

Slow and steady wins the race

Advisors counsel to stay the course in rough weather

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While he's only 50, Norman Raschkowan, chief investment officer at Mackenzie Financial Corp., has been investing in stocks for 37 years. You read that correctly. He was just 13 when he bought 50 shares of Canadian Pacific in 1971. As a result, he endured the 1973-1974 bear market.

As Raschkowan reveals in video interviews last Thursday and today, he is convinced that investors who sell their stocks and equity funds in a panic will eventually come to regret it. While cautious about Europe, Asia and emerging markets, he contends there are great opportunities in U. S. large-cap industrial stocks. They will be "the most attractive place to invest over the next 12 months," he says. "Part of the reason is they have become much more competitive on the global marketplace because of the decline in the U. S. dollar."

Long term, he is concerned about the greenback but says that over the next year the U. S. dollar will "probably do OK. It will benefit from a flight to quality especially as people recognize the difficulties in Europe or Asia and investors gravitate to quality liquid markets."

Raschkowan's optimism about stocks is based on comparative yields with fixed income, a field he knows well from his 27 years at Standard Life. (He joined Mackenzie a year ago). Currently, the spread between yields on stocks and bonds is the largest in almost half a century.

For investors with a time horizon of three or six months, there is no guarantee, but if it's three or five years, "you can be pretty confident now is the time to be invested in stocks."

Raschkowan says the volatility of early October is a test of people's discipline. One of his roles at Mackenzie is to make sure funds are managed the way the firm committed to manage them on behalf of unit holders. The fund managers at Cundill, Ivy and other Mackenzie fund families have never been more excited about opportunities in the marketplace, he says. "I sat down the other day with Bill Procter [Maxxum] and Ian Ainsworth [Universal] and we talked about the incredible opportunities and values. We're seeing it from a growth perspective and quality tech names and Bill sees it in the classic dividend plays."

He isn't permitted to divulge recent buys, but says Ainsworth likes quality U. S. technology companies, blue-chip large-cap leaders in their field that have been beaten up like other blue chips. "Cisco is an example of a dominant company in its field where earnings are growing and the share price has fallen below US\$20 to levels you've not seen in years. I think he'd agree Microsoft is a quality company but he wouldn't be as excited about it because he doesn't see the growth there that he sees in other areas."

According to Mackenzie's Web site at mackenziefinancial.com, the largest three positions in Ainsworth's Universal Emerging Technologies Class fund were Cisco Systems Inc., Apple Computer Inc. and Research In Motion Ltd. Typical holdings in Procter's Maxxum Dividend Fund are Bank of Nova Scotia, Power Corp. and Thomson Reuters Corp. Such seasoned managers --Procter started as an investment analyst in 1969 and has been with Mackenzie since 1994--have experienced such panics before. Through the summer they were building cash but even the seasoned pros have been surprised how severe and rapid the market fall has been, Raschkowan says. Some funds in the Ivy family were close to 10% cash and Cundill was above 20%, he says.

The Ivy funds provide perhaps the best examples of companies that investors should seek in this type of market environment: global large-cap blue chips generating free cash and that are able to grow earnings in any economic environment. Typical recent holdings include Mc-Donald's, Pepsico and Nestle.

Like the rest of the industry, there are redemptions as some unit holders flee to money-market funds, but most advisors are reporting clients are staying the course, sticking with their long-term plans. But Raschkowan concedes some younger advisors who have never experienced such a vicious bear market may also be "struggling to keep their own emotions in check."

Mackenzie has provided conference calls to advisors in recent weeks and posted an open letter by Fred Sturm, chief investment strategist. For the most part, advisors are keeping faith, Raschkowan says. "Certainly the ones I've spoken to are reinforcing the view of maintaining the long-term perspective and keeping people on plan."

By now, most advisors should have sent clients communiqués reviewing the arguments for staying the course. These tend to be mass e-mails or blog entries, but with the emotions some clients are feeling about massive losses, a more personal touch may be necessary. An example is a letter one retired advisor sent to his sister-in-law, who was ready to bail rather than suffer any further losses. It was posted on my blog last Thursday. Surveying her limited options, he said it's too late for her to sell and go to cash. That "would be the wrong thing to do, simply because you have lost this much, you might as well hang in for the long haul. Studies of major market drops in the past show that the markets will take massive jumps after the drops and it usually happens about two thirds into the economic downturn."

Raschkowan's parting advice to mutual-fund investors is similar: "If you own quality mutual funds invested in quality businesses, then this is an opportunity, absolutely."