

Small is beautiful at Vancouver investment house

Michael Kane

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Small is beautiful to the 20 partners at Vancouver's Leith Wheeler, one of Canada's most respected investment houses.

Not so small that they lack the resources to conduct proprietary research. With \$5 billion in pension funds and private fortunes under management, the firm can afford the expertise it needs. But small in the sense of being nimble enough to manoeuvre the markets, unencumbered by excessive growth or portfolio size.

That's why Leith Wheeler recently closed its doors to any more Canadian equity-only pension plans, the bulk of its business, while throwing them open to small investors with assets of \$25,000 or more.

"We really feel the Canadian market is only so big, and if you become a very large manager, you get results that are very much like the market," said vice-president Jon Palfrey. "It is hard to beat the index if you look like the index."

Leith Wheeler wants to stay slim so that it can pursue value wherever it finds it -- in small and medium as well as large companies -- rather than being obliged to follow the herd and invest in only the most broadly traded stocks.

The strategy has worked well over the past 10 years. Not only have Leith Wheeler's mutual funds delivered above-average performance in most categories, they have done so without the stomach-churning dives that typically follow each bout of irrational exuberance in the stock market, while charging fees that are about half the industry average.

Leith Wheeler's Canadian Equity Fund typically lags the index whenever the market is being driven by a theme such as gold in the mid-'90s, or tech stocks in the late-'90s, but stays in positive territory during the subsequent downturn. That, combined with superior performance during rising markets, has led to an annual compound rate of return of 13.8 per cent over 10 years, compared to 9.3 per cent for the average Canadian equity fund.

Investors with Leith Wheeler even made money in 2001 and 2002 when the tech collapse had a devastating impact on both index investors and buyers of broad-based Canadian equity funds which tend to mirror the index. However, the fund slipped in 1998 when it was over-exposed to bank stocks during the Asian financial crisis and when tech stocks really took off.

Employee-owned Leith Wheeler has been operating since 1982 but has controlled its growth so that it doesn't have to change the way it manages money, Palfrey said.



CREDIT: Ian Smith, Vancouver Sun
KEEPING THE FINANCIAL HOUSE IN ORDER: Financial analysts Jonathon Palfrey (left), Marcela McBurney and David Schaffner of Leith Wheeler.

With a mere \$100 million in mutual funds, it can afford to attract more small investors without sacrificing flexibility.

Hence the lowering of its investment minimum from \$50,000 to \$25,000.

An industry adage says that mutual funds are sold, not bought. That helps to explain why Leith Wheeler's mutual fund business has remained so small. The funds have not been widely advertised and the firm doesn't pay intermediaries or third parties to recommend the funds to their clients.

Investors deal directly with the firm and do not face any of the usual mutual fund loads, commissions, sales charges, transfer fees or redemption fees.

All they pay are annual management expense ratios ranging from a low of 0.60 per cent on the money market fund to a high of 1.40 per cent on the Canadian Equity Fund.

mkane@png.canwest.com

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