

IRA'S MUSINGS

July 15, 2009

Our firm is now over 25 years old. By rapid calculation I should have produced close to a hundred issues of this publication, but the actual number is a tad lower, as I went on a writing strike periodically during the 1990's. I may be sentimental when it comes to Rock Hudson and Doris Day, but I have not ventured forth to review all the old editions. The world of finance has changed dramatically and I have altered my style to accommodate it.

In writing this edition I have not embarked on a review of the major events of the last 25 years. ROB Magazine dated Friday, June 26th did a pretty good job if you missed it. What has changed the most during this period is the tendency of everything in finance to move together and the necessity of having some sort of strategic and economic point of view. Let me elaborate. There once was a time when international investors conducted their affairs by selecting how much of their portfolios they wanted to allocate to each country around the globe. This made sense if you thought that the U.S. market would act independently of the French market, etc. In the good old days this was often true. Today these very same international investors make their big decisions on the basis of industries. They have discovered that oil stocks around the world act the same regardless of nationality. There are a handful of international investors who are skilled enough to combine both approaches, but they are rare birds. Lastly there are the holdouts who claim that they just select the best stocks around the world, regardless of industry. They are true antiques.

I once talked like this, but it is a fiction in today's investment world, if you explore the concept in any detail. The biggest obstacle to following such a simple formula is stock price. There are a handful of great companies, but their shares may be fully priced, whereas there may be lesser companies whose shares are underpriced. How can you claim that just buying or holding selected stocks works all of the time? This is not the moment to discuss basic stock philosophy. The fact is, there have been great changes over the years.

We did not hire David Rosenberg just to get our name in the Wall Street Journal every other day. We wanted better strategic advice on where events are heading. Another profound change as I see it is the degree of uncertainty in the world and the fragile nature of many companies. I remember many years ago when Gerry and I had lunch with a famous Canadian business executive who had accumulated quite a bit of capital over the years. He described his investment approach, which involved selecting a handful of companies that he knew personally to be well managed and just buy their shares and live happily ever after. I argued at the time that with a sophisticated team of analysts and portfolio managers, we could do better. But he preferred his approach. Today I would argue strenuously against this gentleman's approach. I am not simply reacting to the events of the past year. There are simply far too many examples of major companies imploding and their stock prices collapsing, to be complacent. Who is the world's perceived greatest investor? I have studied Warren Buffett's stock purchases for decades. Most of his "franchise stocks" such as Coke and Disney, sell for a fraction of their values of a decade ago and, in the case of Coke, many decades ago. I could refer to Nortel, but that would be too simple. Instead think about Manulife, which a year ago was Canada's most valuable company and by the Fall had fallen in price by over 80%. Anyone could provide scores of similar examples and not just in Canada, but around the world.

One of the lessons from this is that “asset mix” (the mix of equities, fixed income and long-short portfolios) is suddenly more important than ever before. My friend Eric Kirzner, Professor of Finance at the Rotman School of Management, has been right all along. My colleagues on the marketing side have been preaching asset mix for years and are smiling as I write. There is room for the great bottom-up stock pickers in the future, but short-term price volatility will be with us for a while.

I am not presumptuous enough to make predictions about the next 25 years. David Rosenberg would say (if pressured) that it won't be as prosperous as the last 25 years. My only game plan is to be around, one way or another. There are scores of people that are as smart as ever in their late 70's and early 80's. A lesser number are skilled in their 90's, but there are candidates. My dad is 95 years old and shooting for 100. All of these thoughts are personal. Our firm has avoided the majority of bad decisions that kill companies such as ours. We are in the midst of one of the smoothest management transitions in the history of the world. When it is all finished it will be seamless as Gerry and I give up our titular roles. I am doubtful that *Ira's Musings* will go on for another 100 issues, but *Bill's Musings* can easily outpace that goal and behind Bill there are a variety of potential contributors. In many ways, the team we have assembled is one of our proudest accomplishments.