

# Globe Investor

**DKAM Capital Ideas Fund**

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DKAM CAPITAL IDEAS FUND

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**VALUE INVESTING**

## A yen for Japanese stocks

While most investors still shun the battered market, portfolio manager Lorne Steinberg has unearthed some potential gems

TIM KILADZE

In today's interconnected capital markets, where investors can cross borders with the click of a button, what are the chances of finding dependable, undervalued stocks that trade under the radar?

Very high, says portfolio manager Lorne Steinberg, who argues that most investors look in the wrong places. In the hunt for value, he says, no market should be overlooked. Applying that principle, he found some astonishing buys in, believe it or not, Japan.

Yes, Japan. The country whose equity index has plunged 75 per cent since its peak in 1989, and where stock prices once reached multiples of 50 times annual earnings.

Even after two decades, investors still shun Japan, relegating its stock prices to rock-bottom levels. Rather than do the same, Mr. Steinberg, who used to head AGF Management-owned Magna Vista Capital Management Inc., took a close look at Japanese firms and found companies trading at valuations less than their liquid assets minus total liabilities. Were they to go bankrupt, he says, share-



Japan's equity index has plunged 75 per cent since its peak in 1989, leaving stock prices at rock-bottom levels. KOJI SASAHARA/ASSOCIATED PRESS

to go bankrupt, he says, shareholders would be paid out in full in hard cash.

How did he find these Japanese gems? By implementing the investing strategy Warren Buffet picked up from his college professor Benjamin Graham, who wrote *The Intelligent Investor*, the value investor's bible. Mr. Steinberg subscribes to the idea that investors too often act irrationally. Instead of following the herd, he searches for solid, long-term buys.

His investing philosophy runs somewhat against the grain. For starters, Mr. Steinberg isn't afraid to hold on to cash because it allows him to time the market. "If you're fully invested all of the time," he says, "all you're doing is selling cheap stocks to buy cheap stocks." He also says most investors chase the same cheap stocks or flock to the same top managers. "In the mutual fund business, the highest-selling funds are last year's top performers."

So Mr. Steinberg took the time to find some overlooked names. Using programs that track financial statements, an analyst at his investment firm was able to apply strict criteria to his search. Among other factors, he looked for com-

## FOUR DIAMONDS IN THE ROUGH

Portfolio manager Lorne Steinberg sees value in Japanese businesses. After two decades of brutal stock market returns, some of these companies are trading at market values less than their liquid assets minus total liabilities. Were they to go bankrupt, shareholders would have no problems being paid out. His examples include:

### FUTABA CORP.

**Market capitalization:**  
\$800-million (U.S.)

Manufactures electronic displays for products such as press die sets, radio control equipment and robots

### AIDA ENGINEERING LTD.

**Market cap:**  
\$296-million (U.S.)

Manufactures press machines, auto-processing lines, industrial robots, auto-conveyers and dies.

### CTI ENGINEERING CO. LTD.

**Market cap:**  
\$77-million (U.S.)

Consulting firm for public works projects on rivers, dams and roads in Japan and internationally.

### SANYO ENGINEERING & CONSTRUCTION INC.

**Market cap:** \$71-million (U.S.)

Provides mechanical and electrical-engineering services for electrical power work, water supply and manufacturing machinery.

Source: Lorne Steinberg Wealth Management Inc.

panies that were widely held, paid dividends and had healthy exports, with a long history of profit and an aversion to debt. Japanese firms comprised a good chunk of the candidates.

But there was a glitch in his strategy. Although a computer program could spit out names, it couldn't read the text of the companies' financial statements. "We need to make sure we've read every line so there's not some lurking liability," Mr. Steinberg said.

To solve the problem, he reached out to universities around his Montreal office. He found a recent graduate who not only could translate Japanese, but also knew the difference between assets and liabilities.

Mr. Steinberg eventually settled on a handful of names that met his investing criteria, and bought them for his firm's equity fund. They include **CTI Engineering Co. Ltd.** and **Sanyo Engineering & Construction Inc.**, which both trade at market value less than cash minus total liabilities, and **Futaba Corp.** and **Aida Engineering Ltd.**, which trade at market values less than working capital

minus total liabilities.

Brian Heywood, portfolio manager at Taiyo Pacific Partners LP in Washington State, isn't surprised that Mr. Steinberg was able to find high-quality buys in Japan. "People go into a store and they don't see Sony TVs as much as LG," so they think Japanese products are no longer in favour. But that's the wrong mentality. Regular TVs are a low-margin business, he says, whereas Japanese firms are making the chips for 3D visual effects as well as display glass that allows for wider viewing angles, both of which have higher margins.

Mr. Heywood says the Japanese market isn't completely rosy. The yen is near record-high levels versus the U.S. dollar, making Japan's exports expensive. Japan also has an aging population and an aversion to immigration that could hamper growth. While the market may not plummet again, it may take a long time to go up.

That's okay with Mr. Steinberg. He has a long-term investing horizon and is confident the market will turn. "Things do not remain cheap forever in our business," he says. "They never have."