



Value country: discipline as passion

William Ashby, CFA
President, Beutel,
Goodman & Company

Interviewed by
Jane Gulian-Moiroux, CFA

Talk to us about your investment philosophy and discipline and whether recent events have changed your beliefs.

William Ashby: During the 42 years since Beutel Goodman was formed, we have been through many difficult market cycles when our philosophy and results have been tested. We have never been tempted to do anything that was not consistent with our value philosophy and process. Despite its severity, this cycle is no different. We have always been conscious of the importance of a margin of safety and the preservation of capital and we had taken steps as early as 2005 to position our portfolios more defensively.

What's the most important thing to remember in talking to investors about their core needs, especially at a time of panic with so many focused emotionally on not losing money?

WA: The two most important issues, among others, when advising an individual investor, is to determine his or her time horizon and to determine the individual's personal and financial position.

Despite the significant economic and capital market uncertainties that we are facing, we are seeing exceptional investment opportunity for a long-term investor. While most companies will, to a degree, be negatively affected by the recession, much of the decline in prices has been driven by forced liquidation and margin calls, mutual fund redemptions and hedge funds unwinding. For an investor who is not forced to liquidate, we would say to hold on because returns are going to be very rewarding.

MEMBER PROFILE

Let's discuss dividends – what's your take on the future for historically consistent dividend players?

WA: Between 1929 and 2004, 65 percent of the return on equities has come from the reinvestment of dividends. Today the return on the S&P/TSX is 3.75 percent, and the banks, insurance companies, and many other high-quality companies are yielding dividends in excess of 6 percent. This market, despite the significant uncertainties, provides the opportunity to lock in extremely attractive dividend income and the probability of considerable capital growth as the economic problems are resolved. For the individual investor who doesn't have to worry about short-term volatility—I would advise to stay in the market, and for new investors—to get in.

And for those who've really loaded up on bonds, what's your view—with inflation possibly a few blocks away?

WA: Bond yields are not particularly attractive; however, for the investor who requires a more defensive posture, bonds should represent some portion of the portfolio. Inflation should not be a problem for several years, since there is an output gap in the economy that will have a deflationary effect. However, with all of the “policy response” money sloshing around, at some point there may be some inflation. In terms of current worries, I believe inflation would not be one of them.

Let's talk about the macro view. As chair of your firm's asset mix committee, how do you and the team go about absorbing the myriad of data available?

WA: We approach asset mix in two ways. One is our macro view of the world, which we establish after a debate on the issues that may or may not affect our asset mix decisions. The other, and more important issue is the bottom-up opportunities we see across the capital markets. Historically, over longer periods of time, stocks have been significantly more successful at generating real rates of return than either bonds or treasury bills. In a balanced portfolio, we target equities at 60 percent. If we can identify good-quality companies that meet our valuation criteria, we will be at the 60 percent level or, in some cases, even higher. As the market becomes progressively more expensive, stocks achieve their target prices and we either reduce positions or sell the positions outright. If we cannot find attractive

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opportunities that meet our minimum return requirements, the equity exposure is reduced and we allocate the proceeds to either cash or bonds.

On the regulation front, do you see any gaps for our industry?

WA: We have 13 regulatory jurisdictions so the current regulatory requirements are staggering. While we’re not debating the importance of regulation, we have to keep it in perspective. My view is that no degree of additional regulation is going to change anything. What is really needed is more education.

It’s obvious you’ve been in the industry for some time.

Where did you start out?

WA: I have been in the industry for over 35 years and have spent about two-thirds of that time with Beutel Goodman. I graduated from Sir George Williams University in 1964 and joined the group pensions department of Confederation Life. I subsequently moved to Confederation Life’s investment subsidiary, Confed Investment Counselling, as manager of the Montreal office.

One day I was on a client call with the then president, Tony Hamlin, and he asked me if I knew about the Dupont formula. He explained the formula to me and I found it fascinating. I was 39 and started studying for the CFA exams because of it, and by some miracle I passed.

What about the formula captured you so?

WA: The formula allows you to dissect a company’s profitability as expressed through return on equity. The four components of the formula are pre-tax margins, asset turnover, financial leverage, and tax rates. Each of these components can be analyzed to determine the impact on future profitability.

Did you ever want to do anything else, even before discovering Dupont?

WA: I had always been intrigued by investments. One day when I was about 16, my grandfather asked me what I would do if he gave me \$1,000. He was surprised when I told him I would invest it since most of his grandchildren, when asked what they would do with \$1,000, indicated they would spend it. My first investment was 10 shares of Quebec Natural Gas preferred stock. It was convertible 10 for 1, and every time the common stock went up by \$1 the preferred stock went up by \$10. I used that money to finance a down payment on my first house in Vancouver.

So did Gramps let you invest his money?

WA: No, not at all (big smile).

Any advice for new charterholders and those struggling through, looking for a role in the business?

WA: Gaining entrance to our industry can be a challenging issue. The first step is to achieve the CFA designation. You must present your case to as many people as possible. Explain to them why you want to be in the investment business and that you would be willing to start at any entrance level, regardless of how menial the job may be. To the extent possible, develop your philosophy of investments, and present your beliefs with a high degree of conviction and enthusiasm.

As difficult and frustrating as the search for a position can be, don’t give up. There is no business as interesting, challenging, and rewarding as ours.

William Ashby, CFA

CFA charterholder since: 1982

Giving Back:

- Member of the Dean’s Advisory Board for Simon Fraser University
- President of the Investment Counsel Association of Canada (ICAC) for two years, “... a great experience that introduced me to most of my competition. Terrific people”.
- Prior to moving from Montreal, was President of the prestigious Montreal Amateur Athletic Association, established in the late 1800s

Life’s passions:

- Two kids and three grandchildren, with a fourth on the way
- Lover of good wine and golf played badly
- Fly fishing aficionado
- Disciplined runner – jogs a half hour every second day, with three marathons under his belt

Bill’s five tips on being successful in the business:

1. Develop a philosophy of money management. Believe strongly in something, pursue your discipline with a passion, and never abandon it. Successful investors: those that faithfully believe in their investment philosophy and process.
2. Don’t worry about the money. That will come.
3. Integrity is absolutely critical. You can’t talk about integrity without believing in it.
4. Your client is first and foremost. The client is the best asset you’re ever going to have.
5. Don’t ever stop learning—that’s at the core of our business.

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You've spoken like a true 'lifer'

When I look back on my career there isn't one thing I would do differently. This is such a great business driven by wonderful, dedicated, intelligent people. You never stop learning and you have the opportunity to meet and interact with senior executives and officials across the country. If you ever arrive at the point where you think you have all the answers, you'll eventually suffer from a very rude awakening. There's no business like it.



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