EdgePoint Wealth Management Inc.

What Helps Us Sleep At Night

While I doubt anyone is sleeping like a baby in these markets, here are some things that we like to think about as we try to get some shut eye. Specifically, below are some quick thoughts about 5 businesses that represent about a quarter of the EdgePoint Global Portfolio†.

The Progressive Corp. (PRG)

Fourth largest auto insurer in the U.S.
If economy is very tough in 2009, very few people, if any, will give up their auto insurance. More people will look for a better rate on auto insurance and PGR is one of the lowest cost providers.
Policies in force are going up (In January they were up 1% in personal auto and 7% in specialty lines).
Premiums are going up.
Still remarkably profitable while competitors are exiting the business due to lack of profitability.
ROE should be in range of 15% to 20% in 2009. Annualizing January's results would put them in excess of 25%.
Trading at 8x consensus EPS.

Research in Motion (RIM)

Less than 2 in 10 cell phones are smart phones (a cell phone that does more than voice). This should increase to at least 5 out of 10 over time even if the global economy continues to be challenging.
RIM is the second largest player in the smart phone market behind Nokia. Nokia is losing share and RIM is taking share.
RIM's revenue was up 66.3% year-over-year in latest quarter (September to December 2008 while global economies were imploding).
No debt, and net cash on balance sheet.
Trading at 11X consensus EPS before stripping out net cash.

Kinetic Concepts (KCI)

Global leader in Negative Pressure Wound Therapy technology (closing up patient wounds – think gun shot wounds).
Global leader in reconstructive tissue regeneration (think skin growth).
The need for Negative Pressure Wound Therapy and reconstructive tissue will continue to grow even if there is a recession (are there going to be fewer people shot in a recession?)
Grew Negative Pressure Wound Therapy business by 4.6% in Q4.
They are barely scratching the surface outside of the U.S. for their products. Only now moving into large markets like Japan.
Trading at 7x consensus EPS.

Wellpoint Inc. (WLP)

Leading health-benefits company in the U.S. (think HMO).
One in 9 Americans receives health coverage for their medical care through Wellpoint.
Wellpoint has given guidance that their earnings will grow in 2009 even if the U.S. unemployment rate skyrockets to 10%.
Wellpoint has a free cash flow yield in excess of 13%.

Grupo Televisa S.A. de C.V. (TV)

Largest Spanish broadcaster in the world.
Controls the majority of the content production, television stations, radio stations, magazines, and satellite distribution in Mexico. In the process of rolling up the cable industry as well.

Currently in the process of rolling out triple play in Mexico (high speed internet, television, and telephone over cable). Taking material share on a quarterly basis from incumbent Telmex).
Largest provider of Spanish content to US market.
Advertising per capita in Mexico is materially below global averages. As time progresses, advertising per capital will continue to increase and Grupo Televisa is a direct beneficiary of more advertising dollars.
Net cash on the balance sheet.
11% free cash flow yield.

Although not company specific, the graph below is also interesting. Specifically, every time 10-year rolling average returns have approached 0% during the last 182 years, the subsequent ten year returns have been very strong. Not surprisingly, the rolling 10 year average return today is at 0 (see the asterisk at the 0% line). Can it go lower? Absolutely. However, to bet that the 10-year moving average will never increase again would mean that fear will forever trump greed. Not likely. When the market does shed its fear we believe we own a collection of quality businesses whose value will be recognized.

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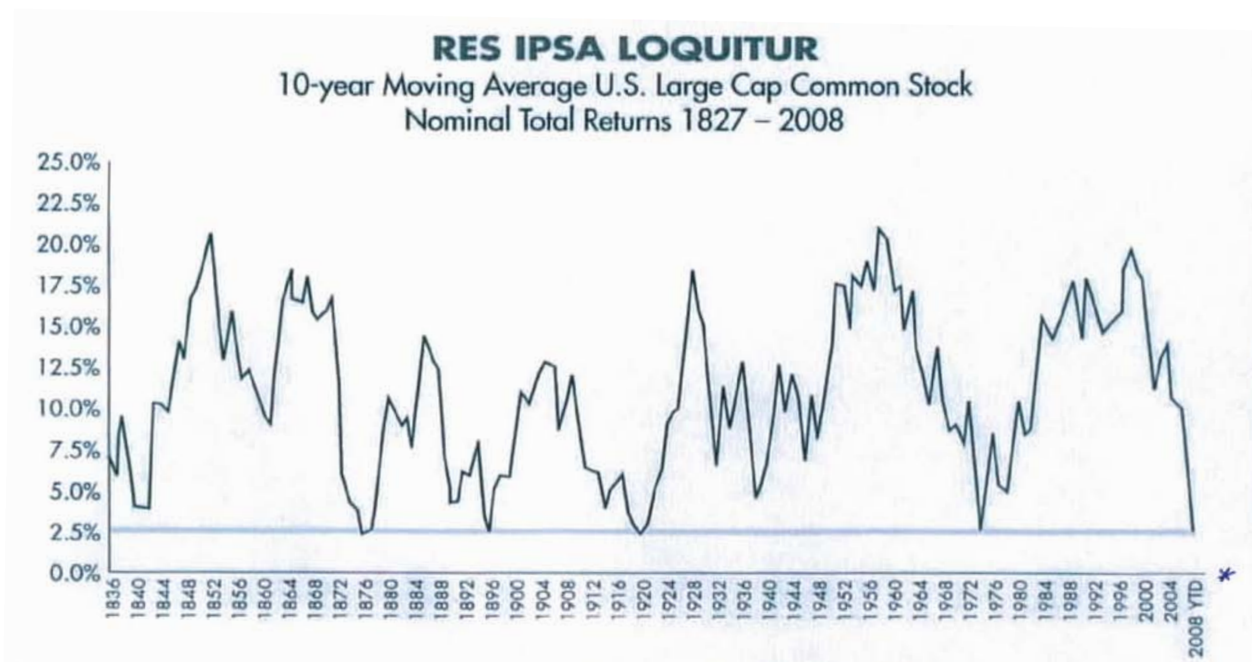

Total returns are equal to price change plus dividends for U.S. stock market indexes from 1827 through 11:00 a.m. 9/17/08.
Source: "A New Historical Database for the NYSE," by W. Goetzmann, R. Ibbotson and L. Peng, Yale School of Management.
This paper can be downloaded without charge from the Social Science Research Network Electronic Paper Collection.

† As at February 28, 2009. The above companies are selected for illustrative purposes and are not intended to provide investment advice. EdgePoint Investment Group may be buying or selling positions in the above securities.