Don’t Miss Out on This Small-Cap Asset Manager

Description

Investors get a warm fuzzy feeling by owning shares in **Berkshire Hathaway Inc.** and **Fairfax Financial Holdings Ltd.** because Warren Buffett and Prem Watsa are such good investors and allocators of shareholder capital.

A much smaller, but equally talented group of investors operate out of a Bloor Street office building at the western end of Toronto’s Mink Mile. Last June, I explained why I thought **Cymbria Corporation** (TSX:CYB) was the better way to own stocks.

Cymbria is up 33% in the year since, so I thought I’d revisit it.

I still believe it’s a must-own asset management stock, far superior to **AGF Management Limited** (TSX:AGF.B), a fund manager with a long history in Canada’s financial services industry, and whose stock has made a bit of a comeback in the past year, outperforming Cymbria by 783 basis points.

First, let me just say that I recommended that risk takers buy AGF stock in an October 28, 2016, article when it was trading around $5. My thinking was that it had bottomed out and was ready to bounce. AGF is up 34% since the article appeared on The Motley Fool, and I see it going even higher.

A new report by consulting firm Casey Quirk suggests global asset management M&A is going to heat up over the next few years as financial services companies look to grow through acquisitions. Now that AGF is turning a corner, it’s likely far more attractive to a strategic buyer than it was 12-24 months ago.

But enough about AGF. I’m here to tell you why, despite trading near its all-time high of $47.94, you should put Cymbria on your watchlist.

It’s kind of expensive

There’s one easy way to know Cymbria stock has gotten ahead of itself: it didn’t repurchase any of its shares in 2016.

Right there on page 24 of its 2016 annual report, it states, “Cymbria’s Normal-Course Issuer Bid

("NCIB") allows a repurchase of up to 10% of outstanding shares per year. We'll buy back shares if Cymbria's stock price trades at a meaningful discount to NAV."

Since Cymbria's inception in 2008, its stock price has fluctuated between a 14.2% discount to net asset value (NAV) and a 33.5% premium. Currently, it trades at a 13.6% premium to its NAV. The last time it repurchased shares through its NCIB was in 2013 when it bought back 143,000 Class A shares.

However, in the same year, it introduced what it calls a "liquidity realization opportunity," or LRO for short — a move that enables it to repurchase shares from time to time at a small discount to NAV, which provides investors greater liquidity of its shares. In 2013, it repurchased 279,952 under the LRO. It hasn't done any more since then because its shares have traded at more than 97% of its NAV.

So, apparently, if the company isn't repurchasing shares, you might not want to throw everything you've got into Cymbria stock. However, given the success of its money managers with client assets, you'll want to keep some cash in reserve because if they're buying, you probably should be, too.

How has the portfolio done?

As of March 31, 2017, the Cymbria portfolio consisted of 40 holdings including a 20.7% ownership interest in EdgePoint Wealth Management, an asset management firm with approximately $14 billion under its management; EdgePoint also manages the other 39 holdings, which together amount to slightly less than $900 million.

Since its inception in November 2008, it's generated an annualized rate of return of 17.4%. In other words, it's done well.

Bottom line

There's a saying: "The best time to invest is when you have money." However, between July 2015 and November 2016, you could have bought Cymbria shares for less than $38 — 17% lower than where they're trading today.

There will be opportunities to buy Cymbria for less; the problem is, you never know when that's going to be. It's better to buy some, and if it keeps going up, you win, and if it drops below $40 and you buy some more, you also win.

But before you buy, do yourself a favour and check out both the Cymbria and EdgePoint websites. By the time you're finished reading, you'll have everything you need to know.

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1. TSX:AGF.B (AGF Management Limited)

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