



Andrew F. Barth
Director, Capital Guardian Inc.

Active Management and Fundamental Research

2002 GLOBAL INVESTMENT CONFERENCE ■ BANFF, ALBERTA

Research is more important today than ever before.

Just a few years ago, it was difficult to demonstrate that fundamental research could add value to investment results.

Absolute returns were

running at historically high levels. Therefore, index funds offered safe and attractive alternatives. Also, as long as a company was in the technology, media or telecom business, who needed to know about its fundamental prospects? What did cash flow, earnings or balance sheets matter if a company's name ended in dot-com? This was the darkness before the dawn for fundamental research.

After over two years in which absolute results can be described as, depending on the benchmark, anywhere from disastrous to merely debilitating, and in which stock selection has played a key role in beating benchmarks, fundamental research is again pointed to as a key element in producing value-added investment results. So, while it is nice to see that research is trendy again, in-depth, global, fundamental research has always been, and will continue to be, crucial to producing consistently superior, long-term investment results.

Recent trends are only reinforcing this conviction. Companies are transcending borders, and cross-border mergers and acquisitions are accelerating the trend toward global corporations. What would you really know about Vodafone had you not done research on Mannesmann? Can you really make a good investment judgment on The Coca-Cola Company if you don't know what's happening in the markets where 80 per cent of its profitability comes from? Is JDS Uniphase a Canadian or a U.S. company, and does it matter?

Economies and capital markets are becoming more integrated. Witness how the swift central bank reactions to the terrorist attacks of September 11th softened the resultant economic downturn. Trading blocs, the World Trade Organization and the European Monetary Union are knocking down barriers. While there will be fits and

starts along the way, questioning will shift away from "where is a company located?" to "is this a company with good fundamentals trading at a reasonable price?"

Plan sponsors too are embracing global markets. There has been dramatic change from 10 years ago. In Canada alone the level of investment allowed outside the country has risen from 5 per cent to 30 per cent and will likely go higher.

Economic growth in other countries can exceed that of North America, but then the beneficiary may not be a local company. Or, valuations outside North America may be more attractive. Why should you limit your options to the best, most attractively priced company in a country or region when you can choose from the best, most attractively priced companies in the world? With almost half of the world market capitalization outside North America, we must look for the best companies regardless of location. Trying to make the best investment decisions without thinking globally is like trying to write an excellent book using half the alphabet.

Of course, some investors take this broad view but choose stocks from the top down, by first deciding how much exposure they want in various markets or sectors. That approach has the tail wagging the dog. To understand the prospects for a country or sector, one must first understand the prospects for the important companies within it. And, if a piece of bad news comes along on a company you own, you won't know whether it's a buying opportunity or a flashing red light unless you have been researching the company.

Investing is about specifics—invest in what you know and don't limit your choices. Take advantage of the broader-based market environment. And remember, research is more important today than ever before. Investment success will depend on the level of fundamental research devoted to individual companies. ■