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Here's how Canadian billionaire Marty Weinberg invests: Small companies and price-to-book ratio

By Efrat Neuman

Marty Weinberg was practically penniless when he realized that he really loves the world of finance, and that this is his chosen field. Unlike his more prosperous friends who came to the University of Manitoba, Canada, at the beginning of the 1980s with flashy cars and all the latest gadgets, Weinberg couldn't afford these things. But as he and his fellow students traveled together to and from university, the topic of their conversations – investments, investments, investments – ignited a spark within him. He raised money from some of his friends and invested it for them in a sort of investment club. His first dip into the tricky waters of the financial world ended in total failure when Weinberg lost half his friends' money.

Today Weinberg, 49, can relate this story with a nostalgic smile. It has been a long while since he was strapped for cash; indeed, following that initial stinging failure, the financial world has been very good to him. Four years ago, Weinberg, a Canadian billionaire, completed the sale of Assante, the company he founded that provided financial services in North America. The payout to Assante's shareholders, of whom Weinberg was the largest, was more than \$1 billion.

In an interview with *TheMarker*, Weinberg says that his initial failure in investing taught him his first lesson: It is impossible to achieve high returns without risk. "If you follow the news and the media and then try to pick stocks better than others who have the same information, the yields you achieve won't make your investors happy."

Weinberg does not invest in companies based on the market's enthusiasm for them, the latest fad, their history or their management team. In his view, the economic crisis and the renewed ascent of the stock exchanges are meaningless when it comes to building an investment portfolio. His view is technical and quantitative only. He flees from "hot

stocks” that are trading at high ratios and evaluates investments based on the size of the company (he prefers smaller companies) and on the company’s “intrinsic value,” which he measures according to the ratio between the company’s market value and its book value (a measure called the price-to-book ratio). The stocks that match these variables are chosen “blind” and make up the investment portfolio.

After he sold Assante, Weinberg had a few hours when he thought of retiring – but these thoughts quickly vanished (“That’s impossible – I have a very busy brain and I love challenges”). Together with the team that has been by his side for more than 20 years, he established Pavilion Investment House, a new incarnation of Assante, which it very much resembles. This time Weinberg means to reach out beyond the borders of Canada and the United States, and it was the launch of his activities in Israel that brought him here now for this visit. This is his third visit to Israel, where he has family, following his first trip here at the end of the Eighties and another visit two years ago when he was checking out the Israeli market.

When Weinberg describes Pavilion’s investment strategy, he talks about the basic foundation of the investment world: It is impossible to attain high yields without risk. “The strategy we developed helps to avoid traps that are set for investors. The guiding principle is diversification – among shares, markets and currencies – which enables investors to neutralize a large part of the risk. When I talk about diversification, I don’t mean investing in 30 different shares, which many investment managers view as spreading out – I’m talking about a portfolio made up of 6,000 different stocks.

“We don’t believe we can succeed by picking individual stocks. I know that with the limited information and financial services that are available to everybody, there is only a small amount of information that a portfolio manager can get hold of that will give him any sort of advantage. Since 1987, we have been focusing on two things: value companies and undervalued companies.”

Weinberg explains that historical analysis based on several decades shows that value companies and smaller companies do better over time. Does this mean that the same system is sure to work for the next 100 years? Of course not, but he believes that this is

the best method of sifting out the best investments – and those are the parameters he chose for his strategy.

“We rank the stocks and build the portfolio with 60% undervalued stocks and 30% stocks of companies, large and small, that have the lowest price-to-book ratio. It could be said that we remove from the portfolio large corporations and shares with high expectations in order to remain with what we consider to be the most attractive companies.”

Then why buy with your funds instead of investing directly in index-linked certificates, which follow various indexes in a “blind” fashion?

“When I visited Israel two years ago and checked out the market, I saw that fund managers here have a relatively high exposure to index-linked certificates, higher than in other countries we looked at. In my view, that is the best product available to investors because it’s not expensive, it has high exposure and diversification, and it’s easy to trade. We offer a product that’s similar to an index-linked certificate – but an upgraded version. It has the characteristics of a certificate with an extra dimension, since we tend toward smaller stocks and securities we find that attain better performance, and we still are highly diversified.”

What are the most common errors you see among investors?

“Investors find it hard to profit because they try to play the market. Instead of doing that, they need to stick with their investments. If you look at the U.S. stock market between 1970 and 2008, you see that the average annual yield on the S&P 500 was 9.49%. But if you remove the best day from the calculations, the yield drops to 9.18%, and if you delete the 25 best days of the entire period – the average annual yield drops significantly to 5.67%. Investors lose money because they go in and out of the market, try to play the market, and end up missing out on the best days. It’s forbidden to choose just one stock or a certain market, and the portfolio must be as diversified as possible.”

Managing Tom Cruise

Marty's father, Israel Weinberg, was a respected actuary with Great-West Life Assurance Co., the largest life insurance company in Canada. He died in a traffic accident when Marty, the middle child of three siblings, was 6 years old. Six years later, Marty's mother remarried and his stepfather, whose first wife had died of cancer, brought his four children into the family. Weinberg says that he started to work when he was 12 to add to the family's income, and to a certain extent, life in a nonconventional family shaped his ambitious character.

After finishing his bachelor's degree in 1982, the 22-year-old Weinberg was desperate to find work for two reasons: first, to get his career going and second, because he wanted to marry his girlfriend, Gina Frieman. Her father, a Holocaust survivor from Hungary, was not the type to welcome an unemployed son-in-law into the family. Three days of interviewing with Great-West Life, where his father had worked, were enough to make Weinberg certain that he had bagged the job, and he went ahead and proposed to Frieman. She said yes. A few days later, he received a letter from Great-West that he recalls went something like this: You are far too aggressive. You would never survive at a large corporation. We're sorry, but you're on your own.

After this insulting rejection, Weinberg started working as an analyst at Canada's largest mutual fund company, Investors Group Inc., and there he began to gather experience in the financial world. In 1986, he left to go to work as controller for his stepfather's electronics company and within a year, Weinberg had decided to set up his own company.

"I was 27 and I started alone from zero. I hired my sister Karen, who is a bookkeeper, because she was the only who would agree to work for me for nothing. I explained to potential clients that I had a special investment strategy that focused on value investments, based on a minimum investment of \$100,000 per investor."

His business model was the Mayo Clinic, a world-renowned medical center headquartered in Rochester, Minnesota. After he went there with a relative and saw how the organization works – a full team of world-class experts and state-of-the-art services,

all under one roof and working with extraordinary efficiency – he decided that was the model he wanted to emulate.

He and his sister's first client was a rancher from Manitoba, and Weinberg still remembers those who came after him. The aim was to provide customers with a personalized investment portfolio and supplementary financial services including risk management, tax planning, portfolio management and legal counsel. "We chose several managers from around the world and created a fund association, so that there was a product to market. We were helped by consultants from various fields and thus created a customized portfolio for each client. The strategy worked well.

"Until 1995, we kept adding client after client with 20 employees who worked with asset allotment, investment management, trading and customer relations," he recalls. The company, which began as a boutique investment house, expanded considerably after an aggressive acquisition campaign that brought in 20 companies. This created a conglomerate of various types of financial services that employed thousands of people and served more than half a million clients, with assets of \$26 billion. At its peak, Assante had 3,000 employees and its annual profits skyrocketed from \$1 million to \$100 million.

After it became more difficult to sustain an annual growth rate of 50%, Weinberg cut a deal in October, 1999, to acquire one of the world's largest sports and entertainment agencies, Steinberg Moorad & Dunn. The connection with Leigh Steinberg, the legendary agent who inspired the character of Jerry Maguire that was played by Tom Cruise in the movie of the same name, brought to Assante world-class athletes and entertainers. They joined other celebrities such as Cruise, Nicole Kidman, Jerry Bruckheimer, Ron Howard, Roseanne Barr, Michael J. Fox and David Letterman, all of whom received financial services from a California company that was also bought by Weinberg.

His work with the Hollywood stars could be described as "family wealth management." Assante offered comprehensive management of all aspects of the client's financial matters – finding a nanny or a housekeeper, arranging gardening services, selling their homes and buying new ones, tax planning, investment management and paying bills.

Even during the most successful years, Weinberg remained faithful to his freezing hometown. Winnipeg, the capital of the Canadian province of Manitoba, is home to 700,000 residents, of whom about 14,000 are Jewish. It is also known to be one of Canada's coldest locations in winter, and the temperature can plummet to minus 40 degrees Celsius.

Weinberg confesses that occasionally he thought about moving to one of the world's financial capitals, but he had small children and it would not have suited them. "My family is important to me. It's not always easy to be based in Winnipeg, but whenever I'm asked about the city, I reply that we're lucky to have good brains in Winnipeg, who run various types of global businesses. It was always difficult, especially when working with American companies, because down there they don't think anything exists beyond America's borders. But that's also part of the challenge. In fact, if it wasn't challenging to me, I don't know what I would do."

In any case, Weinberg does not think he could have been one of the Wall Street boys. "I never could have worked on Wall Street. It's driven by profits and not by caring about the client. That's not a world I could fit into."

"We'll keep on buying companies"

In 2003, Weinberg sold Assante's Canadian business to the Canadian company CI Fund Management for 1.1 billion Canadian dollars, of which 275 million dollars was in stocks and the remainder was in CI shares. In addition to Weinberg, who held about 20% of the shares, other shareholders included his sister, who left the company before it was sold, and various levels of management, headed by a group of 10 senior managers who had been with Weinberg almost from the very start. "Some of them have still not sold their shares. I sold mine when the price went up after a year," he says of his personal exit, which was valued at more than \$200 million.

When it was sold, Assante had \$7 billion under its management and employed a network of more than 1,000 financial advisers. Three years later, most of the company's American operations were sold for \$150 million in cash. The part that was not sold was

a company owned by Assante whose long-term investment strategy was based on a philosophy that takes into consideration variables such as company size and value. That company served as the core for the establishment of Pavilion.

In April 2010, four years after he sold off the first company he established, Weinberg made his official comeback with the first purchase under the Pavilion brand. He bought Brockhouse Cooper, a Montreal-based financial consulting and securities trading company, which is active in 50 countries and has clients whose cumulative net worth tops \$3 billion. Today, financial management services for institutional and private investors, financial consulting for pension funds, long-terms savings planning and international brokerage services all fall under the Pavilion umbrella.

One of Pavilion's investors is the Asper family of Canada, which built a media empire made up of local newspapers and Canadian news websites. About a year ago, the family business ran into serious difficulties in the wake of the economic crisis, and the family racked up heavy debts until it was forced to sell off assets. The Asper family is known as a major donor to Jewish causes all over the world. Weinberg has known the family for many years from both the Jewish and the business communities in Winnipeg. "It's true they are having difficulties, but their difficulties are business-related and not family-related. The mother and the brothers (the father, Izzy, died seven years ago) are still big supporters of the Canadian Jewish community," he notes.

Who had an influence on you? Who is your role model?

"Different aspects of the accomplishments of many people have influenced me. One of them is a New York money manager called David Dreman, who grew up on the street next to mine in Winnipeg. He has a column in *Forbes Magazine* where he recommends value companies and he also wrote a best-selling book."

This time, do you also plan to grow through acquisitions, as you did with Assante?

"We are currently conducting negotiations for the purchase of a company. In any case, in Israel, London and South America, the goal is to grow organically. We plan to buy in

order to bring new things to the business. Reality shows that success comes from a combination of organic growth and acquisitions.”

Liking the smaller companies

The investment strategy of Marty Weinberg, the founder and CEO of Pavilion Investment House, is based on a three-factor model developed by Kenneth French and Eugene Fama. The model is based simultaneously on three factors: market, size and value. It is characterized by investing for the long term, by realizing that it is impossible to play the market, and by spreading and diversifying investments instead of picking specific stocks.

In Israel, Pavilion offers institutional investors (the company does not deal with private investors here) three mutual funds that cover the world: an emerging markets fund, a U.S. fund and a global fund of developed markets excluding the U.S. Investments are made based on the parameters of size and value.

“Each country enters the portfolio according to its ratio on a global scale. Two countries in the emerging markets are exceptions: Russia, where the transparency of the economic data we seek is problematic and so we do not invest there; and Argentina, where we have existing investments but plan no new ones,” Weinberg explains.

According to the first principle, stocks located in the six lowest deciles of market capitalization enter the portfolio. “The portfolio’s capitalization ceiling depends on the country: In a small country, the ceiling will be companies valued at \$30 million to \$50 million, while in a large country, capitalization could reach \$500 million,” he says.

Regarding the value variable, measuring securities can be done in several different ways, such as profit margin (company value divided by net profit), but Pavilion chose a different measure. “You can play with profits, so we look at the balance sheets and rank all the companies according to their price-to-book ratio (the ratio between the company’s market value and its intrinsic value). We put in the portfolio 30% of the stocks with the lowest ratio, mainly small stocks or large ones.”

The minimum investment is \$5 million in one fund. Pavilion's representation in Israel will be headed by managing director Erez Bar Ner, whose previous position was manager of the Israeli Representative Office of Bank Leumi Switzerland.