Dustin Van Der Hout's

The Long and Short of It

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Views and opinions
for the clients and friends of

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Canada's Great Investor Conference

On May 31st I hosted Canada's Great Investor Conference. Since I started at RBC I have had a message for clients: ***Invest alongside the best portfolio managers we can find.***

Over 250 of my clients, friends, family and industry professionals attended and heard best ideas from Canadian investing legend Eric Sprott, Gabelli value investor Chris Marangi, Canada's most respected fixed income manager Barry Allan, Gluskin Sheff Long/Short specialist Reno Giancola, top ranked economist David Rosenberg and one of Canada's largest and most successful hedge fund managers, John Thiessen.

Their message to my guests was clear: Slow growth in the U.S., financial instability in Europe and excessive leverage around the world has created very difficult times which will take time to get through and may get worse before it gets better.

Some left alarmed. What these listeners may have missed is the upside: ***crisis also creates opportunity.*** Although the status quo might not work in this environment, each manager highlighted how their unique approach will protect capital while at the same time profiting from the opportunity that these volatile markets create.

Executive Summary

In today's difficult environment traditional asset management will not work. Simply holding some of the largest Canadian company's equity and debt doesn't create the diversification or value I look to create for clients.

Clients should invest more like an institution would, allocating between different asset classes such as real assets, absolute return, private equity, and foreign equity in addition to domestic equity and fixed income, and selecting from the best managers to invest in that specific sector.

The value-add of the institutional approach became very clear at Canada's Great Investor Conference on May 31. Leading portfolio managers and an economist shared best ideas, making clear how their expertise in a specific niche trumps managers who try to cover a variety of different investments. To manage investments in fast moving global markets, jack of all trades but master of none, is not the go to strategy. .

At this event, attendees met the masters.

Eric Sprott, a macro visionary, kicked things off. His main concern was that too much debt in the system was creating havoc for European and U.S. economies and how quickly the small amount of capital a bank has relative to its holdings can disappear (sometimes more than once). He warned: "One of the things we should all worry about is what happened to JP Morgan" [who recently had to admit to a $2 billion trading loss]. He saw it as evidence of "the cockroach theory": "You see the first one and you know there's a whole bunch more." As investor confidence in the financial system continues to fall, he looks for precious metals to significantly increase in value along with the stocks of the miners that extract them.

Chris Marangi, value investing specialist, said that his strength was not in predicting what will happen in the world's economies, but in finding great businesses with strong management teams trading at significantly less than what they are worth. He highlighted a few great management teams, John Malone at Liberty Media and Charlie Urgen best known from Dish Networks. Chris explained to the audience how these managers have created wealth for themselves and their shareholders. He recommended investing alongside these stars by buying Liberty Interactive, Liberty Media and Echostar. Chris sees these individual equities as undervalued with a catalyst that will increase the share price closer to fair value.

Barry Allan, a fixed income specialist, looked at the world as a credit analyst: bonds either pay him a yield or default. He believes that corporate balance sheets are the strongest they've been in 30 years, while governments' balance sheets are the weakest he's seen over his career. He pointed out that rating agencies are as inaccurate rating bonds now as they were in rating companies before the crash of 2008. Barry is finding poorly rated bonds that he believes should be investment grade and is picking up a significant amount of yield for his work. He forecasts that the bond markets will punish reckless governments such as the U.S. with significantly higher borrowing costs, increasing the value of true AAA debt for companies like Microsoft and P&G.

Economist ***David Rosenberg*** was bearish on the economy but bullish on ways to make money for his clients believing that "in a deflationary environment cash flow is king! Income is king, no matter how you can derive it. Whether it's through dividend growth, divided yield, low ratio payout companies with perfective high payouts whether it's in credit, whether it's in mortgages, whether it's in natural gas royalties, however you can spin off income is going to be critical…". Portfolio Manager ***Reno Giancola,*** put forward some ideas consistent with this investment philosophy including North West Company, a supermarket chain with significantly better metrics than the better known competition and a strong growing dividend. He also recommended Brookfield Infrastructure Partners because of its unique assets that are irreplaceable and very visible, secure revenues streams.

John Thiessen, an arbitrage specialist, made the crowd roar when he said that he was bullish… "On shorting stocks!" He said he was in a safety "wait and see" environment, he referred to as Groundhog Day. Part of his fears arise from fears of how large European banks are relative to the countries' GDP's. John is also concerned with whether insurance companies and pension funds can continue to fund themselves with such low returns or if they too will become government liabilities. He generates non-correlated returns by participating in 100 merger/arbitrage deals a year. Like Sprott, he was bullish on gold, but was buying convertible debt, reducing the downside risk while still leaving room to participate if the commodity runs.

The Short - Key Quotes from Eric Sprott

"There is one thing that all central banks and governments have done in the last 4 years since Lehman. I think they finally realized when Lehman went down and they ended up with a liquidity event where liquidations (forced sales at current market prices) went on. The values in liquidation are a lot different than the values in just normal market conditions, okay. And ever since then nothing has been allowed to fail. Not Fannie, not Freddy, not GM, not Citigroup, not Dexia Bank. Dexia Bank, wow! One of the highest rated banks in the bank stress test in Europe, one weekend we wake up and three governments have taken it over. And Bankia [Spanish Bank] isn't allowed to go down. Nobody's allowed to fail. We don't want a liquidity event."

"The fact that the U.S. government has unlimited borrowing power? Okay, well you know they have unlimited borrowing power until they don't and that day is quickly coming, and I'm not so sure how unlimited it is when the Fed has to put up 61 percent of the money. The Chinese are not lending, the Europeans won't have any wherewithal to be buying U.S. debt. The Japanese won't have any wherewithal to buy US debt, unless they print more of there own money. No one has excess money to be buying anything."

"All the people in Spain and the corporations are taking their money out (of banks). Certainly in Portugal it's happening. It's probably happening in Italy as we speak. You know if you were given the choice, let's say you're an international company. Well where should we have our money in the bank? Should we have it in Italy, or Germany or Switzerland or Canada or the U.S? Well let's take it out of Italy."

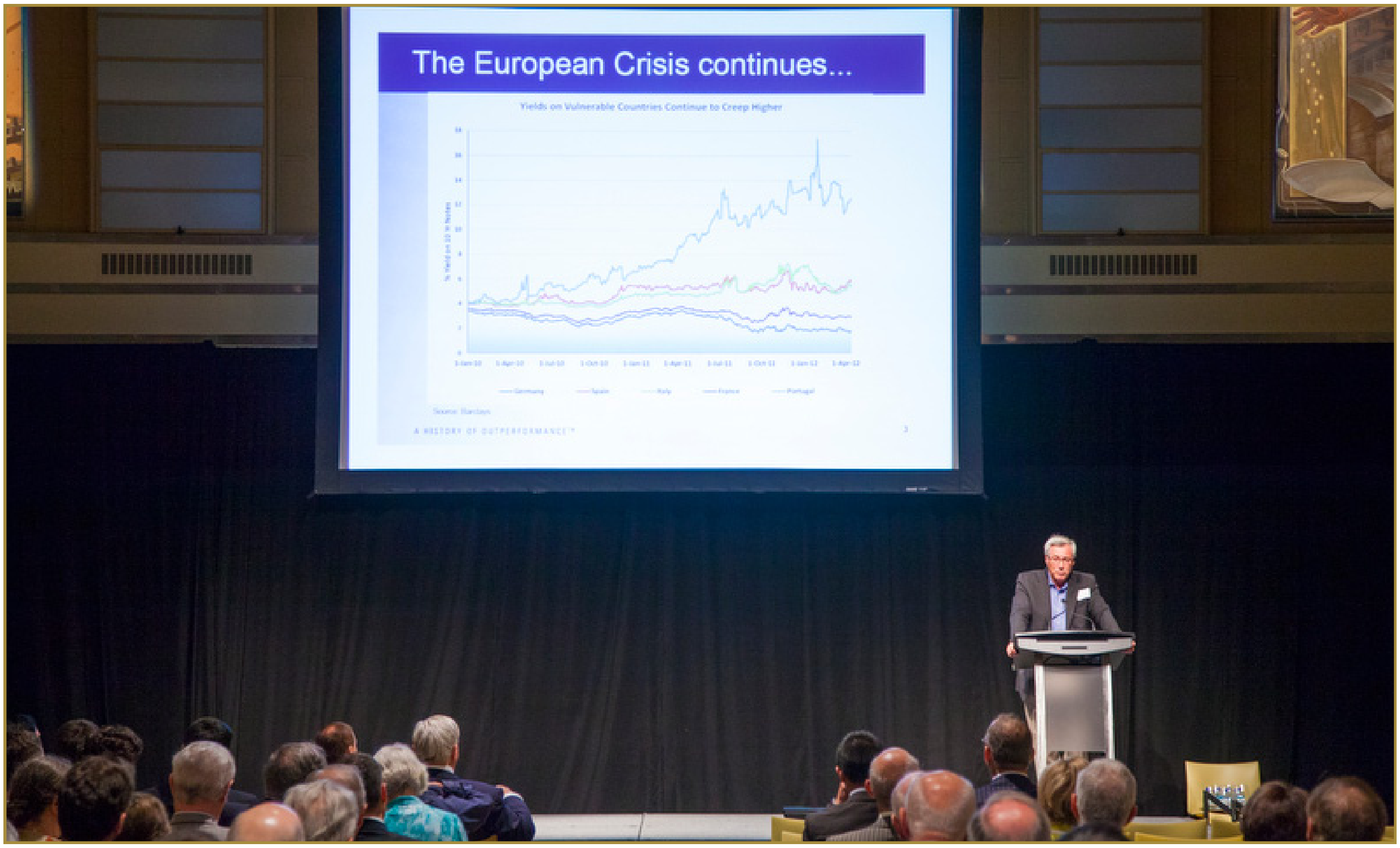
"Friday nights are as I call them in the U.S, bank failure night. Because all the bank failures are announced on a Friday night after 6 o'clock. Who would be reading the news after 6 on a Friday night? When I see those failures I look at two numbers. I say okay how much were the deposits in the bank, and how much did the FDIC [Federal Deposit Insurance Corporation] have to pay to the acquiring bank to take on those deposits?... Typically the FDIC has to pay between .2 or point .3 of X to take the bank out. That means the guy lost his capital 5 to 7 times over!"

"I've had the occasion when people say well who are some of the great speakers, economists and so on, and I've had the occasion many times to say the best economist in North America is David Rosenberg."

"I was giving an interview on CNBC and they said "You like gold but Warren Buffet and Bill Gates don't like gold." [I replied], you know gold's up 500 percent in the last 12 years. What do you think Microsoft and Berkshire Hathaway are up? Of course, they probably weren't up… And I said, "I don't really respect their opinion. In fact they really shouldn't come into our territory. Why is Warren Buffet writing about gold." He has no right to write about gold in my mind, just like I have no right to write about the insurance business, even though I don't like it." [He laughs]

"I think my favourite article I wrote was in November of '07. It was called Surreality Check, Dead Man Walking. And it said the following companies are broke, Fannie Mae, Freddie Mack, General Motors, Citigroup…I would caution you that I wrote an article and it took a little while for them to go broke, I can't remember the exact day they all went broke. It might have been two years later but believe me it was cast in stone that they were going down. I wrote about probably somewhere between 18 months and two years ago Surreality Check 2, Dead Governments Walking. And I could have picked on a lot of governments but I picked on the U.S. government…"

The Long - Our takeaways from Eric Sprott



Eric is not quiet about his views of the world. For years he's been sharing investment theses that have made retail and professional investors laugh because they've seemed improbable or even impossible. That being said, most have happened. When most read the newspaper, they see black and white. Eric sees green. As Eric predicted in writing far ahead of the actual events, the tech bubble crash; gold in 2001 was worth a lot more than $300/oz.; the bubble burst in the U.S. housing market; and that GM would go bankrupt. Perhaps his most laughable idea was that Fannie Mae would go down because it was a GSE (Government Sponsored Enterprise).

His current theme is pretty simple: Governments and thus their currencies are broken because of a combination of too much currency printing and too much spending. He warns and looks for people to stop trusting paper assets and move back to physical assets like gold that can't be printed out of thin air.

Although we hope it never becomes this extreme, clearly this thesis looks much more plausible today as Germany is being backed into a corner to financially back the debt of other Euro countries that lack fiscal discipline, putting its own financial state in jeopardy. The crisis has spread from smaller countries like Greece to much larger economies like Spain and Italy and the idea that the Euro could be a failed currency doesn't seem as unrealistic as it would have three years ago.

Although we think there will be paper money for a long time, it makes sense to us that individuals will value hard assets more highly when they see how quickly their paper can devalue or how difficult it can be to get your money out of a bank when everyone else is trying to do the same thing.

While Eric tends to focus his public speaking on the macro picture, we've had lengthy discussions with him about the underlying securities within his portfolio, increasing our confidence in the strategy. The entire mining sector trades at incredibly depressed valuations and the Sprott funds hold some of the cheapest stocks around. As a value investor, you look at the cash a business generates. Provided the commodity stays in the range where it has been, the underlying companies that mine it will start to produce so much cash that investors will close the gap between where these companies trade and what they are worth.

Unlike the fund, we don't have 90% of our assets in precious metals and precious metal stocks, but we do feel this is necessary protection or as Barry Allen puts it, a hedge for a piece of the portfolio.

The Short - Key Quotes from Chris Marangi

"I have no idea what's going to happen in Europe or China or the banking system, the fiscal cliff. What I am is a simple guy from New Jersey who is out there looking for good companies run by good honest managers that I can buy at a discount."

"Every security has at least two prices in the way we look at the world. A public price, which is quoted on the black pool and a private price, which we estimate and which can be seen in private transactions amongst companies. So we're looking to buy companies trading at a significant discount, call it 30 percent to their private market value. And then we are looking for one or more catalysts that will drive the public price to the private price."

"One of the key insights that John Malone had was he had distribution and in exchange for that distribution, he could get equity stakes in the content companies that he distributed. So he took those equity stakes and he gathered them all into this crazy hodge-podge called Liberty Media."

" We're trying to identify good assets within our core competency. We're not recruiting talent but we're certainly looking for good managers, we're looking for catalysts and we're managing with an eye toward tax efficiency. "It's not what you make, it's what you keep", as Mario [Gabelli] is fond of saying."

"Sirius was probably the greatest deal in modern corporate history. Liberty basically rescued Sirius in February of 2009 at the very bottom of the crisis. They loaned 530 million dollars to Sirius which was repaid within a year. For that loan they received 40 percent of the equity which today is worth about 6 billion dollars."

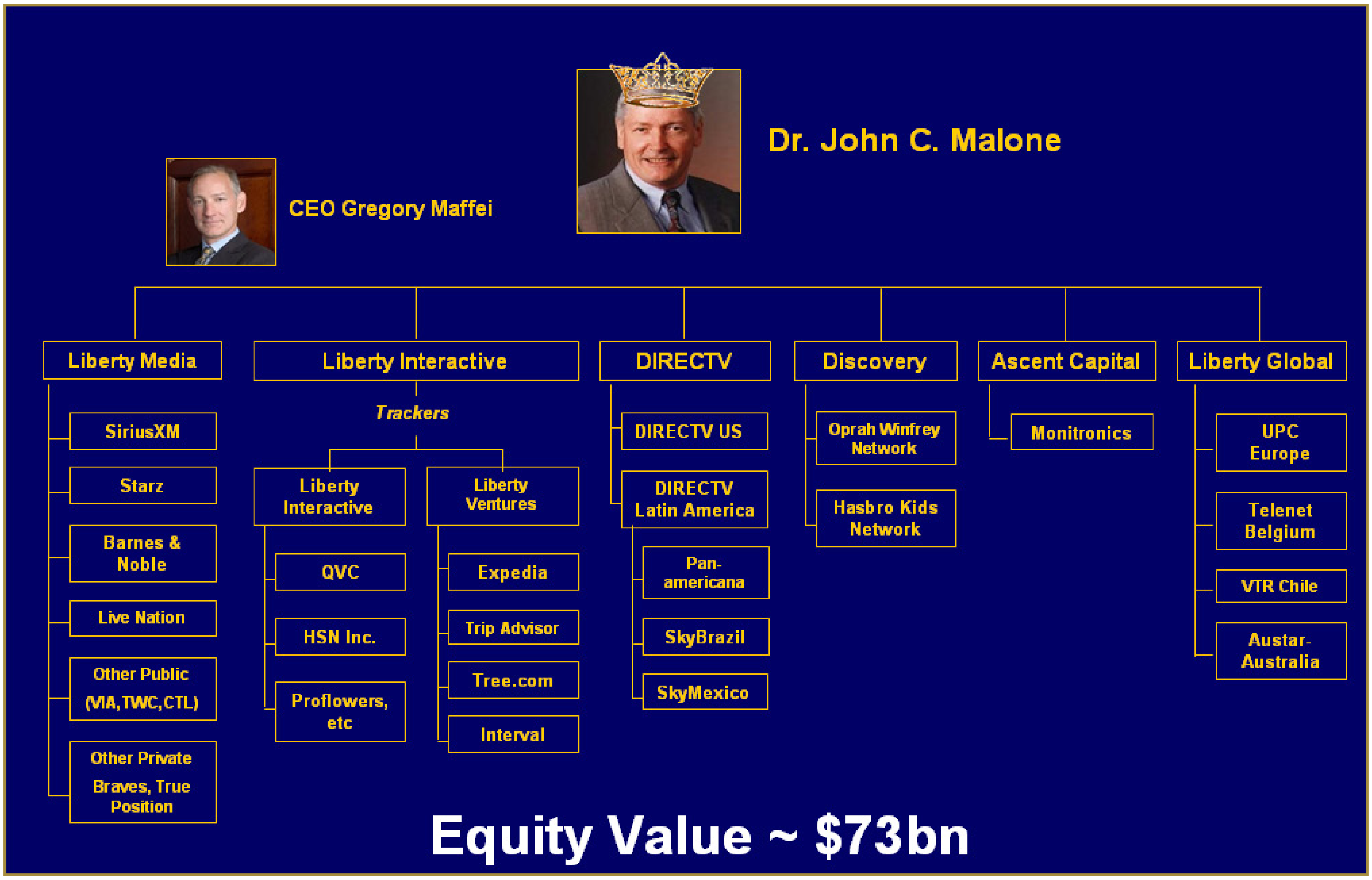
"We like the cable business a lot actually. We think there are some good secular trends there and we call it actually the broadband hedge. So no matter how you choose to consume content whether it's through Netflix or through your traditional cable package you need the pipes to do that. Well who owns the pipes? Well in most of Canada Rogers does. They're going to be able to monetize those pipes through usage based pricing and other ways no matter what the consumer wants."

"Nobody knows what the new AppleTV is going to look like. I would argue that I certainly own an AppleTV; it's called an iPad. You watch television on it. The interesting thing about the cable model is it's the profit-maximizing model for the content companies. The content companies have a great model. Just like the sports networks I went over, they get a monthly recurring revenue stream plus advertising. They're not going to do anything to jeopardize that. They have no interest in going direct to consumers, which is why AppleTV hasn't been able to get off the ground."

"If you bought a thousand shares of Liberty Media in 2003 this is what you'd be left with. (turn page for current org. chart) Actually there are eight securities here, two classes of two companies. You've made your accountants very unhappy, but you probably made yourselves quite happy because you've compounded wealth at over 15 percent for the last 9 years. A million dollars invested then would be over 3 million today."

"I wish I had something more cosmic to say. I'm young, but I am old enough to remember double digit inflation, unemployment and interest rates in 1980. Old enough to have heard lots of stories about the last great depression and the Second World War from my grandparents. Are we worse off now then were back then, are times bleaker? I don't know. Probably not. I think both those times were punctuated by the emergence of great leaders and I'm not sure that will happen. Certainly my generation has a lot of work to do. But somehow I think we'll get through it and in the meantime if you've got wealth I think these four stocks, as well as 80 others in my mind, are pretty good places to put your money certainly versus bonds or cash."

The Long - Our takeaways from Chris Marangi



Like his mentor Mario Gabelli, Chris doesn't claim to have the expertise to say what's going to happen in the world, what the market is going to do tomorrow or next month. They control the one variable they know they have an expertise in controlling, finding great companies, lead by great management teams with stocks trading significantly below what they would be worth if someone were to buy the entire company.

Chris spent his time focusing on great leaders who have created significant wealth over their careers that he invests in through their public shares. First he focused on John Malone who built TCI Cable into the world's largest cable company before selling it to AT&T. Malone then accumulated equity stakes in a variety of different companies that were held in Liberty Media. The company traded significantly below what the assets it held within it were worth. Over time and through a variety of complicated financial transactions John Malone extracted this value.

Now the Liberty group of companies looks similar to the way it did in the past: a company holding a grouping of assets (mostly different than they did in 2007) that are trading significantly below what they are worth. Malone is once again doing complicated financial transactions to extract the value he knows he has sitting in the company. We look at this as almost a media hedge fund run by John Malone, but without a 20% performance fee. If you want to participate you can buy Liberty Media (LMCA) for $85 which Chris believes is worth $108 or you can buy Liberty Interactive for $17 which Chris believes is worth about $24.

Chris then talked about Echostar run by wealth builder Charlie Urgen who you probably know better for creating DISH Network. Echostar operates in 3 segments, a set top box business that's a bit boring but creates good cash flow, a satellite leasing company with very stable revenues because they have long term contracts to lease out the use of the satellite to companies like DISH. Finally the part of the business where Chris sees the catalyst is Hughes, which provides internet service by satellite to areas of the world where broadband isn't available. Chris thinks investors aren't factoring in the additional $250 million of EBITDA that this new business will create and thinks that the share price will close the gap between $27 where it currently trades and $61, what he thinks it's worth after the market takes into account all this new revenue and profit.

The Short - Key Quotes from Barry Allan

"We think the world is very, very troubled and we think that the financial markets are going to experience a significant amount of volatility and I'll go through what it is. What we like to do is we like to simplify things down to really one or two things that we can really focus on. So we look at the world, what's the problem in the world? The world has too much debt. What has to happen when you have too much debt? Well how do you reduce debt? There's only two ways to reduce debt. There's the one that all of us would do. We would spend less than we make and pay it down. Or there's default. And some governments are going to default and some of them are going to pay it down."

"I invest in things that either pays me an income or they default. Default risk in the world today is the lowest I've seen it in 30 years for corporations. For governments it's the highest I've ever seen it."

"This notion that the U.S. economy is muddling through and if we can just solve Europe the world will be okay, I completely disagree with that view. When Europe is solved I think the spotlight will shine on Japan and the United States and we will look at the fact that the debt statistics of Japan and the United States are much worse then Europe as a whole."

"The rating agencies are equally as incompetent on the way down as they were on the way up. When they're rating things AAA when they defaulted and recovered zero. Now they're rating various companies BB when they have A balance sheets."

"The U.S. is rated AA high by one, and AAA by two rating agencies. They have 100 percent debt to GDP ratio. I'm a credit analyst. I analyze the U.S. government. They're barely investment grade, BBB at best. I want real AAA balance sheets. And when it hits the fans, in the next 12-18 months, I think the world is going to look for real AAA balance sheets to buy."

"Never forget that a politician's job is not to do anything right, a politician's job is to get re-elected. And cutting spending and raises taxes rarely gets you elected, that I can assure you."

"The important thing is crises in government bond markets is actually good. Europe is getting fixed because there's crisis. Because the bond market refuses to finance deficits and when the bond market refuses to finance it, the politicians, they go, I'm sorry we have to raise your taxes and I'm sorry we have to cut spending and all the benefits you've got. We're really sorry about that, but its the bond market's fault. It's not my fault. They won't give us any money unless we do this and that's what happens. So that's really important. ***Don't fear the crisis. Protect yourself from the crisis because crisis leads to the solution."***

"I actually think its a little bit more, maybe 60-65 percent the way through the European problems. But you look at crisis and you look through the problems, it's the last 25 percent thats the most painful, most difficult and creates the most volatility in the markets, so while I think Europe is probably two thirds the way through their problems, it's the last third that's still to come and I think we're going to see that shortly."

"Portugal is defaulting, Ireland is restructuring, Spain needs significant excess help from other people but probably doesn't default, Italy is probably the country I like the most in Europe and actually is the only major country, indebted country, that's running a primary surplus, which means they're actually spending less than they're making. The difference in the deficit is just interest. So that's the first step you have to get to."

"I think we may have 12-18 more months of crisis and then I think that were going to have a great opportunity. But the next 12-18 months I can tell you that I don't think my job is to make a return. My job is to avoid a negative return."

The Long - Our takeaways from Barry Allan

Traditionally investors were able to reduce risk in their portfolio by holding some high quality bonds. Since the crash in 2008, demand has pushed the prices of these bonds so high that they barely have any yield left. Small changes in interest rates could significantly punish investors who hold these securities.

Warren Buffett commented on this risk in his current annual report by saying "money-market funds, bonds, mortgages, bank deposits, and other instruments... are thought of as "safe." In truth they are among the most dangerous of assets."

Barry Allan is a bond veteran who realizes this and has changed the way he invests to protect capital. He has a few themes that are worth examining in more detail.

The most interesting is buying 30 year bonds of what he calls "True" AAA credit which are a few companies like Google, Microsoft, Proctor and Gamble, Johnson and Johnson and McDonalds. When he looks at the spread (how much more these companies have to pay for the privilege to borrow money vs. the U.S. government) it doesn't make sense to him. He believes lower rates should be given to the companies because they are in significantly better financial states than the US government. By shorting 30 year treasuries and being long 30 year AAA corporate debt he has set up a trade that will profit if the best U.S. corporations have to pay less of a premium over treasuries than they currently do to borrow money.

Patience is another theme. Barry feels one of the most important things he can do right now is not lose money. If he can do that, he'll be positioned to take advantage of better prices in the future on some high yield bonds he finds very attractive. He has a shopping list of bonds that he knows are significantly lower credit risk than the rating agencies indicate and he's ready to capitalize on this should the market give him an opportunity to buy this debt at a discount.

Finally, Barry explained that it's not politicians or governments that decrease spending and make countries more fiscally responsible: It's the bond market. Governments will be reckless with money until no one is willing to lend them more money at a reasonable rate. When rates increase, it dramatically increases interest costs on debt and this is what forces more prudent spending. Barry argues that the U.S. and countries in Europe won't correct their spending until forced to because a politician's job isn't to make the right decisions, it's to get re-elected.

The Short - Key Quotes from David Rosenberg & Reno Giancola

"In a deflationary environment cash flow is king! Income is king, no matter how you can derive it. Whether it's through dividend growth, divided yield, low ratio payout companies with perfective high payouts whether it's in credit, whether it's in mortgages, whether it's in natural gas royalties, how you can spin off income is going to be critical and it already has been in terms of generating sustained returns in this tumultuous environ-ment." DR

"Barry was quite right that corporate balance sheets are in the best shape they've been in in at least 50 years. No matter what ratio you want to look at, especially the one on the right, look how much debt has been locked in. Treasurers have used this opportunity to lock in debt in this period of ultra low interest rates and default rates. What Barry said was quite right. We're barely over 2 percent despite the fact the U.S. economy is basically hit stall speed the default rate in corporate America is barely more than 2 percent." DR

"Why does anybody think we're going to have inflation when you still have almost 20 million Americans in the total pool of available labour? And there are 3.7 million job openings that they are vying for putting downward pressure on wages? And wages are 70 percent of production cost? So why on earth would I have a big inflation view when I know that there's grotesque excess capacity and the most important cost for businesses which is labour?"DR

"There is tremendous excess capacity in the U.S. economy and the fact that most people don't get it is just fine with me. It means there's more potential for bond yields to go down even more. It's important to know what the correla-tions are."DR

"So there's all this talk about will the U.S. default? The U.S. is not defaulting. Fiscal deficits, they're important but they're not the most important. Fed policy is, Fed policy. ***You do not go into a sustained bear market in bonds until the Fed takes the carry away, full stop. You know in this sea of uncertainty it's nice to be able to hang your hat on things that you can actually be certain of."DR***

"So people tell me, look how low bond yields are. Look at how low bond yields are. Well relative to what? The most important thing to benchmark bond yields against is not your history, it's not the CPI, it's against the overnight rate."DR

"I generally don't like the grocery business. In fact I think it's a horrible business. Take a market like Toronto. Walmart's adding new capacity. Target's coming to town. They're going to have big grocery aisles, Loblaw's, Metro, Sobeys, they have to reinvest in their stores every couple of years to keep them fresh, to keep people coming back so they actually never get to retain any cash flow from operations and pay it to you as a shareholder." RG

"But there's less than 7 percent of the baby boomer balance sheet is actually in fixed income. And they have a lot of catching up to do. And those are the flows driving the demand for fixed income products. Not just fixed income products, but also the income equity." DR

"Another company that we like is Brookfield Infrastructure Partners. It's a collection of infrastructure assets. This portfolio was put together during the finical crisis of '08 and '09, and it could not be reassembled today. These assets are quite scarce, these are rail lines, or ports, or transmission lines. The company has very stable cash flows. Eighty percent of its cash flows are either contracted or regulated. So we have very good visibility on the company's ability to generate cash flow over time." RG

"Right now we need to take a look at where the corporate bond market is trading, it's effectively pricing at 5 percent default rate. Right now the default rate is just over 2 percent. You're getting paid to take on risk in the corporate bond market. I like that." DR

The Long - Our takeaways from David & Reno

Top economist David Rosenberg and gifted portfolio manager Reno Giancola had a lot to share. David said you might not like the stock market right now, you might not like what is happening in Europe and you might not like the uncertainties and gridlock in US politics right now, that doesn't mean you can sit around in cash collecting tiny interest payments while your money slowly devalues itself.

Savvy investors have to assess the current environment and look for opportunities to protect and grow your wealth. David is bullish on yield, something that is very easy for most investors to understand, yield in any form as long as it's safe and reliable. What is going to pay a consistent income stream to it owners?

Reno pointed out a boring idea, which is why it's an exciting idea. He's looking where others aren't. Areas where you have to do more of your own work and can't just pick up a research report from any of the major firms as you can with some of the more popular large cap ideas. His idea was a grocery store chain called North West Company.

He was able to find a company in a space everyone hates. It has significantly higher barriers to entry versus other chains because it operates in small remote locations with small amounts of clients that no-one else would think about competing with. These areas have higher growth than the rest of the country which means these stores will have higher growth as well. The company pays out 50% of cash flow to investors meaning they can easily afford to pay their substantial dividend. The company also has a focus on improving productivity and efficiency versus expansion which should help margins and profit.

While the average investor would own George Weston (Loblaws), by doing some digging Reno found a company that is growing faster than the competition with higher margins, better cash flow and a much more attractive dividend that is more protected because of higher barriers to entry and he is paying less for it than buying the significantly less desirable competition.

The Short - Key Quotes from John Thiessen

“In the past we’d have 1 to 2 percent (of the portfolio short) and today we’re at the highest we’ve ever been in our portfolio at 15 percent which is really our mandated maximum in terms of what we do in the portfolio, because the one thing there is also a bull market in, from our perspective, is there’s a bull market in shorts.”

“If we look at department stores, right now it’s really in vogue if you’re an American retailer to say we are going to go to Canada because that’s just an untapped retail market for consumers. I think Canadian’s are definitely a little shopped out. The difference between a great retailer and a bad retailer today is the Internet. So if you look at like Lulu Lemon, a store from my neck of the woods, they’ll go into a city like Boston now and say, they won’t really open more than 5 stores because they expect to get a quarter to a third to a half of their actual retail sales now from the Internet.”

“Last year we were short Yellow Pages because no one actually uses the product anymore because everyone likes to do that on their mobile phones. We’ve seen newspaper ownership decline by or readership decline I should say by 50 percent since 2008 and we think that will continue. “

“ What we own from a distressed side that we think is kind of interesting is Nortel. You probably haven’t heard that name for a long time and you hear a lot more about Research in Motion, which is basically a newer version of Nortel. The one thing Research in Motion does have right it that they actually have a lot less debt on their balance sheet, well actually Research in Motion has no debt. But what’s interesting is that in this particular case Nortel’s recently sold their patent portfolio for in excess of 4 billion dollars, which more than covers all their debt that’s outstanding so if you look at Nortel today, the senior bonds actually trade at around 110, and if you add all the accrued [interest]since Nortel declared bankruptcy, your payout would be roughly about 160 [indicating the bond is worth more than 60% more than the par value of 100]or so. So we think the potential for a high return in Nortel is quite interesting.”

“We probably participate in about 100 M&A transactions every year. Probably 3 of those hundred fail each year. Our favourite deals today in Canada would be the Toronto Stock Exchange deal, which the rest of the Canadian Banks are trying to buy in.”

“Yeah, we do have some gold shares. We own the debt in gold companies that have actually issued bonds. For example AngloGold preferred, Detour Gold, and they pay somewhere between 3.5 and 7 percent, and because they are convertible we can basically just hedge the actual equity risk out of it. If gold does perform really well we would probably have about 40 percent of our actual exposure we would capture on the upside, so we have about 10 percent of our portfolio in these gold names that actually pay us a dividend yield while we wait.”

“I think that one of the few stocks we do like is Apple. We like it on valuation, we like it on growth, we like using the products, but the nice thing is about Apple and if you just sort of follow the Peter Lynch model of investing, when you own the product you can see all the products that they’re actually taking out in terms of collateral damage. When I go to an Indigo book store I basically get to see the showroom and then I get to download my book at the Starbucks’ in Indigo for one third the price on my tablet. I think most of the booksellers today are great shorts.”

The Long - Our takeaways from John Thiessen

The Vertex Fund is fairly unique in Canada and to the other presenters' funds because it's a multi-strategy fund. This means it employs different strategies that don't have much to do with each other. Significant weights are given to a few different strategies and John will change the weighting depending how he views the risk/return profile of the market.

Currently he is heavily [40% of the portfolio] into Mergers and Acquisitions, a strategy that is very uncorrelated to the stock market. This means his gains and losses have very little to do with if the market goes up or down but are determined by whether the deals he invests in (where one company has announced it is buying another company) actually closes.

He is also 50% in yield (hybrid bonds, preferred shares and high yield bonds). This very defensive position creates reasonable returns while he waits to deploy capital to more aggressive ideas in the future.

Unlike a mandated fund that has to be 100% invested in large cap Canadian equity, John has the flexibility to protect himself with a variety of different tools such as shorts, hiding in fixed income or merger/arb, holding cash.

The ability to short allows him to find an idea that he likes such as Apple, and not only bet that Apple will benefit from products like the iPad and iPhone but also predict what the collateral damage will be. He can bet against more traditional companies that will lose market share such as book sellers, newspapers and other electronics hardware manufactures.

It was interesting to see how different managers played the same theme. Sprott, Allen and Thiessen were all bullish on gold. Eric gets exposure through small cap equities that will likely experience the most gain/loss depending on how gold prices move. Barry chooses to invest in the physical metal because it exhibits lower volatility. John has invested in convertible debt meaning he is getting paid interest to hold the debt, but if gold prices increase and stocks run, he'll be able to convert his debt into common shares capturing a large amount of the upside.

Final Thoughts

At the conference we heardopinions from 5 firms who all look at the world differently. Eric believes things will get very difficult and thinks gold, silver and mining stocks will be the benefici-aries. Chris thinks there are still plenty of companies out there trading at valuations that he likes and will buy them making the assumption that the world will continue. Barry is in protection mode while Europe goes through what he feels will be the most difficult part of the overseas economic crisis, while patiently waiting to buy the bonds he wants at more attractive prices. Rosenberg is under the belief that cash flow/yield is king and Reno is looking for attractively valued companies that produce significant yield. John Thiessen thinks it's a bull market, for shorting stocks and Merger/Arbitrage.

So who's right? We wish we could tell you, but we can't because we don't know.

What we do know is that these are exactly the type of managers we want to invest alongside. Their differing views of what's happening in the world and how to profit from them have caused them to hold great companies that would have very little (if anything) in common with any of the other managers, creating great diversification.

In our guide to asset allocation (available at www.vanderhout.ca) we point out a few keys for picking managers. A few key points are that they have had spectacular returns over an extended period of time. Clearly with most of these managers pushing 10% – 15% annualized returns when the markets have been flat, they have achieved that. We also talk about passion. I think every manager displayed an absolute love of waking up every day and doing what we pay them to do, developing investment themes, finding cheap companies and making money for themselves and their investors.

Finally we look to see if the process is repeatable.

Eric still builds a macro theme and then finds great companies that will benefit if it happens. Chris applies the same value investing techniques that Mario Gabelli adapted from Graham, Dodd and Buffett 35 years ago. Barry is still looking at the world as a credit analyst determining which individuals bonds are most likely to continue paying him a constant stream of income. David continues to accurately forecast the big picture and Reno then goes hunting for great companies consistent with those forecasts. Thiessen has significant weights in his bread and butter, M&A,while looking for special situations to deploy capital.

Will all these managers continue to be great indefinitely? Not necessarily. This is why we hold a diversified portfolio of top managers. Our belief is cumulatively our diversified investments alongside the most talented experts will significantly outperform the weekend investor, the standard index hugging mutual fund and the seasoned investment advisor with less volatility and more protection.

Have questions? Please call.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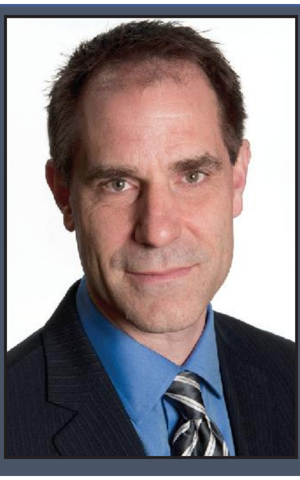
Liberty Media
Public Assets
Private Assets
Other
Equity Value ~ $45bn
GAMCO

(Y)our Team



Steven Mogdan, CA, CFP - Financial Planning Specialist

Steven completed his Bachelor of Business Administration at York University in 1989 and subsequently completed the CICA In-Depth Tax course. He has also achieved the advanced designations of Chartered Accountant (CA) and Certified Financial Planner (CFP).
During his time as a tax and financial practitioner with several professional service firms, Steven specialized in Canadian, U.S. and cross-border personal income taxation, and provided planning and preparation services to clients. He also has professional experience with the RBC Tax Advisory Group and RBC Dexia, where he provided tax advice to various business units within RBC.

Steven and Dustin collaborate to provide clients with a detailed road map of where they are and how to get to where they want to go.

Matt Younder - Estate Planning Specialist
RBC Wealth Management Financial Services Inc,

Before joining RBC in 2010, worked for a medium sized wealth management firm where he was both the Director of Insurance Services and a member of the firm's Wealth and Estate Planning Group.

Matt has worked in the financial services industry since 1995. He has been a Marketing Director with a large wealth management firm assisting over 300 advisors in Ontario to create and implement insurance solutions for their clients. Matt and Dustin work closely together tailor insurance solutions for both personal and business clients needs.

Matt can focus on both personal and corporate insurance solutions to help increase your net worth, reduce the impact of taxation and secure your wealth through a variety of life insurance, annuity, and living benefits solutions. To help you receive high-quality, cost-effective insurance solutions, Matt will evaluate various insurance offerings from Canada's top-ranked insurance providers.

Ken Chew – Private Banking -Royal Bank of Canada

Ken Chew brings more than 17 years of industry experience to his role as a Private Banker. He holds a Personal Financial Planner designation as well as a Management Studies Diploma and a B.A in Economics from Wilfred Laurier University.

Ken's Private Banking team works one-on-one with each client, drawing upon the full resources of RBC to create sophisticated banking, high-end credit solutions, and structured Wealth Management Services for individuals and families who are dealing with multiple income streams and often require complex solutions. The 2011 Euromoney Private Banking surveynamed RBC Private Banking number one among all domestic and international private banks in Canada for the fourth year in a row.

Ariel-Charles Guigui, B.Adm., LL.B., TEP - Will & Estate Consultant

Ariel graduated from the University of Ottawa with a degree in Business Administration in 1992, and from the Faculty of Law in 1994 where he served on the editorial board of the Law Review. He was called to the Ontario Bar in 1996. Prior to joining RBC, Ariel spent 5 years teaching Real Estate Law and Estate Law in Ottawa. For the previous 12 years, Ariel held several positions at a major trust company, culminating in the role of Trust Manager.

Ariel is a member in good standing of the Law Society of Upper Canada, and the Society of Trust and Estate Practitioners. His significant practical experience in estate planning and administration allows him to offer valuable guidance during the creation of your estate plan.

The world has changed, but unfortunately many investors' portfolios haven't.

As an analyst in New York through the downturn and recovery of the US and World Economies in 2008 I learned many things. Working at one of the most respected research driven firms in the US, gave me unlimited access to resources normal investors don't have. I spoke frequently with the CEOs and CFOs of the companies I followed; attended industry conferences; used industry databases; read research written by competing firms; and talked with many experienced Portfolio Managers across North America, sharing insights and opportunities. After several years I decided to return back to my hometown of Toronto to start a family. I wanted to use the skills I'd learned and the relationships I'd developed in the financial capital of the world to help families with their investments.

In these difficult and volatile markets I am focusing on investing alongside the best portfolio managers in the world who have shown an extended history of outperformance. I worked with many of these managers while in New York and have seen their passion, dedication and skills up close. I believe in the current environment only these experts have all the tools to protect my clients' capital while at the same taking advantage of the opportunities volatile markets create. Through my newsletters I hope to highlight many of these managers' outstanding track records and share their valuable insights with my clients.

If trading stocks hasn't worked for you, I'd love to talk to you about my institutional approach to allocating investments.

Dustin Van Der Hout

RBC Wealth Management
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