



HOTSHOT MONEY MANAGER OF THE MONTH: KIM SHANNON

ANNUAL RETURNS (C.I. Canadian Investment Fund)

1996	1997	1998	1999	2000	2001	2002
27.3%	24%	1.7%	6.8%	18%	8.9%	0

Everyone's a value investor today, now that "momentum," "rotation" and "growth" are tarnished terms. That's also a smart strategy, since buying underpriced shares is the only time-tested way of outperforming the market. But what puts the value in value investing?

Finding stocks with low price-to-earnings or price-to-book-value ratios is the usual starting point. If that sounds easy, you've probably never tried it. Not all companies' earnings or sets of books are created equal. If you can't tell the real from the bogus, you're better off buying scratch-and-wins from the corner store. Or entrusting your money to fund manager Kim Shannon.

Shannon took over as lead manager of the C.I. Canadian Investment

Fund in June, 1996. Since then, the fund has racked up an average annual compound return of 11%; average S&P/TSX Composite Total Return Index was 5.7% during that time.

It's hard to beat the market without opportunities. As the ever-animated Shannon puts it, with a flourish of hand gestures, the fleeting moments arise because "human emotions move the market." In the absence of reason, "when there's no positive expectation left," the shares of good companies are quoted for less than they're worth. But first you have to find good companies. Shannon likes them big and established: Royal Bank, Magna and Alcan, to sample her current portfolio. She also likes them simple. "A good business model is easy to explain. Complexity is a smoke screen for bad ideas."

Then you have to find good prices. Shannon starts with a computer model that screens stocks based on P/E, P/B and other standard value ratios, which in turn spits out a list of names. That's when the heavy lifting begins. More often than not, shares are cheap for the right reasons. "Financial statements are as much a marketing tool as a reflection of financial position," says Shannon, who can summon the energy to be enthusiastic about pension accounting.

The trick is to find shares that are cheap for the wrong reasons. For that, you have to embrace the drudgery of scouring the notes to financial statements for clues to accounting tricks. "Companies are guilty until proven innocent," Shannon says, her eyes narrowing a little. That stance goes a long way to explaining her track record. Bad managers often blame the market for their returns. The truth is that many of them didn't—or couldn't—do proper due diligence.

Despite a dreadful deflation of stock prices, Shannon doesn't see the bargains today that she saw three years ago. That's right: Relative to their financial fundamentals, stocks were cheaper at the height of the bull—at least the stocks Shannon likes. Today, prices have caught up with the fundamentals. That makes perfect sense if emotions rule the market. But aren't women emotional? Is that why so few of them run money? Nah. "Women don't suffer from overconfidence," she says. "They don't invest with ego."

—Fabrice Taylor