TRUE BELIEVERS

Philosophies that have stood the test of time

Barry Morrison

MORRISON WILLIAMS

"I'VE FOUND THAT CONSISTENT RETURNS OVER TIME CAN ONLY BE ACHIEVED IF YOU'RE GETTING A GOOD INCOME OUT OF THAT INVESTMENT ON A REGULAR BASIS."

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What's your investment philosophy and how did you choose it?

I basically grew up on the fixed-income side—having worked at a life insurance company, a general insurance company and an investment counselling firm. We have had a major bull market in bonds for 31 years. When interest rates go down people love the capital gains they get from bonds. Fifteen years ago we started the Renaissance Millennium High Income Fund for private clients, to get them ready for the day when interest rates would start to go back up. We may have been a bit premature in starting this fund for private clients, but we believed that they should allocate a small portion of their assets to equity income to familiarize them not only with the growing nature of equity income but also with the volatility of equities. Now we're at the point where we're basically selling most of their bonds and putting their money in equity income.

We look at picking companies where we think dividends will grow over time. If a company grows its earnings and dividends, then typically the stock will grow too. But we don't blindly buy high yielding securities, and there are lots of them out there. We want to see a well-managed company with a strong balance sheet and a prospect of growth. We are prepared to give up some yield for growth down the road, because if that growth does come to fruition we can make a lot of money. We like a company that pays at least 5%—maybe 4% if it's a unique situation—but the caveat is that the company needs to be strong. That's the real art of the business. It's a case-by-case situation though—we look at each company on its own merits.

Does it work in all market conditions?

It does. I spend 80% of my time doing research myself on the markets. I've found that consistent returns over time can only be achieved if you're getting a good income out of that investment on a regular basis. A few weeks ago someone said to me, "It's a dull day in the market." I said I thought it was a great day because we made more from dividends today. So the process works—and it's working—because 80% of your return comes in the mail every month as a dividend cheque. You don't have to rely on the market to give you your returns. You can go through a 10-year period when returns are terrible and still make money. It goes back to my insurance background of getting money back and being able to make a decision on what to do with it. Do you want to reinvest it or go on a holiday? We reinvest money for you in companies with growth in earnings and dividends.

What events or issues have been the most challenging to your technique? How have you handled them?

It's the whole volatility of equities versus fixed income. In our pension business, we've been trying to convince clients to get out of government bonds, which pay 1% or 2%, and get into more corporate, more high-yield bonds and equity income. Otherwise they'll have a major problem down the road [when rates rise], and returns in government bonds will be negative. If actuaries need 6% to pay a pension they're not going to make it. They hide behind the fact that bonds, over the last 10 years, made 7%. But I'm worried it could be negative for the next five to 10 years. It's a process. You need to keep hammering home the same principals, that if we can get 6% income in dividends and that dividend grows, while there will still be volatility in returns, in time you are going to have a lot more money.

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

We've started buying high-yield debt for the first time in 15 years. We've never bought it before for two reasons: we never had the specific expertise to do the credit analysis and we didn't like the short duration of the bonds. Now, with our partners at Aston Hill we have the expertise to do the proper credit analysis and we changed our outlook last fall. We now expect that the [downward] move in interest rates is finally over and will begin an inexorable move sideways at first and then begin to rise. In a falling interest rate environment you want the longest bonds you can find, and the best category to be in during the last 31 years was long government bonds. They provided better returns than every other category, including high-yield bonds. Now, if rates start to rise I want short duration bonds. So high-yield makes sense to me now. About 5% of the fund is in bonds that yield 8.5% and have an average duration of 3.5 years. While they carry more credit risk—they're non-investment grade—below BBB, with proper credit analysis and a diversified portfolio, we think they can provide significant added value.

How does your strategy/process deal with changing/fluctuating interest rate environments?

Going forward assuming that rates start to rise, I would probably introduce real return bonds into the fund. I've never had them in the fund because for the past 31 years, inflation was declining so we didn't need them. If we start into a cycle of rising interest rates, I'd probably put between 15% and 20% in these bonds because they would provide some protection against inflation.

You say this is one of the most attractive dividend stock environments you've seen. Why?

Today, my fund yields 6%. Bonds are 2%. If you look at the history of the big five banks, going back to 1956, and calculated yield on dividends versus yields on government of Canada bonds, the yield on 10-year government bonds generally exceeds the yield on bank stocks. Now, though, 10-year government of Canada bonds have a 1.78% yield, and banks have a 4.04% yield. We've never had that environment. The reason that banks yield more is because of the situation worldwide, and we have to keep interest rates at very low levels. Bank yields are more normal, but bond yields are way below normal. So, yes, they're much more attractive.

At a Glance

Who's your mentor?
My partner, Les Williams, is my mentor. We've worked together since 1981.

What's your favourite book?
Atlas Shrugged *by Ayn Rand. It describes a state of almost pure capitalism and how it could function. But I have observed that with any system it would need some checks and balances to offset the excesses. Maybe our lives would be better off.*

Where have you most recently travelled to on business and pleasure?
Montreal to meet a client and Saskatoon to hunt geese.

Starbucks, Second Cup or Tims?
Starbucks. I like their skinny vanilla lattes.

How do you unwind after work?
I play poker online for fun, but I play with fake money.

BlackBerry, iPhone or Android?
I have a BlackBerry, but I'm thinking about an iPhone. My wife has a 4S and she loves it. She's trying to convince me to change.

Renaissance Millennium High Income Fund

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION[1]
FUND	10.5 %	12.3 %	2.6 %	7.9 %	8.3 %
CATEGORY[2]	7.1 %	7.0 %	2.6 %	8.1 %	N/A
INDEX[3]	3.4 %	5.1 %	0.7 %	9.1 %	6.6 %

KEY DETAILS
Inception Date: February 13, 1997
Back-End: ATL1880
Front-End: ATL879
Low Load: ATL2880
Minimum Investment: $500
www.renaissanceinvestments.ca

RENAISSANCE INVESTMENTS™

All data to November 30, 2012. [1] Fund Inception Date: February 13, 1997. [2] Canadian dividend & equity income. [3] S&P/TSX Composite index source: Morningstar Direct.