



Deep Cove Acumen

Financial know-how from the heart of Deep Cove

Volume 2, Issue 2

Investment Outlook

with Chad Ekren, CFP

by Bernie Geiss, CFP, RHU, FMA

Chad Ekren is a friend and colleague of mine that I remain in close contact with. He is the advisor that I transferred my clients' accounts to after I made the decision to leave the securities industry. I chose Chad because of his intense interest in the art of investing, his past performance and his integrity. I have followed his approach and results for a number of years now and wanted to catch up with Chad on what his current outlook is with respect to investing and share it with you. Chad is a Registered Representative with Berkshire Securities Inc. The following interview took place on November 16th, 2004.

Q. Chad, what is your overall outlook for investing today?

A. I believe the next few years are Canada's time to shine. We all are aware that the US dollar has been on a steady decline as the world's economies have been improving and investors are prepared to reinvest in countries outside of the US.

Q. Are you saying that the US is a bad place to invest?

A. No, but I do have concerns about the possible short-term (next few years) underperformance of the US. "There is a real strong possibility that we could experience several more years of poor general market returns in both Canada and the US. If we look at the 17 year period between the end of 1964 and 1981, the Dow Jones Industrial Average went up less than 1 point. If you adjust for inflation, then investors suffered huge losses in real terms. In the more recent 17 year period from 1981 to 1999, the DJIA rose 13.1 times or at a 15.4% compound rate which was far above historical norms." *Information taken from Tom Stanley of Resolute Growth fund's October 4, 2004 letter to unitholders.*

I have heard Warren Buffett comment that he feels that over this decade investors should expect, at best, mid single digit returns (6% to 7% or possibly lower when you subtract management fees) in the US. I personally have a very strong feeling that our current stock market environment resembles the first period of time described above, versus the latter. As a result, I suggest we all better expect much lower average equity returns going forward or find niche managers who

can add value to our portfolios and possibly achieve the double digit equity returns which many of us have come to expect.

Q. What are your feelings about mutual funds? Are they still a good investment option?

A. My personal feelings are that the large, well-known mutual funds that "everyone" owns will likely underperform the index and the average mutual fund in its category. **I cannot guarantee this will happen, but it is my opinion that it could.** If I am correct, then you as an investor might want to consider ETFs (low-cost exchange traded funds) or invest with those managers who are still **relatively small in size and have an investment strategy that is unique and proven to work both in good times and bad times.**

Q. Can you share with us who some of these niche managers are?

A. Sure I will:

1. **Acuity Investment Management** was established in 1991 and has gained a well-earned reputation for providing discretionary investment management and building lasting relationships with clients. Over \$3.4 billion in assets (this is a relatively small company) are now managed on behalf of High Net worth individuals, pension funds, fifteen Acuity Pooled Funds, ten Acuity Mutual Funds, four Acuity Clean Environment Mutual Funds and two Acuity Social Values Mutual Funds. In particular, I am recommending the **Acuity Pooled High Income** fund as the core holding for many of my client's investment portfolios. This fund is aimed at **Private Wealth Management** for more affluent investors. The management fees are much lower than typical mutual funds and the returns have been exceptional (double digit for the past 1, 3, 5, 7, and 10 years. As it takes a balanced approach (mandate is 1/3 bonds, 1/3 dividend paying stocks and 1/3 income trusts) the volatility of this fund is quite low. In addition, the Pooled High Income fund currently pays a monthly income equal to approximately 6.5% per annum. **Bernie, I challenge your clients to seriously consider Acuity as an investment manager for a good portion of their portfolio.**

2. **Chou Associates Management Inc.** is owned and managed by Mr. Francis Chou. I categorize Francis as a true Warren Buffett disciple. He has been investing for over 20 years (only in his mid 40's) and has a very good

track record. He is not well-known by investors as investment advisors typically do not recommend him as he does no marketing and he pays lower commissions to brokers than the more well-known fund companies do. His MER's are approx. 1.87% vs. the 2.5% average of most equity mutual funds. Francis has four mutual funds to choose from, but two (Chou Asia and Chou Europe) only have a one year track record:

Bernie, your clients should note that the Chou RRSP fund will likely close once it reaches an asset size of approx. \$200 Million as Francis is more concerned about being able to achieve his long-term excellent results than to just add more assets (and more management fees to him). This fund currently has \$148 Million in assets and Francis holds much of his own wealth within his own funds.

Q. Chad, are there any other managers or strategies that you are recommending?

A. Unfortunately, I can no longer recommend Tom Stanley's **Resolute Growth Fund** as this manager closed his fund to new investors on October 22, 2004. Tom had always planned to close his fund at approximately \$200 Million and that is what he has done. Tom is a Canadian small company fund manager and has produced the best (although volatile) returns over the past 10 years out of all mutual funds available for sale in Canada (source: Morningstar's Paltrak). In fact, his results have been a staggering 23.1% over the past

Fund	YTD	1Year	3Year	5Year	10Yrs	15Yrs
Resolute Growth	26.8	40.2	31.2	38.1	23.1	N/A
Chou Associates (US)	-1.5	-0.8	13.1	11.1	16.2	13.4
Chour RRSP (Canada)	5.0	7.1	18.2	15.8	17.3	11.8
Acuity Pooled High Income	13.5	21.0	21.4	18.4	14.2	N/A*

10 years to October 31, 2004.

* Acuity's returns are before fees (assume total fees at 2% or less) These returns were obtained from Morningstar's Paltrak and are measured to the period ending October 31, 2004.

Like Francis Chou, Tom Stanley does no marketing and he has the majority of his family's wealth invested in his one and only fund. Although this fund is now closed, I do have my radar screen on looking for similar style/result managers and/or strategies. In fact, I currently am testing an individual stock investment strategy which I may be offering to several of my clients. **I am subscribing to a Canadian newsletter (limited to 1000 people) which shares the investment buys and sells of two very successful contrarian investors (the "Contra Guys"). These gentlemen are deep value investors and their recommended stocks have produced fantastic results over the past 12 years with only one losing year over that period.** I am provided with their quarterly newsletter and then emails whenever they make a buy or sell. In turn, I will make these buys and sells on behalf of some of my clients who I feel have the appropriate investment objectives for this type of strategy. I would be happy to keep you posted as to how this approach is working over the ensuing months. I am provided with

their quarterly newsletter and then emails whenever they buy or sell a security. I will determine if these companies are appropriate for my clients and I will determine the % allocation to be invested into each security.

The "Contra" Stock Portfolio

Annual Returns	
2003	68.4%
2002	47.3%
2001	64.8%
2000	-17.4%
1999	9.2%
1998	0.5%
1997	53.2%
1996	37.4%
1995	13.2%
1994	1.5%
1993	77.8%
1992	50.1%
5-Year Annualized 29.8%	10-Year Annualized 24.5%

(Source: Contra The Heard Newsletter - Benj Gallander and Ben Stadelmann)

So Bernie, to summarize I believe that North America is generally in an environment of flat stock market returns. Investors either better be prepared for mid-single digits returns or invest with/in alternative niche investment managers/strategies.



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Bernie Geiss, CFP, RHU, FMA is the president of Cove Financial Planning Ltd. Bernie provides creative and contemporary approaches to complex financial and lifestyle issues facing successful individuals and businesses.

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