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Brad Radin

IA CLARINGTON INVESTMENTS



Philosophies that have stood the test of time

What’s your philosophy and how did you choose it?

It’s about searching across the world to find the best bargains at any point in time, in any sector and in any country. My definition of a bargain is a company that’s trading at a very cheap price today relative to what I think it’s worth. For every company that I buy, I look at what the business is going to earn in five years, and I want to buy these stocks at cheap prices today relative to that company’s five-year earnings down the road. So it’s a long time horizon. I follow the Sir John Templeton value philosophy. I was fortunate enough to work at a firm started by Sir John Templeton in the early stages of my career, so that’s how I adopted the philosophy. It also jibes with my personality.

“ The key is to stick to your knitting, to be disciplined and to have a philosophy that works. ”

Why does it work in all market conditions?

There are a couple of elements to consider. It’s premised on this notion of looking around the world. If you’re investing in Canada or the United States, the different market conditions will be more extreme. If the U.S. is expensive, I can look around the world and find cheap markets elsewhere. It works because I’m not limited to one location or only a few sectors. The next element is that it gets me away from chasing the fad of the day. There are always investment fads going on, and because what I follow is about looking for the long term, I don’t get caught up in short-term frenzies.

This is harder to do in a raging bull market where everything’s overvalued, but it’s still possible. For example, the U.S. is at an all-time high today and a number of stocks are overpriced. But I’m not buying there; I’m buying stocks listed in Hong Kong that are focused on the Chinese consumer. There’s a lot of pessimism in that part of the world, and valuations are a fraction of what you’d find for a similar company in the U.S.

What events or issues have been most challenging to your technique? How did you handle them?

Times of extreme bullishness can be challenging. We missed out on, say, the tech bubble of 1999. As a value investor, I’m never going to own a technology company selling at 100 times earnings. There have been, and will continue to be, short periods in time when that’s the place to be. The risk there is that you overstay your welcome by a couple of months and you give all of those gains back. I’m managing money for people who want to grow their savings over time, and a big part of that is avoiding the bubbles.

The key is to stick to your knitting, to be disciplined and to have a philosophy that works. I’m confident that this philosophy works over the long term, but I have to stick with it. In many cases, that means suppressing the basic human nature that most investors feel when they’re investing. You want to chase the winners and sell the losers, and you are drawn toward companies after they’ve done really well. So you need discipline to not get caught up in that.

What small adjustments or allowances have you made, if any, to your overall philosophy in light of new information?

I’m always making slight adjustments to deal with current market conditions, but the core of the philosophy stays the same. We could put more emphasis on the balance sheet during times when credit is tough. Or we might make adjustments based on how the company is changing. We’re constantly updating our estimates around what companies are going to earn down the road. Also, if the world changes in such a way that I no longer think that an investment makes sense, then I’ll get out of it.

Why does global investing matter?

It matters for Canadian investors because most of us own far too much of Canada. It’s my view that the single biggest risk to domestic investors is having too many eggs in their Canadian retirement-savings basket. We’re a wonderful country but a small one. That has never made sense to me when you consider the degree of concentration in just three sectors: banks, resources and energy. It’s an awful lot of concentration for a retirement-savings portfolio or for any Canadian investor, for that matter. The solution to that problem is to invest elsewhere. The reason you want to look beyond our borders is that Canada will not always be the best market to invest in. People should invest in a go-anywhere fund that allows them to take advantage of opportunities around the world. It lowers risk and will increase returns over the long term.

You’re a stock picker, but are you following any particular sectors or themes closely?

I own a number of financials. The mini-theme there is that a few years ago it was the sector that was the most out of favour, so a lot of those stocks were the most undervalued. It’s more U.S. centric with the financials, but it’s also a global theme. Another theme for us right now is that stocks will benefit from long-term consumer growth in China. That country’s GDP growth is still north of 7%, which is quite good relative to everywhere else in the world. Plus, as China’s economy moves to a more consumer-oriented focus, the growth in wealth will outpace the rest of the world. We’ve bought a number of stocks that benefit from those long-term mega trends. We wouldn’t have bought them if they weren’t outstanding bargains as well.

At a Glance

How do you unwind after work?

I have two eight-year-old girls and a seven-year-old boy, so outside of work it’s family time for me.

BlackBerry, iPhone or Android?

BlackBerry. I’m a creature of habit, but I am considering switching the next time I need a new smartphone.

Where have you recently travelled?

I took a summer trip to Italy with my family. It’s a wonderful place to visit, and my son loves pizza.

What does it take to succeed in the investment business?

You need to have a philosophy that works and stick with it. You also need to have a long-term time horizon and avoid the trends of the day.

What motivates you to continue doing what you’re doing?

I love the challenge. I love analyzing companies, the challenge of finding opportunities and then seeing results.

What book or movie has had an impact on you and why?

The writings of Sir John Templeton. I used to read his old internal memos when I worked at the firm he founded. He was insightful, a true contrarian who was willing to look anywhere.

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Brad Radin partnered with IA Clarington Investments Inc. in September 2011.