

Canada's best investors and their stock picks



Seymour Shulich



Eric Sprott



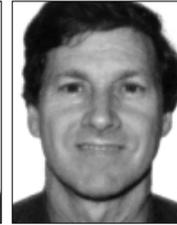
Benj Gallander



Ben Stadelmann



David Burrows



Irwin Michael

By Larry MacDonald

If the CBC can create a list of the Greatest Canadians, then we can create a list of the Greatest Canadian Investors. Besides providing some entertainment and edification, such an exercise gives us a chance to look at what the superstars prefer as investments (and thus generate some ideas for our portfolios).

The selection criterion for Greatest Canadian Investors was highest investment returns achieved over a period of at least 10 years. This required pulling data together from several sources to compare the panoply of money managers at mutual funds, hedge funds, investment counselling firms, pension funds and elsewhere.

Given the data collection and measurement constraints inherent in such a task, our list is admittedly a work in progress. Still, it may be worthwhile to release our findings to date — if only to serve as a discussion piece.

Indeed, we invite your comments and recommendations (send to the e-mail address at the end of this column). There will no doubt be good arguments for including (or excluding) certain investors, and any input you send in can be used to compile a more rigorous list at a future date.

Perhaps an interesting aspect of our preliminary set of candidates is the diversity of investment methods. The message seems to be that there is no one best way to get investment results. Personal qualities such as focus, discipline and depth of understanding seem to count more.

The first candidate is a co-founder of *Investor's Digest of Canada*: Seymour Schulich. It may seem like we are favoring our own kind, as CBC did (e.g., CBC commentators David Suzuki and Don Cherry), but there are objective grounds for choosing him.

His investment vehicle, Franco-Nevada Mining Corp. (a portfolio of royalty interests in gold mines), delivered the highest long-term re-

turns: an annual compound rate of 39 per cent from when it was launched in 1983 to its takeover by Newmont Mining Corp. in 1999. Not even Warren Buffett has these kinds of numbers.

Mr. Schulich is now head of Newmont's investing arm and is currently betting big on units of **Canadian Oil Sands Trust** (COS.UN-TSX, \$59.78, 403-218-6228, www.cos-trust.com). He has put Newmont Capital into six million units of COS and his own portfolio into 2.5 million units (making it his largest personal holding).

Despite the recent run-up in price, Mr. Schulich sees units in the income trust as still undervalued because most oil analysts are using oil-price assumptions of US\$30 a barrel in their projections.

Mr. Schulich believes the price of a barrel of oil will remain around current levels for years to come and energy stocks should enjoy further appreciation once analysts revise their assumptions.

Second spot is assigned to Sprott Asset Management CEO Eric Sprott, whose investment returns are said to be compounding annually at a 25 per cent pace since the early 1980s.

His approach, which relies on top-down analyses of macro-economic trends, reaped a whirlwind when it led him to short tech stocks and go long on gold stocks just as the 1990s bubble burst.

He is still bullish on gold stocks for a number of reasons, one of which is as a hedge against a financial crisis arising from the proliferation of debt and financial derivatives. He is also bullish on other commodity stocks, notably those in the energy sector. And he has bets on "special situations" such as stungun maker **Taser International Inc.** (TASR-NASDAQ, \$50.50, 480-991-0797, www.taser.com).

Third on the list are Contra Guys Benj Gallander and Ben Stadelmann, editors of the *Contra The Heard* newsletter. Going by the figures on the front page of their publication, they have produced an an-

nual rate of return of 24.5 per cent over the past 10 years.

The two contrarians recently reiterated two previous "buy" recommendations (now trading at or below their original buy price). **Kelman Technologies Inc.** (KTI-TSX, \$0.40, 403-294-7575, www.kelman.com) supplies seismic data-processing and management services to oil and gas companies, and **Cygnal Technologies Corp.** (CYN-TSX, \$1.27, 905-944-6500, www.cygnal.ca) provides network communications.

Nominated for fourth place is David Burrows, investment strategist at Rockwater Asset Management, with an annual rate of return close to 20 per cent over the past decade. His approach relies heavily on technical analysis to trade the peaks and valleys of stock markets, and select individual stocks (relative strength is a key criterion).

Favorites

Two of his favorites are **CN Railway Co.** (CNR-TSX, \$68.17, 514-399-7212, www.cn.ca) and **Nova Chemicals Corp.** (NCX-TSX, \$45.24, 403-750-3600, www.novachem.com). CN Railway is the lowest-cost operator in the North American rail industry and stands to benefit from increased transport of raw materials, while Nova is positioned to benefit from "constrained industry capacity" and a cyclical upturn in chemical prices.

The fifth-greatest Canadian investor is Irwin Michael, portfolio manager at ABC Funds. His **ABC Fundamental Value Fund** has an annual compound return of 17.17 per annum over the past 15 years (compared to main Toronto index's total return index average of eight per cent).

A deep-value approach puts him into stocks trading below book value, 10 times earnings and five times cash flow. Even better if they have hidden assets (e.g., real estate carried at historical cost), little or no following in the analyst community, a lower valuation than their peers and

a catalyst (e.g., new management).

Earlier this year, Mr. Michael purchased shares in **Sears Canada Inc.** (SCC-TSX, \$17.90, 416-941-4422, www.sears.ca) close to the current price. Investors are worried about competition from Wal-Mart, but Mr. Michael believes the overlap is not significant. Sears Canada is mostly in a more upscale niche of the market.

Also, there are plenty of hidden assets, including a new banking division (with good growth prospects), a trucking business worth \$3.50 per share and real estate carried at historical cost. Furthermore, with a good amount of merchandise imported from the U.S., the soaring Canadian dollar will lower purchase costs.

As noted above, data availability and measurement issues are caveats. There were some investors that we would have loved to put on the list but couldn't because of the inability to find comparative long-term performance numbers for them.

Other notable investors

A case in point was Ross Healy of Strategic Analysis Corp., whose calls on Nortel Networks and other situations have been remarkably prescient.

Another was Stephen Jarilowsky of Montreal-based Jarilowsky Fraser Ltd., a staunch advocate of shareholder causes for years.

We would have also loved to extend the list but there were space constraints to observe. Investment professionals and firms that could have made the list include Peter Cundill, Wayne Deans, Ted Whitehead, Tim McElvaine, Sebastian Van Berkom, Robert McWhirter, Benjamin Horwood, Gerald Schwartz, Francis Chou, Jerry Javasky, Gerry Coleman, Robert Tattersall, Pembroke Management and Highstreet Asset Management.

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