Tim McElvaine

McElvaine Investment Management Ltd

Manager Monitor
Michael Ryval
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Value veteran dances to his own tune.

If you want to ask Tim McElvaine where stock markets are going, he will tell you that you've come to the wrong person. "I'm pretty sure that I am the only investor who missed the entire metals, minerals and oil and gas boom completely," says McElvaine, 43, manager of the $89.8-million McElvaine Investment Trust and president of Vancouver-based McElvaine Investment Management Ltd.

"I joke with people that I dance to my own tune, in a corner," adds McElvaine, in his characteristic self-deprecating style. "Sometimes, out of sheer luck you will be in beat with the music and sometimes you will look awfully stupid. But at least you're enjoying yourself. That's where I am, dancing the foxtrot while everyone else is doing the rumba."

McElvaine counts himself lucky to have about 500 investors who put up with his self-admitted idiosyncratic style. He also runs the $80-million McElvaine Limited Partnership, a global equity product. Both funds are sold by offering memorandum to qualified investors, and minimum investment amounts vary by province from $25,000 to $150,000.

But investors can't complain. As of July 31, the four-star Morningstar rated McElvaine Investment Trust performed in the first quartile over five years, and second quartile on a three-year and 12-month basis. It will mark its 10th anniversary in October.

A bottom-up value investor, McElvaine looks for stocks that have seen better days but have the potential to bounce back. "I deal more in nightmares than in dreams, situations that have gone wrong. I take a look and figure out if there is a core that might be interesting."

Before taking a position, McElvaine asks himself three basic questions. First, what is the value of a business versus its share price? Second, how volatile is the estimate of its worth? Third, is the company's board of directors aligned with shareholder interests?

A case in point is Indigo Books & Music (IDG/TSX), which McElvaine noticed two years ago when the firm was sorting out operational issues in its merger with Chapters Inc. and had a tolerable debt level.

"If they get margins that are similar to U.S. retailers, plus take advantage of tax-loss carry forwards, they could generate a lot of cash and earnings. It could be worth a lot more," McElvaine reasoned when he bought the stock at $4.50. He was right. Indigo now trades around $15.40.

A native of Toronto, McElvaine grew up in Kingston, Ont., and attended Queen's University. After graduating in 1986 with a bachelor of commerce, he joined Touche Ross, where he obtained his chartered accountant's designation. In 1989, he moved to Bermuda and worked for the Bank of Butterfield. While working in the bank's financial planning department, he earned his CFA accreditation.

In 1991, McElvaine decided to shift into the fund industry and set his mind to joining Peter Cundill and his Vancouver-based organization, Cundill Investment Research Ltd. "If you want to attribute my success to something, better say that I'm persistent. Peter was gracious enough to hire me," he says.

McElvaine maintained an association that lasted until 2004, even as he set up his own company in 1996. As chief investment officer between 1992 and 1999, he ran Mackenzie Cundill Canadian Security, which now has assets of $2.3-billion. He also ran the $5.1-billion Mackenzie Cundill Value between 1999 and 2004.

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Meanwhile, he managed his own fund in his spare time and was fully supported by Cundill, which had a stake in McElvaine's management firm. As Cundill became more involved with Mackenzie Financial Corp., McElvaine became more interested in his own business, and they parted amicably.

McElvaine runs a concentrated portfolio in which the top 10 names may account for 80% of assets, though he limits any one holding to 10%. His portfolio turnover, 8.7% last year, tends to be very low.

He also applies two lessons picked up from Cundill. First, have confidence in your own judgment. "You get the best prices and best opportunities when you are alone, so to speak." Second, it takes time for things to work out. "Quite often, your best gains come from stuff you've given up on. Be patient."

That brings him to one top holding. Almost two years ago he bought Torstar Corp. (TS.B/TSX) and it has not moved above his average purchase price of $20. He attributes the dull performance to the competitive newspaper industry environment and lacklustre results from its Harlequin paperback division.

But he is hanging on. "I'm not worried that the stock is about to fly up or down in any direction. I'm trying to figure out what it is worth relative to its current price," McElvaine says, noting that the company is trading at a significant discount to comparable U.S.-based media firms. "When I add up the pieces, I get more than the stock price."

Funds Managed

Since	Fund Name	Total Assets ($,000)	Star Rating
Oct/96	McElvaine Investment Trust	$89,800	★★★★
		$89,800	
Data as at		31 Jul 06	31 Jul 06

About the Author

Michael Ryval, a regular contributor to Morningstar, is a Toronto-based freelance writer who specializes in business and investing. Among the other publications in which his articles appear are Investment Executive, The Globe and Mail and FORUM.