



Daniel Bain

Thornmark Asset Management Inc.

Manager sees less risk in the market, but also less potential, compared to a few months ago.

by Michael Ryval | 09 Oct 09 | Click the print icon in your browser to print this report.

Daniel L. Bain believes there is less market upside compared to several months ago, but also less risk. "We are using 16 times 2010 earnings estimates to come up with a total return through to next year of around 10%," says Bain, 42, lead manager of the \$50-million Thornmark Dividend & Income and founder and CEO of Toronto-based Thornmark Asset Management Inc.

"Two months ago, it was (a projected total return of) 30%," says Bain. But there was still risk out there. Now, the risks have been somewhat mitigated on the economic front. But the markets have discounted that."

Bain employs an investment process called "value-shift." While his bias is to value investing, he will make tactical shifts to include growth, trading and momentum investment styles as the economic cycle progresses. "If we are going to provide a full service to our clients, we need to be able to make these shifts over time in order to have a better chance of outperforming the market over the course of an economic cycle, as opposed to a segment of a cycle."

Bain had been wary of equity markets since late 2007, when he shifted heavily into cash and fixed income. The fund is managed against a hybrid benchmark consisting of 30% S&P/TSX Composite Index, 30% S&P 500 Index, 30% DEX Universe Bond Index and 10% DEX 91-day treasury bills Index.

Although Bain briefly moved back into stocks in the spring of 2008 following the collapse of New York-based Bear Stearns, he concluded that it was premature to increase equity exposure. So he then went from 40% held in cash and fixed income to 80%.

On March 6, when the S&P 500 had fallen about 65% from its peak, Bain decided that it could

not get any worse, and began doubling the equity position to 40%. "We took a longer-term view than previously. We did not believe we were going into a depression scenario, even though things looked very dire."

Initially, Bain used Canadian and U.S. exchange-traded funds to get broad diversification. However, as economic indicators turned less negative, he added to existing equities, or introduced new names.

One representative holding is Microsoft Corp. (MSFT). Initially acquired early in the year, the software giant met various criteria, such as high liquidity, a strong balance sheet and reasonable valuations. Based on his expectations that its introduction this fall of the System 7 operating system will boost revenues, Bain sees more upside for Microsoft, which is currently trading at about US\$25.

A Montreal native who grew up in Toronto, Bain has been involved in the financial services industry since he graduated from Queen's University in 1991 with an honours bachelor of arts in economics. He was hired as an economic researcher at a private family office, Thornmark Holdings Inc., and within five years became its chief investment officer.

"I liked investigating companies, and felt that we had an investment philosophy that was superior to the 'boxes' other managers were using," says Bain. "We could apply simple investment management theories successfully and without complications, to the benefit of our clients."

In 1998, Bain established Thornmark Asset Management, starting with about \$18 million in assets. Besides the 5-star rated Thornmark Dividend & Income, Bain also oversees Thornmark Enhanced Equity and Thornmark Alpha. All three funds require a \$25,000 minimum initial investment.

The firm, which has eight investment professionals, manages about \$500 million. It also acts as sub-advisor on Counsel Managed Portfolio and Counsel Income Managed Portfolio, for Counsel Wealth Management, an IGM Financial Inc. subsidiary.

Bain's methodology has proven effective over the past five- and 10-year periods ended Sept. 30. Thornmark Dividend & Income returned an annualized 9.3% and 10.5% respectively, compared with 4.5% and 6.2% for the median return in the Canadian Equity Balanced Fund category. For the last six months, however, it was a laggard and returned 10.2%, compared with 21.5% for the median fund.

Bain says the tactical approach means the fund will underperform in certain periods. "We are

typically late in the market, and that's the appropriate thing to do," he says. Because of the fund's occasional tactical positioning, turnover has been high, at 183.5% in 2008. However, it should be lower this year as market volatility has subsided, Bain says. Single holdings are limited to about 4% of fund assets.

Looking ahead, Bain hopes to capture the recovery of the U.S. home-building industry by investing in SPDR Homebuilders (XHB), the housing sector ETF. Since July, its price has risen from US\$11 to US\$15.

"We recognize the risks," says Bain, who believes the ETF could double or triple over the next two years. "But as has happened in every cycle, the risks get discounted and at some point there is an opportunity."

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*.

Michael Ryval, qui contribue régulièrement à Morningstar, est un auteur pigiste de Toronto se spécialisant dans les domaines du placement et des affaires. Parmi les autres publications auxquelles il contribue, on retrouve *Investment Executive*, le *Globe and Mail* et *FORUM*.