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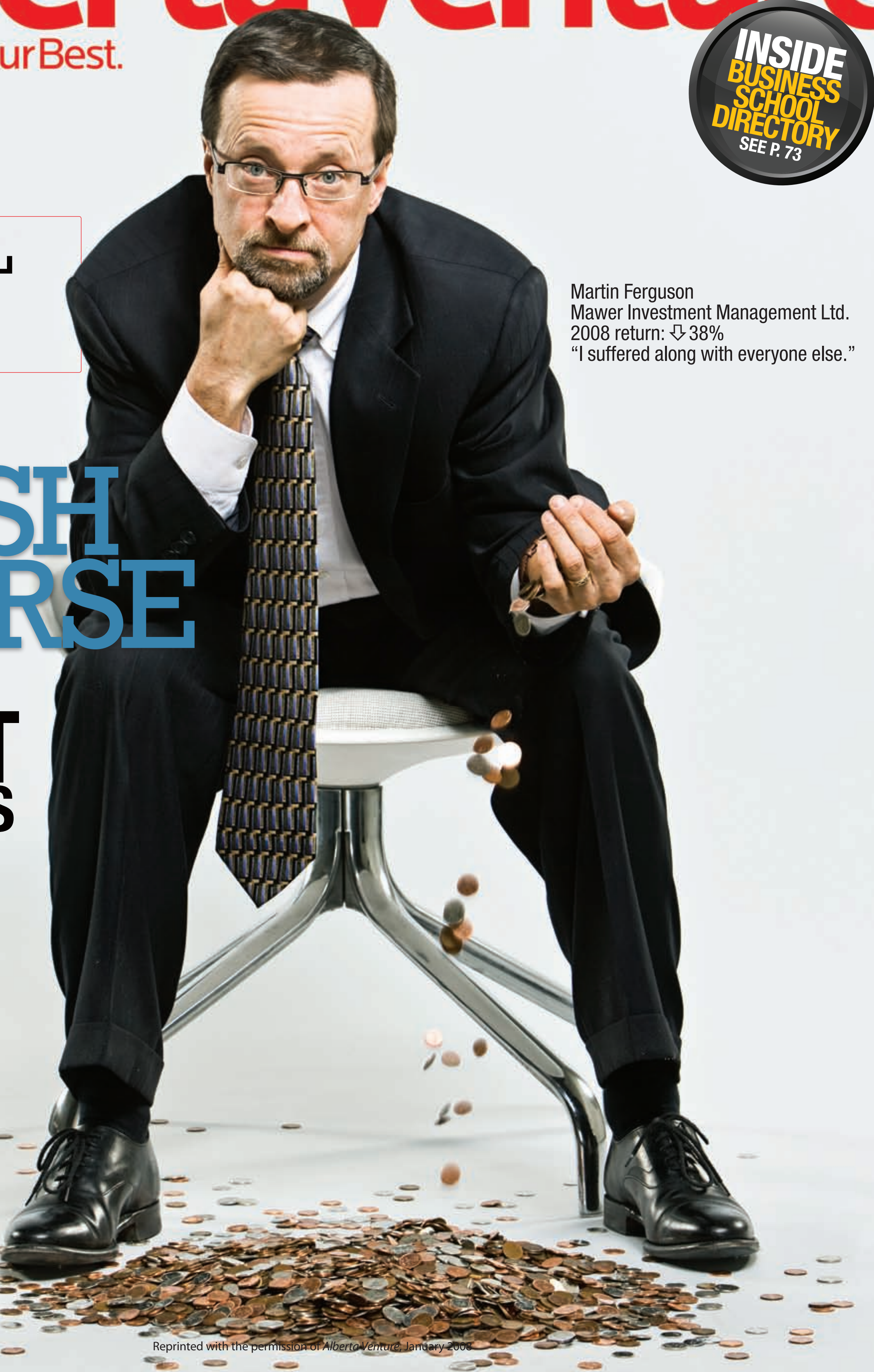

Martin Ferguson
Mawer Investment Management Ltd.
2008 return: ⇩38%
"I suffered along with everyone else."

CRASH COURSE

HOW THE SMART INVESTORS FARED LAST FALL

Crash Course

BY WES LAFORTUNE
PHOTOGRAPHY BY COLIN WAY

They were the **SMARTEST GUYS** in the market – last year. We asked some accomplished investors how they fared through last fall's stock market collapse and what they learned from the ordeal

STEVE BOOKER
FINANCIAL ADVISER AND MANAGING PARTNER, MILESTONE ASSET MANAGEMENT
ESTIMATED 2008 RETURN ↓15%

Steve Booker of Milestone Asset Management says he's "walking side by side" with his clients following the assault on the markets in 2008. Milestone rates its clients on a one through five spectrum – five being the most aggressive investor – to determine their risk tolerance. Booker rates himself as a four on that scale with growth being an important factor in his investment decisions. Down approximately 15% in 2008, Booker says, "my portfolio is the same as any other client's."

Among his worst-performing investments were companies concentrated in the oil and gas mid-caps. "Coming into 2008 we looked at the market and how emotional it had become when the credit crisis kicked in [from] August through the end of the year," he says. "We actually hunkered down, a bit more conservative with a reasonable amount to cash. We didn't get out but we moved quite a bit to cash. We hunkered down and said let's wait out this volatility and roll money back in at a later point."

Booker, who has worked at Milestone since 1998, the last five years as a Certified Financial Planner, says his own portfolio now includes as much as 25% cash divided between guaranteed investment certificates (GICs), government and corporate bonds and debentures. "The remaining equities that we did keep in play we twisted into blue-chip conservative rather than higher-octane small caps," he says. "I wish we would have gone all to cash. Who doesn't?" >

Steve Booker is a financial advisor with Milestone Asset Management of Canaccord Wealth Management. The views of the author do not necessarily reflect those of Canaccord. This article is for information only and past returns are not necessarily indicative of future performance. Canaccord Wealth Management is a division of Canaccord Genuity Corp., Member-Canadian Investor Protection Fund.

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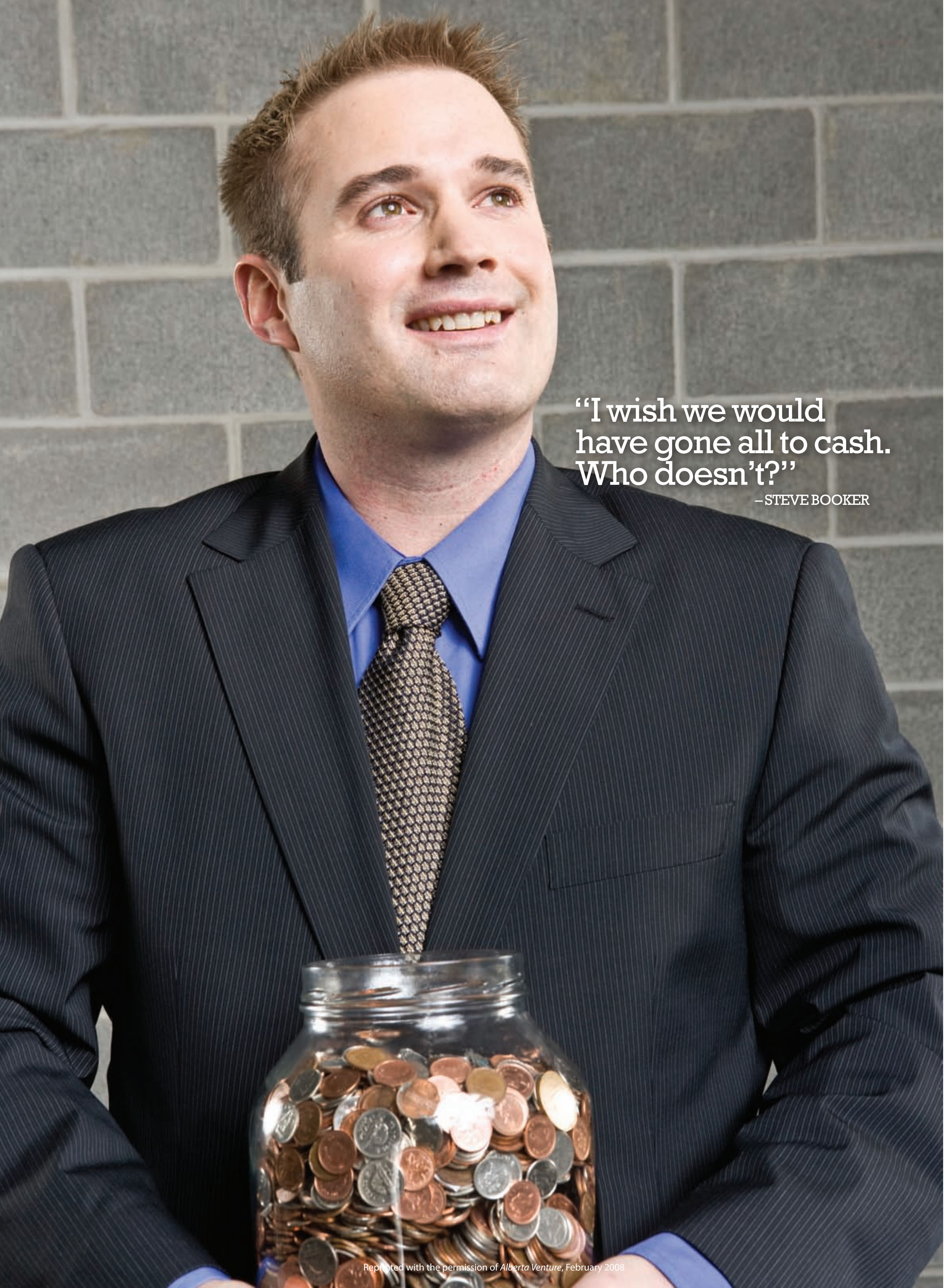

"I wish we would have gone all to cash. Who doesn't?"
– STEVE BOOKER

Booker admits he temporarily strayed from his own advice in September 2008 with negative results. "I got a bit cheeky and got a bit more aggressive, which has not worked out for me," he says. "But I'm glad I didn't bring my clients with me."

He says Milestone uses a "Canadianized" version of the Yale Endowment system as a template for its investment strategies, a model that he reports was underappreciated during days of the bull markets but is now proving its value during troubled times. "Our system wasn't making us shine March through June 2007. Oil and gas was on a tear. All markets were on a tear," he says. "And we were old-fashioned believers in bonds and diversification."

Convinced that the Yale Endowment strategy – diversifying holdings into a range of asset classes including cash, hedge funds, Canadian equities, United States equities, foreign equities and real estate – will pay off over the long term, Booker remains a firm believer that the calamity of 2008 was a rare occurrence that must be understood by viewing it through the prism of history. "Some people may think investing is not for them, but I don't think that's the takeaway," he says. "We're getting some pretty good information showing the largest peak-to-trough declines were in 1929-32 at minus 85% in U.S. equities. Second was in 1937-38 and the third biggest decline is right now. We're in a period of time that has not been seen in two generations. If people are scared, it's understandable."

MARTIN FERGUSON
PORTFOLIO MANAGER, MAWER INVESTMENT MANAGEMENT LTD.
ESTIMATED 2008 RETURN ⇩ 38%

SMALL-CAP CANADIAN EQUITY fund manager Martin Ferguson says he "suffered along with everyone else" in relation to the 2008 market but sees a bright future for investors who do their research. Ferguson has worked at Calgary-based Mawer Investment Management and been involved with Mawer's New Canada Fund (three-time winner of the Analysts' Choice award for small-cap Canadian equity funds) since 1996. Comprised of 57 securities from 53 companies, the fund was down 38.3% for the year. Although Ferguson was not willing to discuss the details of his personal portfolio, he notes that Mawer's fund managers are only allowed to invest in Mawer funds.

"I can tell you I have quite a lot of money in my own fund," he says. "Our fund has performed very well over the long term." He adds, "This constraint has not been a constraint."

Ferguson says the key to future successful investing is to focus on wealth-creating companies. "We look to buy them below intrinsic value," he says. "We have diversified portfolios. We're not into indexes here. We're looking at companies that are profitable."

An example of a company included in Ferguson's fund is Russell Metals Inc. Based in Mississauga, Ont., Russell Metals distributes products to more than 18,000 end users at 58 locations in Canada and 12 points in the U.S. "It's Canada's largest steel distribution company," says Ferguson. "They have power over their customers." What Ferguson is referring to is Russell Metals' close attention to companies or even individuals that purchase only a small amount of metal. "Their average invoice is $2,000," he says. "They don't sell hot rolled steel which is used by the auto industry. Instead of three or four customers, they have many customers."

Another company favoured by Ferguson is Toronto-based Home Capital Group Inc., a non-prime mortgage lender that specializes in lending money to people who are sometimes turned down by banks. "They will provide mortgages to new immigrants to Canada and self-employed individuals," says Ferguson. "Their ROE [return on equity] is from the high 20s to low 30s." Ferguson also points to Crescent Point Energy Trust, a Calgary-based company that came out about even on the year, a rare achievement in oil and gas.

On the flip side, one of the worst-performing equities for Ferguson's fund was Transat A.T. Inc., a Quebec-based charter airline company that has faced stiff competition for Canadians' travel dollars from the Sunwing Travel Group. "Year-to-date Transat A.T. is down 76%," says Ferguson. "The air travel industry has been decimated. There have been more than 30 bankruptcies across the world." He adds, "Sunwing has increased its capacity and Transat is defending its market. Transat will still end the year in profit."

Ferguson says because of the market turmoil in the last half of 2008, the conditions are fertile for the patient investor to strike. "I think it's a good time if you have a long-term investment strategy," he says. "Don't lose sight of the long term. We expect this period of fear to eventually return to a time of greed."

REINHARD KLOIBER
RADIOLOGIST, AWARD-WINNING AMATEUR INVESTOR
ESTIMATED 2008 RETURN ⇩ 20%

REINHARD KLOIBER, WINNER of ShareOwner's 2007 Growth Stock contest (which featured contestants from across Canada), says the market fallout of 2008 has prompted him to convert much of his portfolio into cash. Even his winning contest strategy in 2007 – having most of his stock in BlackBerry maker Research in Motion – did not shelter him from the market meltdown of 2008. "RIM is down by about half," says Kloiber. "In the future as much as 90% of my investments could be in cash. We were already moving in that direction."

While the Calgary radiologist still invests in the stock market, he says the 20% loss in the value of his holdings in 2008 was a painful reminder of just how quickly fortunes can change. "I didn't expect the ferocity and suddenness of the downturn," he says. "I think there is a temporary reprieve with the election of Barack Obama but I don't think there is going to be a big turnaround. I think things could go even lower."

He adds, "House prices are low so people can't take equity out of their homes and I think there could be a credit card crisis in Canada."

Kloiber says among the worst performing stocks in his portfolio were those in the financial sector. "A lot of people said Manulife Financial was in a good position but it was beaten up," he says. "It was quite surprising." Kloiber says his stock in Canadian banks, including Toronto-Dominion Bank and the Bank of Nova Scotia, also pushed his earnings downward.

On the positive front, he says consumer stocks such as Johnson & Johnson and McDonald's were a bright spot on his otherwise gloomy financial landscape. "They didn't go down as much," says Kloiber. "And with the Canadian dollar's [fall] there was actually a net increase."

Chastened by the 2008 market, Kloiber says he is now rethinking his entire investment strategy. "I'm self-employed so I have to save for my retirement," he says. "Investing for the long term and holding stock doesn't seem to work." Kloiber still maintains his good humour about the worst year the market has experienced in decades. "Someone asked Warren Buffett, 'How did you make your money?' and he replies, 'By selling too early.'"

Kloiber says he will remain mindful of the ups and downs of the stock market in the coming years and invest accordingly. "When it gets near the peak you want to switch your asset balance to a more conservative mix," he says. Despite the financial hit he sustained in 2008, Kloiber says he is generally unaffected by the market turmoil and that he plans to continue living his life as usual. "I like my work; there's a lot going on," he says. "I'm still aiming for Freedom 85."

BRENT MCLEAN
PRESIDENT AND CEO, MCLEAN & PARTNERS WEALTH MANAGEMENT LTD.
ESTIMATED 2008 RETURN ↓32%

BRENT MCLEAN OF THE CALGARY-BASED wealth management company McLean & Partners says the swiftness and severity of the 2008 market collapse "left everyone completely discombobulated."

"The biggest lesson is when things get to be too excessive, even when everyone else is buying, you have to be willing to go to a significant amount of cash," he says. "Which we have done historically." Adds McLean, "We actually thought 30% cash would save us. Thirty per cent cash is not going to save you when the market is down 40%."

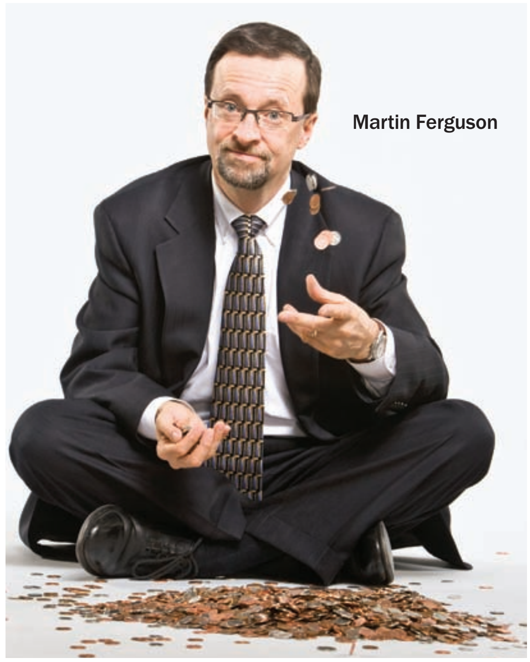
McLean, whose firm includes four full-time researchers and six portfolio managers, manages more than $1 billion by investing in global companies that pay dividends. He estimates his equity portfolio was off 32% in 2008. "We only own 40 companies at any given time. We believe we are in the relationship business and meet with our clients two to four times per year."

McLean says companies based in Asia were among the hardest hit in 2008. "China Mobile Ltd. is down from about US$90 to 50 bucks," he says. "We first bought China Mobile four or five years ago at $12." As the largest cellular phone operator in mainland China, China Mobile stock will bounce back, he believes, noting how the company is projected to continue growing at 25% per annum. "Cellphone penetration is still low in China," he says. "The stock went from $12 to $112, so historically we made a lot of money."

Another poor performer in McLean's portfolio has been ICICI Bank, India's second largest bank with total assets of US$82 billion. "We bought ICICI at $18 to $20 and it went to $80," he says. "Something that does that well ends up being too much of your portfolio. It went from $18 to $75 or $80 and then back down to $8. Now it's about $20."

Despite the losses, McLean says investing in global companies with strong growth potential is a winning strategy for the future. "We concentrate on companies that increase their dividends almost every year, at least eight out of 10 years," he says. "And that in the future we believe they will continue to increase their dividends."

In that mode McLean says a company such as Reckitt Benckiser – "the Procter and Gamble of Europe," as he puts it – continues to be a valued component of his portfolio and those of his clients. A home, health and beauty company headquartered in the United Kingdom that can trace its origins back to the early 1800s, Reckitt Benckiser has operations in more than 60 countries with revenues in 2007 of more than US$10 billion. "It's down 10%," says McLean. "Many junior oil companies are down 85% to 90%. Reckitt Benckiser makes stuff you would use every day whether the market is off or not. You're not going to stop bathing or shaving."


Martin Ferguson

GARY AITKEN
CHIEF INVESTMENT OFFICER, BISSETT INVESTMENT MANAGEMENT
ESTIMATED 2008 RETURN ↓31%

GARY AITKEN WAS APPOINTED chief investment officer at Calgary-based Bissett Investment Management in July 2008. A member of the Bissett team since 1998, Aitken says his primary focus is on domestic capital markets. He is the lead manager of the Bissett Canadian Equity Fund which invests primarily in stocks of growth-oriented companies with market capitalizations of $1 billion or greater.

A division of the multinational Franklin Templeton Investments Corp., Bissett has both retail and institutional clients and takes a GARP approach to investing: Growth at a Reasonable Price. However, Aitken reports that for 2008 Bissett's core equity program was down around 31%. "Everyone is down. It's just a matter as to what degree," he says. "It's broad-based in Canada. There's really been very few places to hide. People have to remember we just went through one of the best bull markets beginning in 2002. There is a lot of panic out there right now. People have to realize this is a significant correction."

Although unwilling to comment on the specifics of his personal holdings, Aitken says, "At Bissett we like to eat our own cooking. I buy the mutual funds I manage. I also do some investing on my own. I'm a professional investor. I love to invest. It's my job but it's also what I love to do."

And a significant part of what's on Aitken's table is related to Canadian equities. "I like the smaller capital end of the spectrum," he says. "I think they offer real opportunity." With a focus on the energy sector and a keen eye for quality management teams, Aitken invests in energy services companies and producers. "It's a great place to invest," he says. "Canada has a vibrant and entrepreneurial oil and gas industry. I take a longer-term view of them. I see good growth in the next four or five years." He adds a caveat: "I don't think there is going to be immediate gratification. I think drilling activity will remain in the doldrums. Yet the valuations are so compelling."

Aitken says over the long term stock prices of many energy companies will catch up to their true value, rewarding the investor who takes a buy-and-hold strategy. He points to Calgary-based Nuvista Energy Ltd. as an example of a company where he invests clients' money. "It has a proven team," he says. "This is a bottom-up approach."

Aitken says if there has been a lesson to the market meltdown of 2008 it's that Bissett's strategy of investing in companies over the long haul will be proven correct. "If we stick with it, we will be served over the long term," he says. "Things can change so quickly. We may be in the throes of one of the worst bear markets ever but things can change for the better very quickly as well. It's futile to try and time the market." **AV**