



My View

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Stillness of the Waters

Inactivity can be deceiving if you do not look below the surface to see what is actually taking place!

Let us take a look at managed money, be that pooled, segregated, pension, mutual or high networth discretionary accounts. They all work the same way. What makes them different is the minimum entry threshold and in turn the type of portfolio statements, depth of reviews and fees you pay for that service.

All portfolio managers have a fiduciary duty to manage the money that they are entrusted with in a prudent fashion in accordance to their investment policy mandate, which is published in the prospectus or investment policy statement. They also abide by a very tight, buy/sell discipline on the holdings that they either have in the portfolio or they are tracking externally, which are not in their basket of securities. Various types of management styles exist in order to be able to assemble the correct blend of mandates to preserve and grow capital.

Back about a year and a half ago, a lot of bells started to go off in the offices of the managers that we employ to do the specific security selections.

As you know, I am bias toward the value style of management. Those are managers looking for discounted securities in relation to their intrinsic value, who represent a bargain until others clue in on the discrepancy, or something takes place that changes in order to maximize returns, thereby driving up the stock prices.

Their sell discipline is also very regimented, as to when the manager feels that the holding has reached its full value and its time to sell, or perhaps there has been a negative event that has taken place, which would cause the manager to rethink their weighting in the firm.

In any case, bells started going off because of individual holdings not necessarily because of the broad market. What ended up taking place is some crystallization of profits by selling off or reducing select holdings. Some active re-aligning of holdings within portfolios also took place to take advantage of opportunities that were being created and also the building up of cash positions. In some cases, upward of 40 to 50

percent is sitting on the sidelines looking for short-term trading windows and strategic long-term acquisitions that fit their mandate. Proof of that is simple; if this was not happening, then our returns would be as disappointing as the TSX at -35 percent and the global markets average of -50 percent.

You just need to look in the business section of the newspaper to see great companies in almost all sectors making massive profits and their stock prices are down upwards of 70%.

Depending on the specific mandate of the portfolio, a lot of the managers making the buy/sell decision are about as giddy as a kid in a candy store. So many great deals to be had, so little time to evaluate them and act before they are gone.

Remember that more millionaires were created after the crash of 1929 than at any other time of history, up to now.

Please rest assured that although the surface may seem calm, the swirling of activity under the top layer is at an unprecedented level. We are all working very hard to position your holdings to capture future growth opportunities while also being very conscious to minimize downward pressure and stem paper losses.

I hope that this sheds some light on the work that our entire team is doing around the world on a 24/7 basis on your behalf.

If you should like to discuss this further, or would like to forward this article to a friend or colleague, please feel free to do so.

That's my view.

Victor

