



A mixed bag of bargains

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Jonathan Ratner

MANAGER PROFILE

Manager: Larry Sarbit, Sarbit Advisory Services

Fund: IA Clarington Sarbit U.S. Equity Fund

Description: Concentrated portfolio of 15 to 25 names, targeting undervalued companies with a competitive advantage

Assets under management: \$345-million

Performance: 1-year +28.6% (as of April 30, 2011)

Management fee: 2.67%

When stocks are going up, it makes Larry Sarbit's job more difficult. The chief investment officer at Winnipeg-based Sarbit Advisory Services, which acts as a sub-advisor to IA Clarington Investments, is currently more than 80% invested. That's a sharp contrast to a decade ago, when cash positions in his portfolios climbed as high as 90%.

"Ten years ago, stocks were expensive," Sarbit says, pointing to the fact that Coca-Cola Co. traded at 50 times earnings a decade ago. He bought it last year at 11 times earnings.

"We like volatility because it gives me opportunities when people are panicking as I get to buy bargains," Sarbit says. "The vast majority of people are using adrenaline to make decisions, but that's not what rational businesspeople do."

He runs a concentrated portfolio of 15 to 25 names, and targets stocks that have been punished for one reason or another. Occasionally these pullbacks affect an entire sector, but more often they impact individual companies.

As a result, Sarbit has put together quite an eclectic portfolio, including everything from Iconix Brand Group Inc. and Gap Inc., to Coinstar Inc. and Phillip Morris International Inc.

So while there is no central theme behind the stocks he favours, there is an important discipline in the characteristics of those businesses. They have to have a sustainable competitive advantage, predictable and repeatable business, and not require a lot of cash.

"We're still finding individual companies that are cheap, have powerful brand names and offer a reasonable amount of certainty this is going to be the case in three or five years. It's got to be that simple," the portfolio manager says.

"If you know what you're buying, you know the business is solid, and you have a pretty good idea what is going to happen, that's a wonderful opportunity."

Sarbit doesn't see the portfolio as a mutual fund, but rather a business he is operating for profit. And by reducing risk, the manager feels he has a better chance of making money.

"Everything we do is about looking at what can go wrong," he says.

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BUYS

ICONIX BRAND GROUP INC. TICKER ICON/NASDAQ CLOSE US\$24.70 P/E 17.6

The position: Biggest position in the fund at more than 10%. Why do you like it? Iconix owns the trademarks of 28 primarily apparel brands such as Joe Boxer and London Fog. It has built strong relationships by offering some of these brands exclusively to retailers such as Wal-Mart Stores Inc. and Target Corp.

"They bought these brands up when they were less than hot, so they've been able to buy them at reasonable or cheap prices," Sarbit says. "They reinvigorate the brands and re-position them back into the market."

He believes the real power behind this model is the fact that Iconix doesn't manufacture or distribute products, which is where all the costs are in the apparel business.

Biggest risk: If the stock gets overvalued or its relationships with retailers deteriorates.

CVS CAREMARK CORP. TICKER CVX/NYSE CLOSE US\$38.69 P/E 15.7

The position: Slightly below 10% of fund.

Why do you like it? As a pharmacy operator, CVS Caremark not only benefits from running a very predictable business, but it is also less dependent on economic trends than other retailers are, Sarbit notes.

"Getting prescriptions filled is related to health issues," he says. "You've got an aging population and people 65 and over take about three times more medication than the average."

Sarbit sees an opportunity in the company's struggling pharmacy benefit management (PBM) business.

"The worst appears to be priced into the stock," he says. Biggest risk: If they can't put the PBM business back on track, Sarbit expects it will either be spun off or sold.

CBIZ INC. TICKER CBZ/NYSE CLOSE US\$7.65 P/E 15.1

The position: More than 7% of the fund. New position in past year, but has been added to in recent months.

Why do you like it? This professional services company's biggest business is accounting, where it serves small and mid-sized companies through its 50 to 60 offices across the United States.

"It's been built by buying up local, well-known accounting firms at reasonable or bargain prices. If you're an accounting firm and you want to monetize the value of your business, CBIZ is one of the only companies that can do that for you."

He points out that this is not a capital intensive business, there is a high level of repeat business, and the stock is trading at a pretty cheap price of roughly 7 times last year's free cash flow.

Biggest risk: If their customers don't do a lot of hiring, CBIZ won't get additional work.

SELL

IRON MOUNTAIN INC. TICKER IRM/NYSE CLOSE US\$34.01 P/E -

The position: Sold recently at about US\$31 per share.

Why don't you like it? "It's been a terrific stock for us, but we sold it because it has become fully priced," Sarbit says. "We like the business, but it became a story about large shareholders pushing the company to change its corporate structure. That drove the stock up to these levels."

A potential positive? "I think the restructuring is going to happen, but in our opinion, it's priced into the stock already," he says.

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