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Patiently scouring the globe for discounted stocks

By Dianne Maley
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Vito Maida embodies the name of his company - Patient Capital - as he and his team take their time to find the right stocks to invest in for the long haul

Who:
Vito Maida, partner, Patient Capital Management Inc. in Toronto.

The Strategy:
To buy high-quality companies at 50-per-cent to 60-per-cent discount to their intrinsic value and hold them for the long term.

"Those opportunities can be rare," Mr. Maida acknowledged in an interview. So rare that Patient Capital sat from its inception in 2000 to the market crash of late 2008 with 80 per cent of its holdings in cash - a stance that no doubt demanded patience of the firm's clients as well.

Opportunities turn up in three instances, he says: a general stock market decline; when an industry is out of favour for some reason; and when a company-specific event sparks a swift and steep sell-off in an otherwise solid company's stock.

Health care in the United States is an example of an industry out of favour because of concerns about the effects of legislative reforms, Mr. Maida points out. A classic company-specific event would be when the sale of BCE Inc. BCE-T fell through in late 2008, causing the stock price to plunge.

"It was an opportunity to buy BCE at a very attractive price," he says.

Each day, Mr. Maida and his colleagues run a screen on the entire stock universe, looking for stocks with low price-to-earnings multiples, low price-to-book value and high dividend yields. Once they identify companies that meet their value criteria, they look at the fundamentals, beginning with a detailed review of quarterly and annual reports.

"We're always looking for red flags, accounting issues, leverage issues, cash flow issues, problems that cause us to eliminate a stock," Mr. Maida says. "We want to avoid problems. Loss of capital is extremely unproductive to generating long-term returns." When everything is right, they buy.

Last March, when bank shares were hitting the ground with a thud, Patient Capital loaded up on Bank of Montreal and Toronto-Dominion Bank shares. Both were trading below book value with dividend yields investors can only dream of today.

The firm holds only about 20 positions, so its portfolio is fairly concentrated. "We tend to get very large bang for our buck," Mr. Maida says. "When we find these opportunities, we make a relatively large investment because the probabilities are stacked in our favour."

When it works best:
In declining markets, as well as in relatively normal, stable markets because stock selection tends to outperform.

"We don't do well in frothy markets."

What could go wrong?
They could have trouble finding securities that meet their criteria for price and quality. "You have to have a lot of patience." Also, they could make a relatively large bet that doesn't work out. "For us, that's few and far between."

How Is He Doing?
For 2009, the firm's estimated return was 16.4 per cent before fees. In 2008, when many portfolios were halved in the market crash, Patient Capital's representative account was up 4.5 per cent. And while it may have lagged for a number of years, the portfolio's average annual return since its inception in 2000 has been 8.22 per cent, compared with 4.44 per cent for the S&P/TSX composite index. It hasn't had a losing year.

Market outlook
"Our stance today would be one of caution," Mr. Maida says. "We think markets off the March lows have bounced back too quickly. We don't think it's justified by the fundamentals of the companies we follow, particularly in Canada." The portfolio is sitting on 35 per cent cash waiting for the next irresistible opportunity.

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