

IRA'S MUSINGS

April 13, 2009

The Saturday, March 28th New York Times Obituaries section contained articles about two formerly prominent financial figures from another era – Jack Dreyfus, who created the Dreyfus Funds in the 1950's and Irving R. Levine, an NBC financial correspondent of the 1970's. Only our veteran clients will recall these gentlemen, but both were very prominent in their day.

Financial news was not front and centre as it is today. The two gentlemen named above were not household names as they would be today. Nowadays it is an exception when financial stories don't dominate the news in any of our communications mediums, although I am suspicious that teenagers are twittering away about something other than the business cycle. Is this new interest in finance and business just a fad? I seriously doubt it. There has been a trend occurring from the era of Dreyfus and Levine, of ever-greater attention being paid to commerce. This interest may have been piqued because of the immensity of the current financial crisis, but it is not going away, just as the financial crisis is not going away. Markets may rally sharply, but the roots of the economic problems are too profound to be suddenly cured.

The world of investing has also changed. The big picture macro view currently dominates all investing strategies. The possibility exists that this is temporary and that old-fashioned fundamental company and industry analysis may come back to the forefront. I hope so. We have what I believe is the best team of fundamental analysts in Canada. However, even if the trend is temporary, the macro picture will continue to matter, so we have hired Mr. David Rosenberg as our Chief Economist and Strategist. Since he has not yet arrived (David will be joining us in May 2009), there is no point in over-extolling his virtues. All I ask is that you contemplate the following. Many financial service firms claim in their mission statements that serving their clients is all that they care about. However, when there is a financial downturn, as there is now, and assets under management shrink, they respond by cutting many of their key employees. How the client is best served by this strategy I do not know. I am pleased to say that, despite the downturn, we have gone in the opposite direction. Since November, we have added valuable new employees such as Rosenberg (mentioned above) and the senior bond team of Mark Wisniewski and Dean Smith. We are capitalists, not altruists, but we have also met various companies in various guises over the years and we understand what makes sense in the long-run. Our salaries have been much reduced at the top, but the decision to think long-term, not short-term, will always win. I believe our strategy of investing in the enhancement of our team will win for our clients, shareholders and employees.

I usually write a first draft of this essay during the last week of the quarter, hoping that it will not be obsolete by the end of the first week of the new quarter. Events in the market change so quickly nowadays that my statement is not hyperbole. If you examine our March quarterly results with their modest positive bias, you might think that it was a rather unexciting time, unless you look at the performance numbers on a daily, weekly and monthly basis and note the extreme volatility (highly negative markets in January and February; a rally in March). It is not a fun time in the financial world. Yes, there are extremely attractive long-run buying opportunities around, but the risks remain high. As you know I have been involved with

the financial industry for a long time. There have been many downturns, but this one was much worse. Our worst performing models experienced steep percentage declines. Many of our most conservative competitors had a similar experience. Our more aggressive competitors are out of business.

So what have we done about all of this? I am very proud of our Firm. Gerry and I have stepped into the background as you know, allowing the next generation to step forward and this they have done. Moving into bonds and creating the Alternative Multi-Strategy Funds are examples, as is bringing a prominent economist aboard to our team. I am cognizant of the fact that what I have written so far sounds like bragging. I don't always do this. I am among the first to criticize us and myself when we and I deserve it. Just think about this. Investment managers are typically optimistic, otherwise they wouldn't have many clients. We are in the process of bringing a prestigious economist and strategist aboard, who is outspokenly pessimistic. Nevertheless we have done so because there are opportunities to be found even in pessimistic times and also because the gentleman in question is not always going to be pessimistic. One day he may turn positive and our clients will now be the first in line to benefit. If his current pessimism remains intact, we will also pay close attention.

I always read the first draft to my wife Maxine, so she typically has some positive suggestions. Jeremy Freedman is the next editor and he makes significant improvements, but I retain the last rights. Maxine wants to elaborate on why we needed a top flight economist and strategist. Since many of my friends and clients have asked the same question, I figured it was worth answering. What are you and Bill Webb doing, they ask? What are Brad, Jeannine, Kai, Jeff, Paul, Adrian, Reno, Michael, Evan, Christine, and David doing? My goodness – we have a lot of people. The history of Gluskin Sheff is very consistent. When we started in 1984 we had very few assets and very few people. We immediately took the risk of adding a variety of top investment talent. Better results ensued and our Firm grew. We continued along this path for around ten years. We faltered in the late 1990's when we migrated to group think, but we sorted that out in early 2001 and evolved our investment offerings and delivered strong performance from 2001 until the recent market collapse. Despite this, we have gone back to a prudent and forward-looking approach. We have hired the top people ahead of business conditions turning the corner. I am confident that our clients' assets are in good hands.

Back to the economist and strategist. Our Firm has evolved over many years. Twenty-five years ago when I was our visible spokesman, I would publicly decry the worth of economists. Peter Lynch at Fidelity was particularly vocal in saying such things publicly. Who knows whether our views were right or wrong, but it was twenty-five years ago. Over the years my and our views have evolved. I have stated many times that one of our great strengths is that I did not choose to dictate our Firm's strategy. The senior portfolio managers all have complete autonomy. Bill was a prime advocate for hiring David Rosenberg. He sees the value of marrying as effectively as possible the "macro view" with the "micro view". The economic decline that began a year or so ago came as an unwelcome surprise to many of us. The big picture economic viewpoint has been the biggest factor in investing and decisions since that time. While micro views will undoubtedly return to being of significant importance, it might not occur for some time. We desire the best results for our clients. Having a top economist and strategist dedicated to helping us make more informed asset mix and sector calls is a logical and forward-thinking step. Mark my words, most of our principal competitors will follow our lead. Happily for us, we have hired the best and he will fit in well with our team.