The Secret to Getting 15% Returns

Description

The bull market turned nine years old on March 9.

In November 2008, as the markets were crashing, several veteran Canadian money managers, including Tye Bousada and Geoff MacDonald, who had left Trimark, a prominent Canadian wealth management firm earlier that year, launched Edgepoint Wealth Management.

The founders wanted to manage money, not spend time worrying about marketing brochures or keeping analysts happy, so they launched four actively managed mutual funds with $450 million in assets under management. Today, there are still only four funds, but assets under management have grown to $15.5 billion.

It's safe to say no one has benefited from this nearly decade-long run more than the team at Edgepoint.

But don't let their fortunate timing dissuade you from exploring their business more closely. Edgepoint is an asset manager that delivers the goods. As the bull run continues to get long in the tooth, these are the professionals you'll want investing your money when the you-know-what hits the fan.

How to get 15% returns

The first way to get 15% annual returns is to invest in one or more of Edgepoint's funds. Since inception, its funds have generated an average annual return of 13.8%, which includes two funds that also invest in fixed-income securities in addition to equities. Take out those two funds and you get to 15%.

Of course, if the bull market ends, you can be sure 15% annual returns won't be in the cards. They'll still do better than most, but single-digits returns would likely be the norm.

The second way to get to 15% returns — and the route I would recommend taking — is to buy **Cymbria Corporation** (TSX:CYB), a publicly traded stock that's part global equities portfolio and part investment company.

The equities portfolio consists of 40 holdings that account for 85% of Cymbria's $981 million in total assets. The remaining 15% and Cymbria's largest holding is a 20.7% ownership stake in Edgepoint Wealth Management.

It's this 20.7% stake in Edgepoint that is the real secret behind obtaining 15% annual returns.

Since Cymbria's IPO in November 2008, which raised $234 million, it has received $33.5 million in dividends from Edgepoint. Those dividends can be reinvested in the 40-stock portfolio or used to repurchase Cymbria shares.

So, as Edgepoint becomes more successful, so too does Cymbria, both regarding the dividends it receives, but also in the growth of its Class A share price. Since inception, Cymbria has delivered an annual return of 17.9%. Over the past five years, it's done even better, averaging 22.8% annually.

At the end of 2016, Cymbria's stake in Edgepoint was valued at $110.3 million. At the end of September its value on the balance sheet was $151.9 million, or 38% higher. A third-party valuator has suggested the true value could be as high as $167.5 million.

Between the dividends, growth in its equity portfolio, and the increased value of its 20.7% interest in Edgepoint, Cymbria has a trifecta for growth.

Bottom line on Cymbria stock

I first recommended Cymbria in December 2010, but that was for another publication. My first Fool recommendation was in June 2016; I followed that up in May 2017.

Right now, it's trading at a 13.4% premium to its net asset value of $46.73. Historically, that premium has gotten as high as 33%. When I last wrote about Cymbria, it was trading at a 6.7% premium, which means it's gotten more expensive.

If you're willing to hold for five to 10 years or more, Cymbria is definitely worth owning today, because Edgepoint's business doesn't appear to be weakening.

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