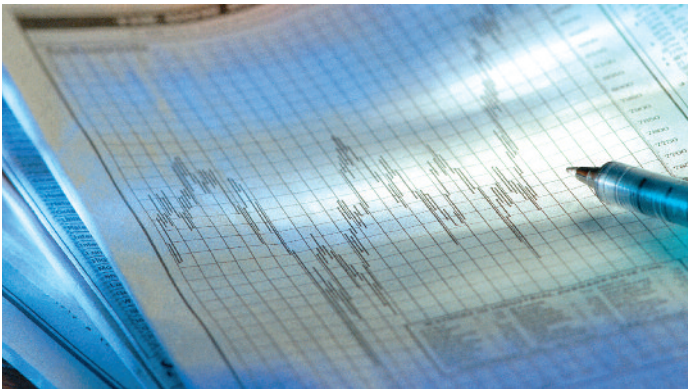


# GoodQuarter

SUMMER  
2010



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### Dear Valued Client,

Although far more subdued than the financial market events of 2008 and 2009, the second quarter of 2010 brought a renewed sense of fear and increased volatility to capital markets. I am happy to write that, through it all, the GFI approach has never once deviated. We continue to own quality, dividend-paying companies of a less cyclical nature.

As has been the case for the majority of 2010, we are searching for bonds at reasonable prices and continue to hold cash at higher levels than usual. We remain patient, and will continue to watch from the sidelines until such time as we find securities we feel are appropriately priced.

#### **A growing team, an improved office space**

We are pleased to introduce our clients to Sam Pozner, our latest hire, who is helping with office management and some important

marketing initiatives. Sam recently graduated from York University and is a welcome addition to the GFI team.

Upon your next visit to our office, you will notice we recently completed minor renovations in order to accommodate our growing team. We invite all our clients to drop by, say hello and see our new space.

As always, please call our office with any questions or topics you wish to discuss.

Warm regards,

Daniel Goodman, CFA  
President and Chief Executive Officer

## The Case-Shiller Index

### *Not a magic wand, but more of a helping hand*

When choosing equities for purchase, GFI investigates each company’s competitive position, financial strength, historical track record, stock value, management competency, as well as many other key factors that help us determine the true value of the company. Unlike most other investment managers, we rarely emphasize macroeconomic factors and the overall level of equity markets.

While important, we believe macroeconomic factors and their impact on equity markets are too hard to predict accurately and consistently. Additionally, rare events, such as the attacks of 9/11, occur randomly and can blindside the macroeconomic investor. When we do consider the macroeconomic picture in relation to our holdings, the Case-Shiller Index is one tool we have found useful in helping to predict the direction of the stock market. While the Index does not predict short-term equity market movements, it is fairly reliable when considering market returns over the coming decade.

Consistent with fundamental analysis, the Case-Shiller Index calculates the trailing 10-year price/earnings multiple of the entire U.S. stock market. Currently, the Index is showing a multiple of approximately 20x, which, historically speaking, is slightly high but largely reasonable.

There are two interesting data points we highlight in the Case-Shiller graph below. Firstly, the bubble that ended in 2000 is easily identifiable. At its peak in 2000, the Case-Shiller Index was at a very high value of 45x, implying the stock market was due for a decline of roughly 55% to reach a reasonable level. Over the two-and-a-half years that followed, the S&P 500 Index declined from its peak of 1,500 points to roughly 800 points; a 47% drop.

The second data point is the more recent market correction, which coincided with the Case-Shiller Index dropping to 14x. This implies the market was approximately 43% undervalued. Since the bottom of the market in March 2009, the market has risen by approximately 49%.

While not a magic bullet, the person who has kept his or her eye on the Case-Shiller Index has been better informed about overall market levels, and was more confident when purchasing stocks during the 2009 correction.

We continue to purchase only the highest-quality businesses regardless of market valuations, and always consider the potential downside risk before making an investment decision.

Case-Shiller Index



Source: <http://www.econ.yale.edu/~shiller/data.htm>

## Manulife Financial

### *Short-term pain... long-term strength*

Manulife Financial is a core position in GFI Investment Counsel's client portfolios. Although we have always admired the company's brand, distribution, innovation, and geographic footprint, we felt Manulife's stock price was too expensive to warrant purchase until 2008.

Manulife became a publicly traded company in 1999 after undergoing a demutualization. Until that time, the company was owned by its policyholders. After its demutualization, the company began trading on North American stock exchanges and its ownership transferred to common stock holders, most of whom were existing policyholders.

At the time of its transformation, Manulife had a dominant insurance and wealth management business in Canada. Over the last decade, the company has solidified its American presence through the purchase of John Hancock Financial Services, and has continued to expand its Asian business through organic growth and smaller acquisitions.

The past two years have not been kind to Manulife's stock price. The equity market declines of 2007 and 2008 impacted Manulife materially, as the company's stock market exposure eroded its balance sheet. It was in the midst of this occurrence, at a time when Manulife's share valuation was down 40% from its peak, that GFI purchased our clients' position in Manulife.

The Manulife that exists today is, in many respects, the same company that was loved by analysts and Bay Street several years ago. In fact, we believe that after raising over \$4 billion in capital through two equity issuances and cutting its dividend, the company is financially more secure than it has ever been. Additionally, the company has significantly reduced its sales of variable annuities, reducing its exposure to further equity market declines.

With respect to the company's core strengths, Manulife has maintained its market-leading position. As a result of the aforementioned capital issuances, the company is today in an exceptionally strong financial position, which is critical in the insurance industry, and enjoys an entrenched distribution channel around the world.

Manulife's relatively new CEO, Donald Guloien, is building value for the long term. While some of his previous financial decisions were unpopular, they were done with a view toward building a stronger business for decades to come. We are confident that Manulife's business will continue to grow profitably and that, in time, the company's dividends will increase again.

## GFI Investment Counsel and GoodFunds

GFI Investment Counsel (“GFI”) is a discretionary money manager that provides tailored investment portfolios based on each client’s unique risk level.

GFI is a bottom-up, long-term investment firm that invests primarily in North American public markets. GFI will, however, invest outside North America when quality opportunities arise. GFI meets with the management teams of prospective investments whenever possible, and places a high degree of importance on the quality and experience of these management teams when making investment decisions.

In January 2008, GFI launched Good Opportunities Fund (the “Fund”), an alternative investment fund that is the first of the “GoodFunds” series of investment products. The Fund will invest in opportunities that exhibit a high likelihood of outperforming the broader equity markets based on GFI’s proprietary research, while maintaining a focus on profitable, growing companies that adhere to GFI’s strict value discipline.

For more information about GFI Investment Counsel, the Good Opportunities Fund, or GoodFunds, please call **416.488.8825** or email [info@gfiic.com](mailto:info@gfiic.com).