

# TOUCHSTONE STRATEGY

Richmond | Goodman Wealth Management

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## True Wealth Creators

There is no Canadian Investor Hall of Fame. Probably for good reason - Hockey and Hollywood are much more interesting. BUT if there was we would have something to say about it. We would volunteer the following intake criteria on our list:

- Exclude the 'Cowboy' hedge fund managers. It's just our opinion, but excluding them is analogous to stripping Ben Johnson of his Gold medal. More often than not these users of leverage and exotic financial securities fall on their swords, and take their investors with them.
- So let's agree to just stick with the journeymen quality managers. The managers who take their experience, good judgement, and good navigation skills – and make money. They stay organized, execute well – and just get the job done. With no nasty surprises. Investing is not easy – hard work is required.

This narrows our criteria to the managers who have portfolios that perform very well over the long haul, and have served their clients well. And equally importantly – they do so without unnecessary surprises. They are the *bona fide* wealth creators – and often have admirers they don't even know - because they made them wealthy. There is often a brand/company associated with them – and while it may be self-serving we can't help but point out that 'teams' seem to go part and parcel with success.

Based on the above criteria we see the following teams likely to make the preliminary list:

- Prem Watsa and Francis Chou (Fairfax Financial)
- Jerry Coleman and Jerry Javasky (Harbor funds),
- Once partners Robert Krembil (Trimark) and Peter Marshall (Seamark)
- Ira Gluskin & Gerald Sheff (Gluskin Sheff)
- Tony Arrell and Richard Rooney (Burgundy)

Congratulations.

## ...and The Curse of Success

Word of mouth matters. So when a manager starts to enjoy some success – and make their clients' money – word gets around. Quickly. It's human nature to talk about success. For an investment manager in Canada it can be a fleeting moment in their careers. Each team on the list above can probably easily pinpoint the days when they had a small pool of capital, experience, good judgement, and good navigation skills – to turn it into a big pool of capital. *The good old days...*

There are two ways managers can increase their (and their clients') pool of capital.

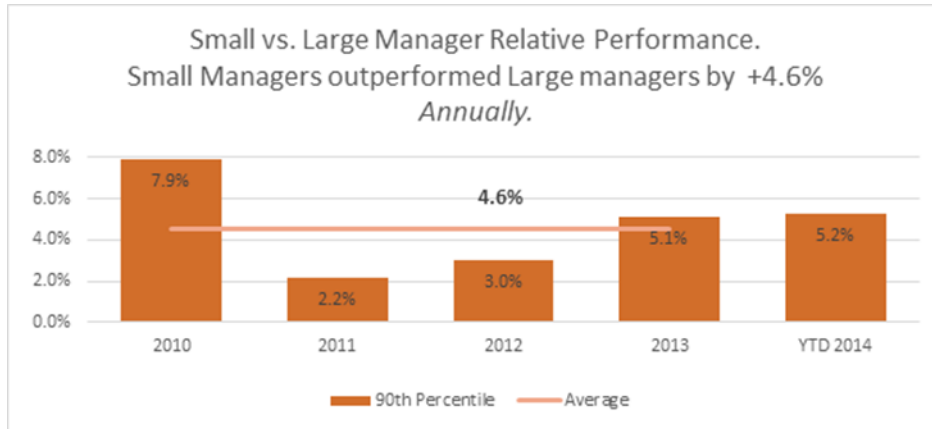
1. Organically – using their wits, judgement and skills to grow it through thoughtful and careful investment.
2. By word of mouth – having new clients jump on the bandwagon, usually based on the manager's past success.

The first way usually begets the second. Performance and success attracts capital. The momentum continues, the wealth creation continues, the word of mouth continues (the good old days) – and then it changes. And not for the better.

At some point – the relationship shifts to an *inverse* relationship. More money sows the seeds of mediocrity - and it's all related to size. There are many real world examples where size starts to hinder performance instead of helping. Again the names on the list above can probably point to a point in time when it was obvious – they were no longer enjoying *the good old days*.

When Robert Krembil retired from AIM Trimark – the successor firm installed a series of very smart, experienced, capable managers with good judgement. It didn't matter. The pool of capital was too big to generate responsible performance. It was asking the impossible. The Canadian stock universe is comprised of ~ 700 companies. When a pool of capital grows beyond \$1BN that number shifts to about 60 companies that a manager can consider for a portfolio. So BIG managers have to grow capital using less than 10% of the whole menu of stocks.

The reduction in choices a manager has seems to translate directly into performance because they are all investing in the same, limited universe. The chart below shows that small global managers outperform larger ones by an average of 4.6% annually. We see no reason why this would not apply to the Canadian market – perhaps more so.



Source: EurekaHedge 1/1/00 – 8/31/14

The Curse of Success comes in two Stages :

First Stage: Size helps – and then all of a sudden it hurts. Second Stage: We all age. If a pool of capital is too big when the torch is passed from failing hands – rarely can it be overcome. There are usually desperate forays into new markets, changing strategies ... but it all too often sounds much like the decline of the Roman Empire.

In the spirit of shameless self-promotion – Our TouchStone Strategy has served our clients well and moved them towards their personal goals, we continue to organically grow a relatively small pool of capital. Understanding the principles of True Wealth Creation and the associated curses thereof are always on our minds.

Every day we use our experience, strong judgement, and good navigation skills – to create wealth for our well informed clients who 'get' what we aspire to do for them. We are very fortunate to have wonderful clients – and at the end of the day doing well by them is what motivates us each and every day. Our Quarterly Fact sheets for Sept 30<sup>th</sup> Q3 are available – please let us know if we can email them to you. Best regards.

**The TouchStone is a symbol of a true and reliable test of value.**

*The only good investment plan is one you can stick with. Simple plans should work in all types of situations. You really don't want a plan that only works **some** of the time. True peace-of-mind resides in knowing that it works – and that it endures.*

*If you doubt this, just ask us about 2008.*

*We manage wealth differently. Our unique approach captures opportunities, while prudently employing "investment circuit breakers" to protect your hard-earned wealth.*

**Good, sound advice makes a difference.**

*Find out what you're missing: We invite you to subscribe to our newsletter and visit our blog, or contact us directly if you would like to learn more.*

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