

Staying firm in your goals 'drives' results

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Who

Bill Harris, partner and portfolio manager, Avenue Investment Management Inc.

The Strategy

To lock in a return of 8 per cent to 10 per cent with as little risk as possible from stocks and bonds of solid companies that are attractively priced.

"If you set your goal right, that drives everything," Mr. Harris said in an interview. Investors are in the stock market because of its 8-per-cent historical return, known as the equity risk premium, he says.

"We don't care what the index is doing. We're trying to beat inflation ... If you're patient and diligent, you can capture that 8 per cent with as little risk as possible."

First, the partners scan the market for high-yielding bonds. "If we can find a bond that yields 8 per cent or 9 per cent, we'll lock it in," Mr. Harris says. Last year's market meltdown presented a wealth of opportunity.

When Sherritt stock tumbled from \$17 to \$2, the partners stepped in and bought. Ditto with the bonds, which plunged from par to \$65 for each \$100 face value.

"The real money was in buying a big position in the bonds," he says. The company was completely solvent. Sherritt bonds bounced back to par and "you're still getting 8 per cent" on the coupon.

"We actually had very good returns this year and we did it with very minimal risk."

The second part of the strategy has three components, Mr. Harris says: What you buy, how you buy it and how you manage the risk once it's in your portfolio.

"We look for businesses that are profitable, predictable and in a good industry." Again, the market meltdown presented opportunities to buy low-cost market leaders at low prices. While indexes may swing up and down, some things are predictable, he maintains.

"EnCana was a low-cost producer of natural gas 10 years ago and will still be in future."

As for valuation, Mr. Harris says he waited 2½ years to buy Agnico-Eagle at his target price but he eventually got it when it fell from \$50 to \$30.

"I'd like to buy Potash [Corp. of Saskatchewan] at \$50, but if I don't get it I don't have to own it." The stock is trading in the \$110 range.

Risk management is straightforward: If a stock doesn't perform the way the partners expect, they sell it.

When It Works Best

In sideways or down markets, "we will outperform the index." When stock markets are roaring, Avenue will lag.

What Could Go Wrong

The analysts can make a mistake. "That's why risk management is important. You do all your work but you just get it wrong."

How Is He Doing

The Avenue total return equity portfolio was up 29.5 per cent for the year to Nov. 30. Last year, it was down 23.5 per cent.

Market Outlook

The stock market's current valuation is fair, Mr. Harris says. "It was incredibly undervalued." As for all those big profits in the corporate bond market, they're a thing of the past. "It's done."