FINANCIAL POST

More than just doing the math

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MANAGER PROFILE

Manager Daniel Goodman & Effie Wolle, GFI Investment Counsel

Fund Good Opportunities Fund (and private-client portfolios)

Description Concentrated portfolio of high-quality equities and fixed income

Firm's AUM $275-million

Performance 1-year: 17.4%; 3-year: 19.5%; 5-year: 3.8% (annualized as of Jan. 31, 2013)

Management fees Management: 2%; Performance: 20%; with a high-water mark

Investors used to be more willing to give companies the benefit of the doubt in terms of allowing them time to achieve their goals, but Daniel Goodman and Effie Wolle say many of those same businesses are now under tremendous pressure because investors are demanding results, not simply promises.

That's partially why the co-chief investment officers at GFI Investment Counsel, who manage the long/short Good Opportunities Fund as well as segregated client portfolios, spend a lot of time focusing on companies' competitive positions.

"The predictability theme and relying on a company's future prospects is very important today, as opposed to just crossing your fingers and hoping," Mr. Goodman said.

As value investors, the managers focus on future cash-flow predictability. "That's what really helps determine the value of a business," Mr. Goodman said. "If you can't see out far enough to predict that cash flow, then maybe the business isn't as cheap as the numbers suggest."

For example, he said, investors are not granting Fortress Paper Ltd. the same valuation they once did.

"It is leveraged and entering into a new business line," he said. "While the story sounded great, investors were giving the company credit for what it said it could do. Execution has been challenging and now the company's share price is under tremendous stress, declining by 75% over the last 12 months."

Wolle said factors such as competitive position, obsolescence risk and management strength are important. "If it was all about figuring out a number, then mathematicians would be the best investors," he said. "Not all earnings are created equal: A dollar of earnings from a railway does not equal a dollar of earnings from a business in decline."

BUYS

JUST ENERGY GROUP (CONVERTIBLE DEBENTURES MATURING IN 2017)

The position: Held in fund and client portfolios for several years.

Why do you like it? This natural gas and electricity retailer recently slashed its dividend in an attempt to bolster its cash position and fund future growth.

"The dividend cut was appropriate and supportive of the debentures," Mr. Wolle said, noting the yield to maturity on these securities is now above 10%. "It's positive to see the board of directors address the capital structure of the business."

Mr. Goodman notes the company has plenty of cash flow to fund the debenture, while the business is also growing.

Biggest risks: Margin compression due to more competition and lower natural gas

STAMPS.COM INC. STMP/NASDAQ

The position: Core position in fund, owned on and off for more than five years.

Why do you like it? Stamps. com is one of three companies licensed by the U.S. Postal Service to electronically distribute stamps.

"Its future success is not driven by typical mail volumes," Mr. Goodman said. "It's driven by online commerce and the business's ability to help deliver packages through their software."

The managers also like Stamps' strong operating leverage, pristine balance sheet, consistent cash flow and recurring revenue growth.

"They do exactly what we want with capital," Mr. Wolle said. "They buy back shares, pay special dividends and always ask shareholders what they'd like to see."

Biggest risks: Lower mail volumes.

FISERV INC. FISV/NASDAQ

The position: Added to fund in past 10 months.

Why do you like it? This supplier of technology software and back-end solutions does business with every single one of the largest 100 financial institutions in North America.

"The company has wonderful operating leverage since it is mainly software-based and every incremental revenue dollar flows to the bottom line," Mr. Wolle said. "They're also tremendous allocators of capital - continuing to buy back large amounts of shares and making quality acquisitions."

The managers see no reason why Fiserv, with its return on equity now in the high teens, will stop those practices.

Biggest risk: An expensive acquisition mistake; technology obsolescence.

SELLS

CENVEO INC. CVO/NYSE

The position: Short in fund.

Why don't you like it? The managers anticipate shares of this diversified printing company will eventually fall to zero.

"The industry has been in decline for many years and Cenveo has an extremely levered balance sheet with US$1.3-billion in debt," Mr. Goodman said.

Mr. Wolle noted Cenveo recently refinanced some of its debt at 15%, in addition to other costs, which indicates its lenders are also concerned.

Potential positive: A strong cyclical recovery.