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Eyeing equities? Look for pricing power

By DEREK DeCLOET

There are no more customers in Robert Krembil's world, no phalanx of personal assistants, no salespeople, no day-long investment meetings. He's just a guy with an office and a telephone, which he answers himself.

But still it does ring. And lately, as the U.S. stock market dropped to levels not seen since Diana and Dodi were filling the tabloids with fresh material, the people on the other end of the line are sounding ever more worried, or depressed, or something.

"I've had more calls [of the] 'Is it the end of the world?' [variety] than I've had for a long, long time," says the man who is one of the best investors Canada has produced in the past 40 years. By that barometer, "we're probably close" to the bottom.

But who really knows for sure? Not me, admits Mr. Krembil, who is best known as the co-founder and the former driving force behind Trimark Financial, which he sold for nearly $3-billion in 2000. Shortly after that deal, he popped up in Canadian Business magazine's list of the richest Canadians, with an estimated net worth of $350-million. It's likely higher now, though Mr. Krembil, 66, doesn't talk about his fortune and doesn't flaunt it. His charitable organization, the Krembil Foundation, had about $100-million in assets as of its 2008 filing with the Canada Revenue Agency.

What he will talk about is how he invests his money and what you can do with yours in the worst economy since the early 1980s, when he and his partners were starting Trimark. Back then, you had the threat of double-digit unemployment, rising bankruptcies, and Chrysler failing (and getting bailed out). This time, you have the threat of double-digit unemployment, rising bankruptcies, and Chrysler failing (and getting bailed out).

In other words, it's probably a fine time to buy equities. Really. "You're better off that the world around you looks awful, because that's why you're getting the attractive price," Mr. Krembil says. Forget trying to time the low point in the market. You can't. Forget about the economists, too, and the relentless wave of horrible new data. How many economists can forecast the future with any consistency?

"You know what? People are not very good at predicting what happens in the economy. Just because everybody's telling you this is the way it is - they're usually wrong," he says. "I can't invest that way, anyway."

Mr. Krembil puts his faith not in the economic prophets but in history and numbers and his own instincts, which tell him that this is no Great Depression II. In the early years of the 1930s, the U.S.

money supply collapsed - shrinking by about one-third - because of the failure of thousands of banks and the lack of deposit insurance. "It's not what's happening out there right now," he says. The money supply is growing, and rapidly, as Bernanke et al scramble try to stop the decline in the economy. Which they will, Mr. Krembil says - but at a price.

"The solution is, unfortunately, inflation," which is murder on bonds but is no picnic for equities, either. This means anyone who wants to have a hope of making money in stocks had better be prepared to do some investigating into what they're buying. The only companies worth owning in inflationary times will have to have pricing power - the ability to ram price increases through because their customers need what they're selling.

Does that include the Canadian banks, now 40 per cent lower than they were a year ago, despite their ballyhooed status as the best banks in the developed world? Mr. Krembil doesn't own any. "They're very difficult to analyze - maybe not as much as the big American banks - but they've all made a lot of money out of capital markets activity over the past couple of decades. It's a pretty safe bet that's going to be less, going forward."

He doesn't own any banks anywhere, in fact, and has felt zero temptation to dabble in quasi-financial stocks such as General Electric. ("When there's a confidence crisis, it doesn't matter whether you look solvent ... if you're depending on a steady inflow of capital to fund your business and it isn't available, you're in trouble.") Besides, the managements of most financial companies are under a cloud, and one of the tenets of Krembilism is to look for companies with great management, of which he considers auto parts maker Martinrea International a good example.

Really? Auto parts? Sure, it looks bleak now. But the stock is down nearly 90 per cent since October, 2007. Things aren't *that* bleak and Martinrea isn't going bankrupt. It's their competitors who will.

"Nobody rang the bell in December '74, but that was the bottom. Certainly you had the attractive prices staring at you then, just as you do now," Mr. Krembil says. "It's not comfortable when you're going through this. But I wouldn't have missed it for the world as an experience."

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