to William Henry Day, a professor at the Ontario Agricultural College in Guelph.⁴ It was Day who provided the vision, persistence and entrepreneurial spirit to turn Watson's idea into reality. Over many years, Day assembled the capital and the support of local landowners and politicians to undertake the drainage of 7,000 acres of land.⁵ With the infrastructure and workable land in place by 1930, waves of Dutch immigrant farmers provided the final and crucial ingredient to making the Holland Marsh as we know it today.⁶

To many, the Holland Marsh is a wonderful example of progress, ingenuity and accomplishment through the visionary persistence of William Day and the hard work of the Dutch farmers who made it their home and the source of their livelihood. What surprises me is that it appears as though barely a tear has been shed (pun intended) for the once vast and rich ecosystem that has been vanquished from the earth. Had Day never been born, the Holland Marsh might still exist today as a national or provincial park of major significance. Can you imagine an entrepreneur

¹ VanderMey, A. (1994). *And the Swamp Flourished: The Bittersweet Story of Holland Marsh*. Surrey, BC: Vanderheide Publishing Co. Ltd, page 1.

² Ibid., page 3.

³ Ibid., page 2.

⁴ Ibid., page 3.

⁵ Ibid., page 5.

⁶ Ibid., viii.



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proposing to drain the Florida Everglades in order to grow more oranges? It's unthinkable. Within a nanosecond a thousand tweets would materialize and hundreds of Hollywood celebrities would arrive to stop the bulldozers.

No one weeps for the Holland Marsh today. In fact, the opposite seems to be true – Ontarians, myself included, appreciate this local source of fresh produce and exhibit pride in the accomplishments of the Dutch farmers who risked everything to come to Canada and give it a go. When you really peel back the layers (I had to use that pun somewhere in this letter), it's a complicated issue that's hard to reconcile. One day a fervent environmentalist is calling for a freeze on land development and the next day he or she is sitting at a café in Yorkville eating locally sourced salad.

Now, I suppose you are wondering how this could possibly apply to the world of investing. Think of it this way, the farmers in the Holland Marsh have a significant and sustainable competitive advantage. As Warren Buffet would say, they have a very deep moat around them (figuratively and literally). Based on my assessment of our society, I am going to go out on a limb and predict that no one will be allowed to drain vast wetlands in Ontario for commercial purposes EVER AGAIN. The owners of these farms are direct financial beneficiaries of the changing environmental views of our society. You and I may not own any of these farms, but there are all kinds of publicly traded businesses that we can invest in that benefit from artificially high entry barriers due to environmentalism. For example, we can invest in aggregate quarries, oil sands producers, landfills, gas stations, advertising billboards, oil and gas pipelines, refineries and power plants just to name a few. These types of businesses have a healthy representation across all three Waratah portfolios and include names such as Secure Energy Services Inc. (energy waste processing and landfills), Susser Holdings Corporation (retail gas stations), Pembina Pipeline Corporation and Marathon Petroleum Corporation (refineries). Here is the first investing insight: **invest in assets that are needed by society so long as they are in someone else's backyard.** The biggest beneficiaries of strict environmental laws that limit the development of any 'undesirable' asset are, well, the people who own the existing 'undesirable' assets. If you own an aggregate quarry and the municipality refuses to grant new permits, you will earn significantly higher returns. You might even want to consider allocating a few points off your bottom-line to fund the not-for-profit environmental groups fighting to keep your competitors out of town.

I own a home in Toronto and it has been a great investment. In 2005, the Ontario Government enacted legislation creating what is known as the Greenbelt to protect 1.8 million acres of land surrounding Toronto from future development. We have re-created Vancouver's supply-constrained real estate market with laws and lines on a map instead of the natural barriers of mountains and ocean. My home's value will undoubtedly appreciate at a greater rate than it would have without the Greenbelt and I can feel great about protecting the environment. This seems to be a win-win situation, but there are always losers when supply is artificially restricted. Who will bear the cost? Our children will. I have two boys, aged 5 and 3, and another



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boy expected this summer. I wonder if they will ever be able to buy a home in Toronto, on their own, without my financial assistance. I wonder how many more years they will need to save up their down payment. Will they ever figure out on their own, without me telling them, how much I benefited at their expense? These are interesting questions that I can muse about while hiking or biking in Ontario's beautiful Greenbelt.

Brad Dunkley

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