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Tips from Experience

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Chris has a BA in Economics from UBC, and a business degree from Western (now Ivey MBA). Before joining Assante in 1992 he was Treasury Manager for a Fortune 50 firm where one of his responsibilities was Chair of the Investment Committee of the $65 million pension fund.

Chris provides financial planning, investment planning and full implementation services to about 100 families.

We are pleased to welcome new clients.

For more information, please call (416) 216-6532 or email at choran@assante.com

Proof in the Pudding

Your advisor is one of the few to have a 10-year track record measured by an outside performance measurement service. A $2 million pension fund has followed my recommendations exclusively for more than 10 years. The portfolio is very similar to many of my other clients' portfolios as well as my own, so while no two portfolios are exactly alike, the results are broadly representative of my thinking over the decade.

But first, a note of caution. One of the most dangerous things an investor can do is invest with the intent of achieving the highest returns. The investment gods seem to cast particularly harsh punishment on those whose goal is the highest returns[1]. It's where the industry expression 'pigs get slaughtered' comes from.

	Returns to December 31, 2010			
	1 Year	3 Year	5 Year	10 Year
Pension Plan*	13.2%	2.8%	4.4%	5.8%
Peer Group Avg**	8.8%	1.4%	2.5%	2.9%
Index***	5.1%	0.5%	1.2%	0.2%

* as calculated by The RecordKeeper Ltd.
** Global Balanced Fund average (GlobeAdvisor)
*** Index = 60% MSCI World, 40% Barclays Bond (GlobeAdvisor)

[1] Close on the heels of chasing performance is bragging about investment success. The investment gods really seem to dislike braggarts. So it is with some trepidation that I publish the results.

The results compare very well with relevant benchmarks, especially since the pension fund results are after fees, while the benchmarks have no fees or other costs associated with them.

There are several reasons for the very good results, each of which applies in varying degrees to virtually all my client accounts:

a) zero technology and growth stocks in 2000 – the tech stocks as a group have lost half their value over the decade.
b) significant holdings in Canadian resources for 10 years - long before resources were popular.
c) low exposure to US/International stocks through the decade – the global and US markets have had negative returns for ten years.
d) significant holdings in bonds through the decade.
e) very little activity in the portfolio. Many of your managers have been in your portfolios for the entire decade. This is extremely rare in the investment business today.

The returns camouflage another very important factor: the returns of a great many individual investors (and many professionals) have been much much worse. It is not possible to prove, but industry data strongly supports anecdotal evidence (OK personal stories from clients about acquaintances) that have lost half their capital over the last 10 years.

How? As Nick Murray discusses in the attached guest essay, many people succumbed to the temptation of the tech stocks, and then the terror of the financial crisis. These people tried to capture gains and avoid losses by timing the markets. Data shows that money flowed strongly into tech stocks at the peak, and strongly out at the bottom.

Fortune Magazine recommended a list of 10 stocks that anyone should buy to 'hold and forget about' ('Ten Stocks to Last the Decade'). Unfortunately, $100,000 invested in that list in 2000 would be worth only $30,000 today.

I am most grateful to have survived it with a modest positive return, and thank you all again for your continued very strong confidence and loyalty. I look forward (without tempting the aforementioned investment gods!) to a better decade ahead!

Chasing Performance

It seems heresy for an Investment Advisor to say that top performance is not a goal, but it's true. It's like a date: if you set out to impress your date with how smart or fun you are, 9 times out of ten you wind up looking silly instead. It's much better to just be yourself, and let good things happen. Don't know why, that just the way it works.[2]

[2] I'm sure the psychologists would say that focusing too much on a specific end result blinds the mind to the actual steps required to achieve the result, and you miss a step ….

So if you don't invest for the highest returns, what do you do? Paraphrasing an old adage about marrying for money, 'Never chase the top returns; but it doesn't hurt to invest where good returns might be found'.

And where might good returns be found?

Tips From the Pros

The best wisdom always comes from experience. In February 2011 the Report on Business Magazine published a Q&A with 8 highly regarded investment managers. The article was grossly mis-titled "*How to Make Money Now*" giving it a sense of the breathless urgency so typical of financial journalism and yet so perfectly missing the point – 5 of the 8 managers actually used the word 'patience' at least once in their short answers.

Irwin Michael: the best investment of his career, an out of favor bank-note paper company, went up 6-fold in about 3 years. Sounds good but the interesting part is the first year he owned it, it didn't go up. As Michael says, 'For a year we were wrong'. That's an important lesson about patience.

[In fact, I believe 'patience' is a misnomer. In investing, patience is actually courage. My newsletter essay in April 1999 (www.chrishoran.ca) called the tech stocks 'one of the biggest market bubbles of all time', but the tech crash didn't begin until March 2000, a year later. For a year I seemed to be an idiot, out of touch with the modern world. Of course the inevitability of the crash seems obvious now, but it wasn't at the time.]

Bob Tattersall: clients will recognize Bob as the founder and manager of the Saxon Small Cap Fund (one of my own and many clients' long-time holdings). Bob's advice: the bulk of his money would be in Canadian small companies. Of the 400 companies in the small-cap index, 25% sell at book value or lower. Those are potential bargains.

The balance of his money would be in US-based companies that have a global business and pay a decent dividend, such as Colgate, Pepsi, and Johnson & Johnson, 'and then I'd forget about them for 5 years. That's the hard part for most people'. Patience again.

Eric Bushell, leader of the Signature group of funds sees opportunity in US manufacturing companies with worldwide customers as a way to participate in global economic growth.

Eric's more interesting point concerns risk. As my readers know, I am skeptical of government bonds. Bushell says that bonds are not the safe investment that they have traditionally been; "It may be that the safe havens today are in the places you don't expect them to be – stocks as opposed to government bonds".

Stephen Jarislowsky: his advice is to buy shares of high-quality companies that pay a good dividend, such as MacDonald's or Procter & Gamble, and hold onto them for a long time.

Please note: DO NOT infer here that you should be going out and buying any of these individual stocks directly. See Peter Cundill book review on Page 4.

Book Review and Investment Tips

Peter Cundill, the long-time manager of the Cundill Value Fund, has been widely recognized as one of the best minds in the business: a powerful combination of analytical rigor and the courage to stand apart from the popular crowd. Peter left us recently after a struggle with Fragile X, a rare degenerative neurological disease. His 30-year return was something like 14% per year, which ranks him as one of the most successful portfolio managers of all time.

Peter had the bulk of his $200+ million fortune in Cundill Value Fund, making him the largest unit holder in his own fund. The interesting thing is how it came about.

Earlier in his career, Peter would try and 'cherry pick' his 5 best ideas for his own personal account from the stocks in the Value Fund. He gave up because he said 'it never seemed to work out' - the 5 stocks that actually turned out to do the very best weren't the 5 he thought they'd be! As a result the Value Fund did better.

As I said, the investment gods cast an unkindly gaze on those who try and pursue absolute top performance … and, when you invest the same way as for your clients, things can turn out pretty well – after all, 14% for 30 years is pretty good.

The message is if Warren Buffet can't time the markets, and Peter Cundill couldn't tell which 5 stocks in his Fund would be the absolute best, then it is safe to say that nobody should waste their time trying.

Peter's thoughts on the most important attributes of the best investment managers:

a) Patience
b) Independence of mind
c) Humility

Quote: "Routines and discipline go hand in hand. They are the roadmap that guides the pursuit of excellence for its own sake. They support proper professional ambition and the commercial integrity that goes with it".

There's Always Something to Do
The Peter Cundill Investment Approach
Christopher Risso-Gill
McGill-Queen's University Press 2011

If you want a copy, send me an email and I'll send you one.

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