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**Subject:** News and Insights: Investing Like a Forensic Accountant; Banks: Constrained Dividend Increases

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## News and Insights

June 23, 2023

### Investing Like a Forensic Accountant

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Ben Graham Centre's 2023 Value Investing Conference has put the replay of Anthony's keynote speech at its spring conference on YouTube. In the presentation, our President and CEO talked about how he and his partners started Veritas 23 years ago and how Veritas disrupted the capital markets business by convincing investors to pay for independent investment research.

He also explained the Veritas framework for forensic accounting and examples of some of our best work over the years that helped our clients avoid significant losses.

As he said, the Veritas forensic accounting process for identifying risks and opportunities involves paying attention to the details and looking for "flammable items."

"All these little things that we consider red flags, or maybe yellow, all of them mean nothing until there is a spark," he said. "We never know what the spark is going to be. It could be a tweet from Hillary Clinton. It could be a report from a crazy short seller. It could be a change in regulation from the government. It could be the economic change and shift that we're experiencing right now."

Veritas Flammable Items Watch List:

- Changes in financial communication;
- Changes in internal control structure/dynamics;
- Changes in non-GAAP metrics;
- Changes in accounting assumptions/estimates;
- Changes in economic or competitive dynamics;
- Unusual divergence between financial and operational performance;
- Unusual divergence in business strategy.

"I think the timing is interesting now as we're entering a period with a lot of volatility and uncertainty in our economic cycle," Anthony said. Low interest rates for the last 30 years led to a rise in asset values and covered up a lot of problems in businesses, but that period has ended as we deal with stubborn inflation and interest rates that will likely stay higher for longer. "Now is the time to do additional due diligence."

Watch the replay on YouTube: [2023 Value Investing Conference | Keynote Speaker: Anthony Scilipoti](#)

[You can also download the slides.](#)

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Replays for the other speakers are also [available on the conference website](#), including legendary value investor Howard Marks (we wrote about his talk in the newsletter in April - here is Anthony's [LinkedIn article](#) about what he heard).

Dr. George Athanassakos, Founder & Managing Director, Ben Graham Chair in Value Investing, Ivey Business School and conference organizer has also been a guest on our Fact Finder series. You can find the replay on Youtube: [Contrasting Modern Portfolio Theory and Value Investing - With Dr. George Athanassakos - Episode 89](#).

Veritas President and CEO Anthony Scilipoti (left) and Dr. George Athanassakos, Founder & Managing Director, Ben Graham Chair in Value Investing, Ivey Business School (right) at the spring conference.

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## **Banks: Constrained Dividend Increases and Buybacks**

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The Office of the Superintendent of Financial Institutions this week announced a 50 bps increase to the domestic stability buffer (DSB) to 3.5%, increasing the minimum CET1 ratio requirement for Global or Domestically Systemically Important Banks (G-SIBs or D-SIBs) to 11.5%.

OSFI cited elevated and rising systemic vulnerabilities, including rising interest rates, home prices that are climbing again, and elevated household and corporate leverage as reasons for the higher buffer.

Our Financial Services Senior Analyst was on BNN Bloomberg to provide his take on what this means to investors in Canadian bank stocks.

All the Big Six banks already have sufficient capital set aside to comply with the new buffer, so they won't need to raise more capital. But what the higher DSB will do is constrain the

so they won't need to raise more capital. But what the higher DSB will do is constrain the ability of the bank to increase dividends and buy back shares.

"We're at a stage where the banks are a little more capital conscious and want to preserve their capital," he said. "We're already at that part of the cycle where banks are more restrictive on lending. There is a reduction in the willingness to lend, but on the other side of that, due to the increase in interest rates, the demand for loans is also in decline."

Nigel also discussed how he expects banks' earnings to come under increasing pressure.

Watch the replay: [Higher 'DSB' means smaller dividend increases for banks: Analyst](#)

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*In case you missed it, our related company Veritas Asset Management Inc. held a webinar last week discussing why its funds are underweight Canadian banks.*

Watch the replay: [2023 Outlook Presentation: If Not Banks, Then What?](#)

Visit [Veritas Asset Management Inc](#) for more details about our funds, such as top holdings, performance numbers and the latest fund commentary.\*

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