This Is the Best Passive Stock You Can Own

Description

Cymbria who?

No, **Cymbria Corporation** (TSX:CYB) isn't the newest tech stock to IPO on the TSX. It's an incredibly low profile small-cap stock ($891 million market cap) that might just be the best passive stock you could possibly own. Here's why.

Great performance

The last time Cymbria's stock had a negative annual return was in 2011, when it dropped 2.1%. Before that was 2008, when it was down 6.6%, although that doesn't really count because it only launched on November 3, 2008, and the entire world's stock markets were imploding.

Since 2011, its average annual return's been 23.4%, well ahead of the TSX and even the **S&P 500 Composite Index**. Cymbria's turned in an excellent performance happens for several reasons.

Why Cymbria is the best

Cymbria invests in a focused portfolio of just 40 stocks trading anywhere in the world. It's not a Canadian equity portfolio or a U.S. equity portfolio or even a global equity portfolio; it's simply 40 good businesses whose prospects over the next five or more years is exceptional.

In addition to the 40-stock portfolio, Cymbria has a 20.7% ownership interest in EdgePoint Wealth Management, a privately-owned business providing investment management services through four mutual-fund portfolios for both financial advisors and individual investors.

The same people who manage the four mutual-fund portfolios also manage the 40 stocks in Cymbria's portfolio. In case you haven't noticed, the investment management business has seen fairly robust growth since the 2008 economic crisis.

Cumbria's 20.7% stake generates a big chunk of dividends each year. Since 2008, Cumbria's received more than $33 million in distributions from EdgePoint. In addition, the original investment of $510,000 in EdgePoint by Cymbria is now worth $186 million.

The dividends mentioned above can either be added to the assets of Cymbria's 40-stock portfolio to be invested at a future date or the company can use the distributions to buy back Cymbria shares.

On May 18, Cymbria filed a normal course issuer bid with the TSX that allows it to repurchase 1.4 million of the company's Class A shares over the next year through May 22, 2019.

The newest reason why Cymbria shares should keep appreciating is that it's moving into private equity. On May 25, Cymbria explained on its website why businesses should partner with Cymbria. This single point sticks out for me.

"We're not interested in levering up your business, firing half your staff and flipping it for a profit 24 months later," Cymbria said. "Our goal is to provide the best possible operating environment for your business to flourish in forever."

If you follow private equity closely, you'll understand the jab.

Why do I like it?

I've liked Cymbria for some time, and up until now, I've resisted buying its stock because it's trading at a premium to its net asset value per share. Today, Cymbria has a 29% premium to its net asset value of $47.82. By comparison, Cymbria traded at a 10% discount as recently as March 2012.

I first came upon Cymbria in June 2010; most recently recommending it May 2017, when it was trading at $47. The fact that I didn't buy its shares at that point will haunt me for a long time, but that's my cross to bear.

The move by Cymbria into private equity makes sense to me. As Cymbria's gotten larger over the years, the 40-stock portfolio along with the 20.7% investment in EdgePoint has become too narrow a focus for some investors, especially given the premium.

Therefore, in order to justify this valuation premium in the future, the company believes private capital is the next value-add to keep the ball rolling up the hill.

The investment team at EdgePoint evaluate companies all day long. Whether they're private or public, it all comes down to the probability of a business executing on its plan over the next five or more years. They can do that in their sleep.

The investment team at EdgePoint have all worked in the industry for a long time. I don't see them having any trouble moving between public and private capital markets.

As a result, I see more good times for Cymbria in 2018 and beyond.

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