



Steadyhand opened its doors to investors five years ago. Since that bright spring day in April 2007, we've witnessed a lot – the biggest stock market decline since the Great Depression, a collapse in the U.S. housing market, derivatives gone wild, a global debt crisis, a strong market rebound, record low interest rates, investor paralysis, political revolution ... and more. It's been an eventful period. And it's what we live for. Investors need a steady hand on their portfolio now more than ever.

To mark our 5th anniversary, we've published a series of five articles that take you inside our company and industry and touch on some of the principles and happenings that have shaped our business.

My Toughest **5** Months

"If the bear leans on you, hold your ground"

Are these words of advice from an investment guru like Buffett, Watsa or Hager? No, they're instructions from the trainer of Koda, my big furry friend who appeared with me in the video on our original home page. As it turned out, the trainer's words would quickly become as relevant as any from Warren, Prem or Bob.

In this, the first of five posts celebrating our 5th birthday, I'm going to reflect back on what was by far the

biggest feature of Steadyhand's history - the stock market meltdown and financial crisis that played out in late 2008 and early 2009. This period was the toughest five months of my career, as well as being the most revealing, humbling, encouraging and ... well, amazing.

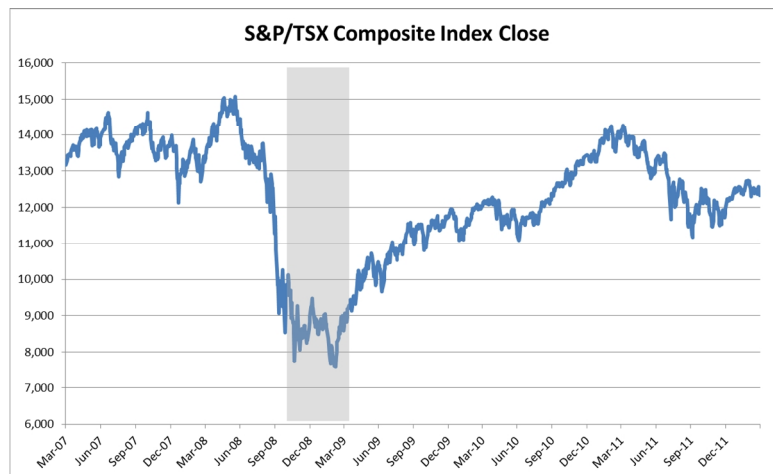
With the help of my somewhat-steady words from that period (blogs, Globe and Mail articles, quarterly letters), let me take you back.

September 30th, 2008 (Blog) - S&P/TSX Composite Index Level 11,753

We would encourage our clients to sit steady and stay positioned for the inevitable recovery. For those who have the stomach, we would

recommend further purchases of equities and/or some re-balancing towards those funds.

In the two years leading up to October 2008, I had been cautious about the economy and stock market. Indeed, my biggest fan, Aunt Judy, kept telling me I needed to put more positive stuff in my Globe column. Despite my concerns, however, I didn't see the capital markets unwinding the way they did. The amount of leverage in the financial system and its impact on investor behavior (panic and forced selling) took stocks and interest rates way lower than I would have thought possible.



So when the Canadian market was down 18% in the third quarter (and 22% from its high), I was already moving into buy mode. As I've acknowledged since, I was a couple of months and 20% too

early on that first step.

October 3rd (Blog) - 10,803

"You want to be greedy when others are fearful and you want to be fearful when others are greedy. In my adult lifetime, I don't think I've seen people as fearful economically as they are right now."

My first call was premature, but it's never too early to draw on words of wisdom from the big guy, Warren Buffett. This quote, taken from a Charlie Rose interview, captured the mood at

the time. It felt like the world was melting down and there was nowhere to hide.

October 29th (Blog) - 9,502

A [declining market] often leads to the conclusion that investors must revise downward their future return expectations ... but it is totally wrong-headed. From this low base, portfolio returns will be quite attractive. Good markets are built on a foundation of poor earnings reports, low valuations, wide credit spreads and fearful investors. Three years from now I may be back in the mode of talking down return expectations, but that isn't appropriate right now.

When markets are plummeting and investors are scared, it's easy to talk to clients about lowering their return expectations going forward. It's a ready sound bite, but it's wrong. After severe market declines, it's time to expect more from the next few years, not less. I say this because markets constantly overreact to changes in fundamentals. A downward adjustment to a company's short and medium-term outlook should impact the stock price, but Mr. Market invariably overshoots, especially in emotionally charged times.

December 13th (Globe and Mail) - 8,515

The first three years [of future profits] account for roughly 10% of a company's value.

As the fourth quarter progressed, earnings forecasts were coming down. Clearly profits were going to take a hit over the next year or two. But as noted in this post, a company's value reflects a stream of future income (dividends and undistributed profits) of which the early years account for only a small portion. Nonetheless, the market was pounding well positioned, solidly financed companies along

with their weaker brethren, which meant the valuation being placed on longer-term profits was significantly cheaper.

My message to the battered and bruised is to start preparing for the other side of the valley. It's time to get back on plan.

It sounds pat, but the fall of 2008 was a time when investors needed to lean on their long-term plans, not abandon them. In periods of crisis (and euphoria), everyone becomes an economist and wants to take action, but beyond some re-balancing, it's not the time to make wholesale changes. Bigger changes, if necessary, should be saved for less charged times, hopefully after the portfolio has benefited from the 'up' volatility that inevitably follows the 'down'.

January 8th, 2009 (Quarterly letter) - 9,222

As discouraging as 2008 has been, it is important that we now make rational decisions based on the opportunities and risks we face today. Today, valuations on corporate bonds and stocks are compellingly cheap. Today, market sentiment, which measures how positive or negative investors are, is flashing a 'Buy' signal – i.e. bearishness is at an extreme. Today, the de-leveraging of the financial sector is well along. Today, there is a mound of cash on the sidelines waiting to be put to work. Today, the investing environment is very conducive to making money.

Everyone was hurting, but as you can see, I was progressively getting more forceful in my guidance. The ducks were all lining up. Valuations on stocks were screamingly cheap and according to Connor, Clark & Lunn, the manager of our Income Fund, we were looking

at a “once-in-a-lifetime” opportunity to buy corporate bonds.

We concluded the Quarterly Report with another quote, this time from Shelby Davis.

“You make most of your money in a bear market: you just don’t realize it at the time”

January 13th (Blog) - 8,962

This isn’t the RRSP season to miss.

We came up with this theme to help personalize our communication. We hoped that a reference to familiar behavior (contributing to an RRSP) would plant our message smack in the middle of investors’ decision-making processes.

The reality is, the RRSP season is a depressingly accurate measure of how most (non-Steadyhand) investors behave. In seasons when the market has previously been good, contributions are robust and targeted at stocks. When markets have been tough, investors allocate money to safe investments, or simply don’t contribute.

I couldn’t think of a better year to break that pattern.

January 24th (Globe and Mail) - 8,628

Based on their valuation models [Edinburgh Partners and Boston-based GMO], expected real returns (after inflation) over the next five to seven years have moved into double-digit territory in most equity classes.

Markets were bouncing around (February was worse again), but my conviction was higher. I wasn’t trying to time the market, but I desperately wanted our clients to take advantage of the opportunity. I can honestly say that this was one of the easier calls I’ve had to

make (it’s much harder when valuations and economic signals are more ambivalent). I didn’t expect a V-shaped recovery (which it turned out to be), but was confident our clients would make serious money over the next three years if they acted.

February 19th (Blog) - 8,185

The risk today is not buying cheap equities.

In an extensive interview, Sandy Nairn, the CEO of Edinburgh Partners and manager of our Global Equity Fund, made a compelling argument for buying stocks.

April 9th (Quarterly letter) - 9,187

We have been encouraging our clients to take some ‘baby steps’ in re-balancing their portfolios. Baby steps because we recognize how hard buying stocks is in this uncertain time. Personally, I am continuing to re-balance my portfolio in that direction, although my steps are even smaller because I’m near the top of my equity range. I believe the reward/risk balance is again in my favour, and want Lori and my asset mix to reflect that.

After 5 months of hell, I was feeling beaten up and poorer for it, but also wiser and well positioned. In good times we talk effortlessly about taking advantage of the opportunities that come with recessions and crises, knowing all too well that when the time comes, it’s challenging to do. In this remarkable period, we got it ‘approximately right’. The clients that followed our advice came through 2008 and the subsequent years pretty well. I don’t expect to see another five months like this again in my career, but for periods like it, I’ll endeavour to be better prepared for the downside and hopefully act just as decisively on the upside. ■

5

Sources of Tension

We go through our fair share of Advil at Steadyhand. Like any business, we're faced with strategic decisions that involve internal discussions in which not everyone sees eye to eye. While some choices are easy – the boardroom m&m's are for clients only – others face more rigorous debate. Below are 5 issues that have been constant sources of tension within the walls of 1747 West 3rd Avenue.

Advertising

As a relatively young firm, one of our biggest challenges is getting our name out there. Advertising is one way of doing this. There are two problems with advertising, however: (1) it costs a lot of money; and (2) it can send the wrong message to clients (fees are going toward marketing instead of investment management). Also, the effectiveness of traditional advertising (newspapers, magazines, TV) is questionable in an age of social media and changing consumer behavior. We've experimented with both online and traditional advertising with unspectacular results.

The topic comes up every year at our annual strategy session, with valid arguments made for and against it. Is it a necessity or just a fallback? With good 5-year numbers now on the books, the discussion continues. The Advil is extra strength.

Website

steadyhand.com is our hub. We put a lot of resources into our site to keep it fresh and informative. To date, we've had four different home pages, including versions with a grizzly bear, a series of animated vignettes, and a bold leading statement. The pressure to make change often arises when business is quiet or

web traffic is stagnant. Do we need to make a change to the home page? Add more tools? Prioritize different messages? Produce more videos? How do we convert more prospects into clients?

The challenge is to balance cleanliness and simplicity with new content and ideas. The last thing we want is a traditional, uninspiring, or overly-busy site. Again, a headache-inducing task at times.

Minimums

Our minimum initial investment is \$10,000 per fund (and \$1,000 for subsequent transactions). We settled on this figure because it's roughly the break-even point to manage and administer an account. It puts us in a tier above the banks and traditional fund companies where minimums are typically \$500 to \$1,000, and below the 'managed account' programs where minimums often range from \$500,000 to \$1 million.

There's been much discussion internally that our minimums are too low for the type of service, fees and investment managers we offer. The counter-argument is that as a young firm, we want investors to try us out. Even if it involves a smaller initial investment than they are capable of making, the thinking is that the 'Steadyhand experience' will win them over. Five years from now, our minimum could be \$5,000 or \$50,000. Or it could stay where it is. The decision won't come without tension.

Balanced Fund

We put a lot of thought into our initial fund line-up. We decided on five funds that cover the waterfront. We wanted a tight offering, as one of our goals is to keep things simple. Our early thinking was that a balanced fund was

unnecessary because clients can achieve the same result using our underlying funds. Further, balanced funds can be perceived as expensive, overdiversified mass-market products. We also had designed a series of ‘model portfolios’ whereby investors with different objectives, time horizons, and levels of risk tolerance could build a portfolio of our funds suitable for their circumstances.

Internal discussion on a balanced fund surfaced a few years ago, however, when advocates of the firm started lobbying us for an all-in-one portfolio – one where asset mix and rebalancing decisions would be made on their behalf. We had many internal discussions on the topic, with thoughtful arguments provided on both sides. The Advil jar is sealed on this one though, as we recently launched the Founders Fund.

The Elevator Pitch

We feel we offer a great value proposition to investors: experienced managers, concentrated portfolios, low fees, transparent reporting, thoughtful & informative communications, co-investment, clear-cut advice, simplicity, a steady hand, and crisp client service. Problem is, what do we lead with? Which one or two points resonate the most with investors? What will someone remember about Steadyhand after first hearing about us?

While the tenets of the firm have remained rock solid, this has been an ongoing topic of discussion and has led to some changes and refinements in our messaging over the years. The bottom line is that we feel they’re all important underlying elements that help make our clients *better investors*. ■

5 Means 7

At the end of this month we'll be rewarding our earliest clients with an additional fee rebate, as our first [tenure discounts](#) come into play. Clients who hold our funds for 5 years receive an additional 7% reduction on their total fees. This discount is in addition to any rebates they receive based on the size of their accounts with Steadyhand. The tenure discount will apply every year until investors hit their 10th anniversary as a client, at which time their fee rebate will be upped to 14%.

We offer both the loyalty and asset size discount in recognition that:

- The costs of servicing our long-standing clients are typically less than our newer clients, as they require less up-front assistance in setting up their accounts and establishing a portfolio of funds. They also have become familiar with and know what to expect from our reporting and communications. And they buy into our investment philosophy, meaning they stick to their strategic asset mix (SAM) and don't trade too much.
- Large accounts do not cost us any more to administer than smaller accounts.

- Lower fees lead to higher returns.

While our base fees are amongst the lowest in the business, we recognize they are not *the* lowest. For long-standing clients who entrust sizeable assets with us, however, our fees are pretty much untouchable.

As far as we know, we're the only investment firm in the country that rewards clients for their loyalty. Although, perhaps the Deferred Sales Charge (DSC) could be considered a loyalty program of sorts. Under this plan, which is offered by fund companies that charge back-end sales commissions, the fee that investors are charged to exit a fund is reduced each year, usually over a period of seven years, until it reaches 0%. A different definition of *loyalty*, I guess.

Surprisingly, client loyalty is poorly rewarded in many industries. Consider the telecom and cable businesses. Providers offer sweet deals to attract new customers, but as an existing client, forget it. You get the rack rate, even if you're renewing a contract.

At Steadyhand, the 'Client Since' field on our statements actually means something, in dollars and sense. ■

Industry Changes – the Next

5 Years

The wealth management industry has changed a lot since we started Steadyhand five years ago. The banks have strengthened their hold on asset management, low-cost ETFs and high-cost structured products have become more prominent (and numerous) and lower-volatility income products are now the big seller. Some of the changes have been good for client returns, while others were more attuned to company profits.

While our birthday blogs have been mostly about reflecting back, I'm going to look both ways in this post by highlighting five industry practices that have not evolved enough over the last five years and desperately need to in the next five.

1. Reporting

The wealth management industry is great at pitching clients on how a new product or fund is going to enhance returns. Unfortunately, few firms then tell their clients how it worked out. Or what fee and commission they paid? Or for that matter, how the glorious new product fit into the client's long-term plan.

If financial literacy and investment behavior is going to improve, client reporting has to get better. (Note: I'm quite confident we'll see improvement here because it can't get worse.)

2. No advice, no pay

Canada is an expensive place to have your money managed. Investors have failed to benefit from the scale that has resulted from unrelenting industry consolidation. Representatives of the industry will point out

that comparisons to other countries are unfair because Canadian mutual fund fees have advice charges built into them, whereas other countries don't. It's like comparing apples to oranges, they say.

This is true, but the industry deserves what it gets on the fee issue. It has provided little or no transparency around who is getting paid for what. As a result, capable advisors who earn their annual 1% are being paid the same as their brethren who are doing nothing more than selling product.

What needs to change? Clients who are being charged 1% or more per year (via on-going commissions or trailer fees) for indifferent service and no advice need to be made aware. Compensation must be clearly visible, as opposed to being embedded in the MER (management expense ratio) of a fund or not reported at all. Australia and the U.K. are moving in this direction and it's time we joined them.

3. One set of rules

In the last five years, the lines continued to blur between products sold by the banks, insurance companies, investment dealers and investment counselors. Certainly it all looks the same to the client. They don't see much difference between what's offered and who is regulating their investments. This would be fine, except that the oversight is very uneven. For instance, the level of scrutiny afforded Principal Protected Notes (PPNs) and hedge funds pales in comparison to what a mutual fund goes through. In the bank branches, for instance, there are claims made about PPNs that couldn't be made anywhere else.

The regulators need to catch up to the product proliferation and make some progress towards regulating wealth management as the one big industry that it is.

4. RRSP transfers

It's a small thing perhaps, but the industry has got to clean up its act when it comes to transferring registered assets. Firms have proven they can process in-coming money in minutes, but claim to need weeks to transfer it out. When asked why it takes so long, they say it's "prevailing industry practice". That may be so, but there are a handful of firms that turnaround transfers in a day or two, while the big players keep the money on their books for 3-4 weeks and leave their departing clients in limbo.

On this one, I'd be happy to get the ball rolling with a proposal for the regulators to consider: *I so move that a financial institution's 'transfer-out' time cannot exceed its 'transfer-in' time.*

5. Less short term

I serve on a couple of institutional investment committees. When managers report to us, I'm amazed how much time is spent reviewing short-term returns, sometimes with pages of

detailed attribution. "You had a good quarter because your energy holdings relative to the S&P/TSX Composite Index were overweighted oil and underweighted natural gas." UGH! It may be useful for day traders, but for long-term investors? Come on.

Even though the most commonly used words in the wealth management industry are 'long term', not enough advisors and managers walk the talk. They either focus their communication on near-term stuff (corporate earnings, returns, trading strategies) or even worse, vacillate between short and long-term, depending on what looks better or is more exciting.

Advisors and managers need to ignore the short-term wins (and losses) and stick to longer-term strategies, performance and wealth creation. If they want their clients to be effective investors, they themselves can't just be disciplined when it's convenient to do so.

It depends what side of the bed I get up on as to whether I'm optimistic or discouraged about the industry's direction. But sleeping habits aside, I do think there will be progress on the issues I've raised. Some of it will result from new regulation and some will come from client and competitive pressures. I would prefer the latter, but gladly take the former. ■



Years of Undexing

Our Small-Cap Fund is at the top of its game. Over the past year (ending April 30th) it has gained 13.6% while the market, as measured by the BMO Small Cap Index, has fallen -13.8%. It's been zigging as the market's been zagging. Over the past five years the fund has gained 6.2% per year, while the small-cap index and the S&P/TSX Composite Index are up 1.3% and 1.1%, respectively.

What's more, the fund's annual returns since inception have been less volatile than those of the market, although it hasn't been a smooth ride. There have been stretches of time where the fund has significantly underperformed the market. In 2009, for example, the fund was up 14.6%, while the index was up 75.1%. The table below shows the fund's dispersion of annual returns in comparison to the BMO Small-Cap Index.

The manager's style (Wil Wutherich) is clearly not benchmark oriented – a distinguishing feature of all our funds and a key tenet of our investment approach. We call it *undexing*. This approach has rewarded investors so far, and we believe it will generate superior returns

over time (see our blog posting on [Active Share](#)). But patience is key. Unitholders have had to stomach periods of underperformance.

It will be the same going forward, in that the fund will lag the market over the short- and medium-term at times. Wil's strategies won't always be working out and there will be periods when his approach is out-of-favour (e.g., 2009) and unitholders will be cursing us (our Global Fund is currently going through such a stretch).

But we've got thick skin. And one of the most important things we can do is to help build some 'investing calluses' on our clients' hands by shedding light on performance and other related issues. It's what helps make them better investors. ■

Note: The indicated rates of return are the historical annual total returns including changes in unit value and reinvestment of all dividends or distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Important information about the Steadyhand funds is contained in our simplified prospectus. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

	2007*	2008	2009	2010	2011
Steadyhand Small-Cap Equity Fund	24.2%	-29.7%	14.6%	21.9%	12.7%
BMO Small-Cap Index	-6.6%	-46.6%	75.1%	38.5%	-14.4%

*Feb 13 - Dec. 31, 2007