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Like Artists, Top Money Managers Paint on the 'Market Canvas'

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Last week I called Martin Braun, my predecessor in this column, and asked him if, at the risk of unseemliness (because he had, after all, interviewed me), I might in turn interview him now. After some cajoling Martin consented but suggested that I should interview him together with one of his partners, whom I know -- Randall Abramson. I agreed and the three of us repaired to an Italian lunch, over which I could pick both brains at once.

Martin and Randall are intense private types, but after some more cajoling I learned that six years ago Martin joined forces with Randall and his father Herb Abramson, to found Strategic Advisors Corp. Since those halcyon days, assets have ballooned from $40-million to more than $1-billion (including Adaly, a fund run by Martin), managed in long/short, long-only, RRSP and income accounts. All in all, Strategic Advisors has now become one of the largest independent long/short money managers in Canada.

"How?" I asked Martin and Randall over our roast tuna and arugula salad, in the small restaurant across from their office at the Cineplex building in Toronto. "What's the secret?"

"Performance," Randall said modestly. Since its inception, despite the rapid growth in assets, Strategic Advisors has shown a return of 30 per cent a year in long/short accounts, slightly less for long-only accounts and 17 per cent a year in income accounts.

"But how did you do this?" I asked again.

Such performance often has a method behind it, or an outlook, which I was determined to find. Well, it seems the reason behind this top performance is twofold.

First, Strategic Advisors has a strict value approach, overlaid with computerized models that assess stocks' intrinsic values that depend not only on earnings, book values and other fundamentals, but also on stock prices. When a stock rises its potential falls, and beyond a certain point it is sold.

Stocks that show negative potential are sold-short in the long/short accounts. And because the system also provides buy/sell signals, it thereby also provides a timing mechanism for stocks, sectors or the market as a whole. So far so good.

However, computerized models are a dollar a dozen on Bay Street. (Giraffe has a few pocket models of its own.) So was this the reason for the returns? Only partly.

The other reason -- perhaps as important -- is Strategic Advisors' insistence on never turning away an opportunity before checking it out for themselves. And here is where the story gets instructive, if you will allow me a moment's digression.

Years ago, a painter-friend told me that the difference between artists and non-artists is that the latter see only what's given to them, while the former see only the components, and put them together in their own way. Thus an amateur doing a portrait might see a "nose," a "chin," a pair of "eyes." An artist, on the other hand, would see a Sienna brown stripe running diagonally to an ochre-yellow patch, bordered by an ultramarine blue shadow.

What's the connection to money-running? Looking back at the top money managers I had interviewed, I find that top ones, like artists, often ignore what everyone tells them, and instead break the investment into its fundamental components -- which they then put together into something fresh, original and meaningful. (Warren Buffett himself called what he does, painting on the "market canvas.")

Thus, in 2000, top money managers ignored the household name of "Nortel" and saw a mere tulip selling for an insane 10 times sales (Strategic Advisors, like Giraffe, shorted Nortel successfully); or in 1982 some managers ignored talk of Canadian Imperial Bank of Commerce going bust, and bought its stock on fundamentals. In the case of Strategic Advisors, this practice leads them, first, to "break up" stocks into their fundamental components via their models, and second (because of the first), never to turn away an opportunity, even if everyone else already had, before checking its components out for themselves.

This methodical, artistic mindset had Strategic Advisors buy into PetroKazakhstan (back when it was still Hurricane Hydrocarbons) based on the fundamentals, even though its business was in an obscure former Soviet republic.

It also led them to invest in Connacher Oil, even though management had some setbacks in its background -- because this particular deal looked like a bargain. Or to invest in gold stocks before they were in vogue. Or in Corridor, a deep gas play in New Brunswick. And several other such bargains, where facts stood in opposition to common perception.

How many stocks go into client portfolios? Typically, no more than 25 to 30, which means that in some companies Strategic Advisors takes large, meaningful positions.

What stocks do these equal-opportunity-investors like now? **Pan-Ocean Energy**, despite being up a lot, still sells below its net asset value and at nine times 2006 estimated earnings; **La Senza Corp**., growing at 15 per cent to 20 per cent a year, is cheap at nine times estimated earnings; and **Sprint Nextel**, at 11 times estimated earnings, also sells below its fair value.

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