

The Hudson Report



Douglas F. Hudson, CMA,
MBA, CFP, CD

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• **Interview with Larry Jeddelloh, Manager, University Avenue World**

In my last Newsletter I stated that I didn't like to comment on the market as I was not a market "guru". Well, simply because I am not a market guru is no reason that my readers shouldn't benefit from one. To this end, Larry Jeddelloh, Manager, University Avenue World Fund has been good enough to tell us a little bit about how he views the current market and what is important for him when deciding what goes into his fund.

Firstly I'll give you a little background on Larry. He took over management of the University Avenue World Fund in January of 1998, so we don't have a Canadian track record for him yet. This is not the case in other parts of the world. He is the editor of *The Institutional Strategist*, a monthly research publication with a high profile client list. He is also the founder of the Minneapolis-based TIS group and has more

than 20 years of research and money management experience in both Europe (Zurich) and North America. His TIS Group Global Equities Portfolio has exceeded the MCSI World Index on a compound basis since formation in 1995.

Doug: With the Global Markets in a constant state of flux, how can you keep up-to-date with the changing world ?

Larry: We have five analysts and one cross-ownership relationship in Europe, with responsibility for specific geographic regions. Our computer equipment, database access, and brokerage relationships enable us to track markets 24 hours a day. We also conduct approximately 300 on-site visits per year, travelling the globe many times over.

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Doug: How would you describe your investment philosophy ?

Larry: I use a contrarian value seeking equity selection approach combined with quantitative techniques. Stock selection is bottom-up, combined with top-down geographic analysis, within a framework of strategic themes.



Larry Jeddelloh

Doug: Can you elaborate on this?

Larry: Typically investments are chosen within identified strategic themes, recent examples include events such as restructuring in Europe; financial sector deregulation and essential services in depressed markets such as the Far East. Also concentration in any one theme never exceeds 25% of the portfolio and individual positions never exceed 10%. The themes typically last for a full 3-year cycle. We are always seeking sectors which are out of favor and therefore undervalued, this is re-inforced by a visit with the management of the companies in question.

Doug: We always hear that buying the right

stocks is vital, but how about when to sell a stock ?

Larry: We have a very strict selling policy, for example a formal review is initiated if a holding falls 10% from the purchase price. Overall, we sell based on attempting to identify an early change in fundamentals, their underlying themes, and macro changes in the countries they are sited in as well as the principal markets the shares are listed on. Therefore a top-down approach to selling is used as well.

Doug: How would you compare yourself to two of the major Canadian-based Global mutual funds : Templeton Growth & the AGF World Equity fund?

Larry: The major difference is that these funds use a bottom-up investment style, while I strongly employ a top-down country-by-country analysis as well.

Doug: What are some of the major investment themes you have identified which will affect the coming world markets?

Larry: In Europe - restructuring, consolidation, emerging equity culture, and share buy-backs. In the U.S. - technology and the rise of the E-commerce. In Japan - a consumer revival is at hand.

Doug: We have heard a lot about 'The Asian Contagion'. Will Southeast Asia rebound, is it time to buy or will the slide continue ?

Larry: Given the near term change in our view on Japanese assets, the next question for Southeast Asia has to be, do we buy the emerging Markets now? Will Southeast

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Asian markets recover along with the Nikkei?

Our Southeast Asia strategy has two dimensions to this answer. The near term answer is yes, Southeast Asian capital markets will bounce initially along with the Nikkei. However, the second and more important dimension, the deflationary process, which is still unfolding in Southeast Asia is unlikely to be completely short circuited by a positive turn of events in Japan, new equity markets in Asia are completing their final down leg, though the last chapter is not yet written. We look for Southeast Asian "survivors" to begin to perform in the equity markets and the un-creditworthy "have-nots," to meet their final maker in the upcoming months. Here's why:

As the world now knows, but earlier ignored, the seeds of Southeast Asia's current problem lay in excess production capacity, excessive debt levels (corporate and governmental), and a resulting lack of pricing power. Too many Asian companies relied in the 1980's and 1990's on the ability to raise money in the capital markets rather than generate significant cash flow to und operations. Annual cash calls from existing shareholders were the norm, as long as the Southeast Asian growth story remained intact.

Inevitably, as pricing power disappeared and competition intensified in Asia's manufacturing sectors, prices fell and profit margins contracted as did cash flows. The solution, in order to service principally corporate debt and by later government debt, was to devalue local currencies. But, reducing sale prices by cutting the value of the underlying currency was a mugs game to begin with. It was inevitable a second and third round of

devaluation's would follow. Competition, free trade and economic survival dictated a series of competitive devaluation's would ensue. Besides, the IMF encouraged, promoted and in the end insisted this was the path back to economic prosperity.

The media is currently rife with stories of how the IMF "blew it" by forcing austerity, competitive currency devaluations, and higher tax policies on Asia's stricken economies. Last summer these policies were allegedly 'the cure" but they now pass for "the cause". It is this phenomena, the discrediting of the IMF, acceptance of its policies were a mistake, which has led Secretary Rubin to reverse course and march to the drum of stable currencies, price stability, and economic growth. Bear in mind, it was most likely the IMF, at the U.S. Treasury's request, which put those policies in place to begin until Governments which have been on the receiving fend of this toxic brew cannot be blamed for wondering who their friends are.

Those Southeast Asian "victims" will now do what they have to in order to protect their own economies. In South America, those "protectionist policies" have already been implemented. Interestingly, these events have passed almost unnoticed in the U.S. Tariffs of 24% to 108% on everything from toys to steel to paper have been imposed in Argentina, Brazil, Uruguay and Mexico since January 1. Anti-dumping monitoring systems, primarily for toys coming out of Asia have also been put in place. Because the IMF's currency devaluations have failed, governments are attempting to halt rapidly falling standards of living for their citizens. This is the most dangerous part of the deflationary process. In trying to protect its in-

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dustries from competition, it is possible government reserves may decline precipitously and support for the export sector becomes impossible. Sovereign debt also becomes un-serviceable (Indonesia?) and corporate failures mushroom. We think as much as 90% of the companies listed on the Seoul stock exchange are essentially broke. The major part of the Korean economy could well be wiped out before the entire deflationary cycle runs its course.

The positive side to all this is that a significant amount of excess manufacturing capacity in Asia will eventually disappear, setting the stage for a recovery in pricing power and profits. Our best guess is this could take place as close as Q4. There is little to no capital left from the international agencies to support what are essentially bankrupt policies in many Southeast Asian countries. Foreign banks will have to be allowed to buy up Asia's banking sector. That will be one of the signals that the end of Asia's deflation cycle is at hand. The buying opportunity of a generation in emerging markets will be the ultimate result of this process. And for bonds, these events may put in the yield lows for 1998.

Doug: Europe will be going through many changes in the next couple of years with the inauguration of the common currency, how do you think this will affect their markets in the short and long term, and which markets within Europe do you favor?

Larry: We think Europe will generally continue to follow New York's direction in the short run though in terms of relative performance, Europe will outperform the U.S. over the next four years. Near term, Europe is still just a bit too popular for us, so we re-

duced our exposure last month.

The corporate restructuring theme, consolidation in banking, retailing, autos and papers, the emergence of share buybacks and a developing equity culture are the four themes, which are driving European equity markets. We are also benefiting from focusing on peripheral markets which are joining NATO now and probably EMLJ in three to five years. Relatively faster economic growth in Europe and a reduction in CB holdings of Dollars while building up Euro positions will pressure the Dollar versus the Euro and the market will discount these forces far in advance-like, now. We sold the DLR/DM at 1.80 to 1.85 and are keeping the position with a target of 1.65 to 1.70.

Sweden, Italy, and Spain are our favorite major markets. A developing equity culture, consolidation and years of economic mismanagement ending, favor these markets over core Europe.

In the U.K., the Bank of England seems intent of having a recession. They will have their way, which leaves U.K. equities vulnerable.

The Swiss market may be in for a shock if the upcoming referendum on selling the SNB's gold wins. The SF will collapse, which is great for exporters and negative for just about everyone else. For the first time in seven years, we are not wildly bullish on this market.

The Dutch market should remain strong as the restructuring trend, i.e. Philips plows ahead. The Netherlands has a solid domestic climate, robust money flows, and market friendly legislation on the way.

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Doug: What is your opinion on the strong US dollar ?

Larry: The US Dollar is headed for additional weakness due to the booming US trade deficit as a result of Asia's deflation. It is a big, unfolding negative for the US Dollar.

Doug: How about Gold ?

Larry: Gold will continue to drop due to the fact that central banks keep selling Gold to buy up their own currency so it stop to slide.

Doug: Will The Canadian Dollar keep dropping?

Larry: In the short term due to the Asian crisis it will keep dropping. But it is a very undervalued currency and Canada has great fundamentals which should bring it back somewhat.

Doug: Larry, I want to thank you for taking time out from your schedule for this interview. When we read the paper and hear about a financial crisis in Asia, it doesn't really tell us much. Your explanation of what is happening there and elsewhere in the world is probably the most informative that I've heard. I want to thank you again on behalf of my readers.

Larry: You're most welcome Doug.



Freebie from University Avenue Funds for "The Hudson Report" Readers

Daniel McCormick is the Regional Sales and Marketing Manager for University Avenue Funds. Daniel is a Montreal native and I have known him for some time. We worked together at the same firm for a few years before he joined University Avenue Funds. It was Daniel who arranged for this interview.

University Avenue has been keen on investor education for quite some time offering a free booklet entitled "Taxes & the Mutual Fund Investor".

If you are reading an on-line copy of this newsletter, you can click on the logo above to order your free hard copy of this. It will take you here:

<http://www.universityavenue.com/book.html>

The other choice is to either read this book or save it directly from my website. To do so click here:

<http://www.rrsp.org/taxes98.pdf>

I would like to thank Dan for allowing me to make this publication available to you.



Interview with Scott Parkinson - Creator of RetireWeb.

I came across this site while doing a web-search for “*rrsp calculators*”. I was so impressed with this site that I called up Scott Parkinson, the creator of this site, and asked him if he wouldn’t mind saying a few words for my readers.

Since then, **The Financial Post** also reviewed this site and had some favorable things to say about it. It was probably this review and the subsequent visits to the site that pushed the web site counter over the 100,000 visitor mark. So if you visit the site and the counter reads somewhere between

2,000 - 7,000 visits - add another 100,000.

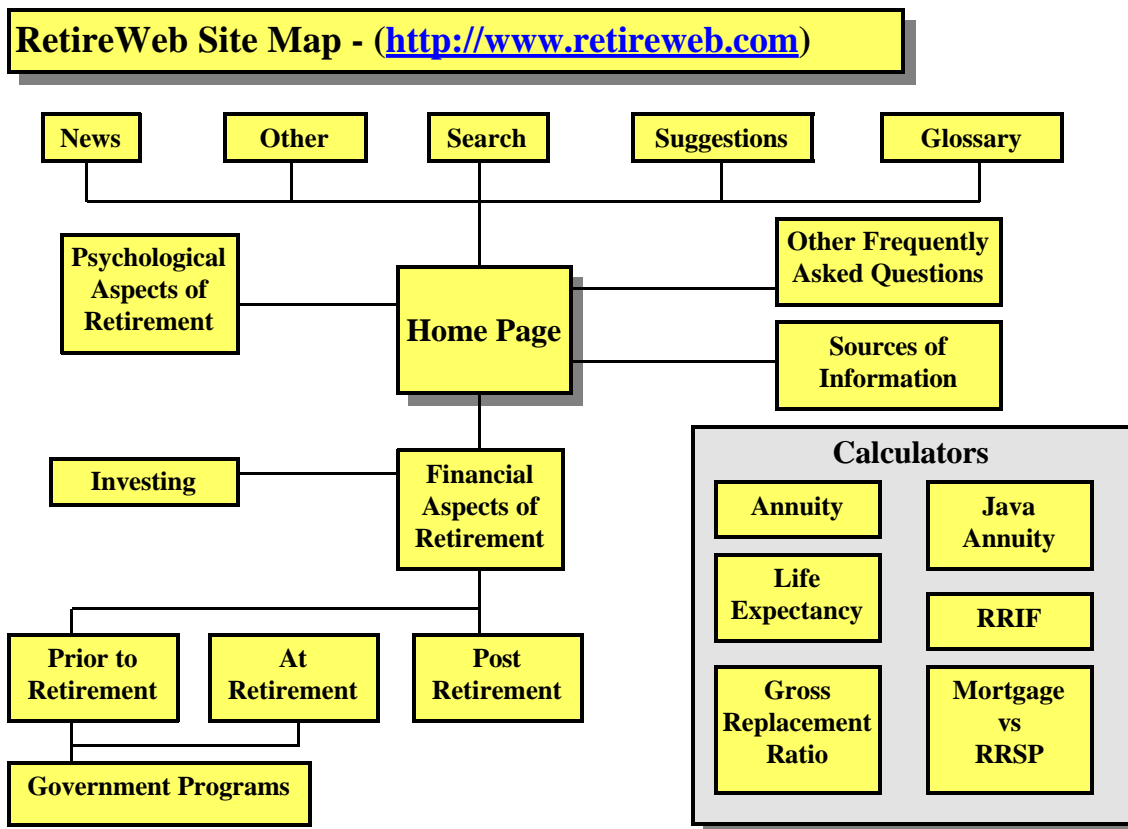
Why is this site so popular? Let’s look at the goal of this site:

The goal of RetireWeb is to become the most comprehensive and understandable source of on-line retirement information in Canada. Using a combination of down-to-earth content and special calculators this site will educate individuals and help them to make informed decisions concerning their future.

That’s exactly what it does. The beauty of this site is what you will **not find** there: flashing logos, advertisements for Barnes & Noble books, scrolling banners and the other trappings of commercialization on the web. This is a non-commercial site.

With the exception of the calculators which I will speak about in a minute, the site is writ-

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ten in simple html. What this means is that when you click on a link, the response is fast. There are no frames, the graphics are clean and simple, and there is no javascript to slow you down.

Scott is an Actuary and a Chartered Financial Analyst (CFA). He currently works for Hutchison Avenue Software Corporation (HASC) where he is the Chief Financial Officer.

Doug: Scott, I see that you won an internet award for excellence.

Scott: Yes, we won the Alexander Galt Award for Internet Excellence under the retirement/estate planning segment as awarded by Jim Carroll and Rick Broadhead in their new book Canadian Money Management Online: Personal Finance on the Net.

Doug: Can you tell me how it was that you came to build this site and how it has developed over the last few years?

Scott: This started out as a project of mine. Originally the idea was to create the most comprehensive and understandable source of a on-line retirement information in Canada. As the technology became available with internet browsers, we were able to add some calculators.

Doug: I would like to talk to you about these calculators. At the core of many of these calculators is what you call the "HASC Actuarial Kit". Can you tell me about this kit.

Scott: This kit provides the framework for actuarial and pension related calculations. The calculators at retireweb.com should give

you much the same answers that you would get should you visit your payroll or pension department at work. The actuarial tables are the same ones that we use.

Doug: I know that you are very busy at HASC. How do you get the time to look after retireweb.com as well?

Scott: Admittedly, sometimes work keeps me from devoting the time that I would like to the site. I usually find the time to get around to updating the site after a budget or when other payroll and pension legislation is introduced.

Doug: I know this has nothing to do with retireweb, but I am curious about some of the things that HASC is working on. Anything new and exciting?

Scott: Well there if you go to <http://www.marketplayer.com> you will see some of our work. This is a site that we developed to allow users to get real-time information from the stock markets. This was developed for the U.S. market. We are working on similar software for Canada including a "trader workstation" where traders will be able to "chat" on-line with other users. We also do some custom work for banks and brokerage houses. We did some of the work at globefund.com.

Doug: Thanks for taking the time to speak to my readers.

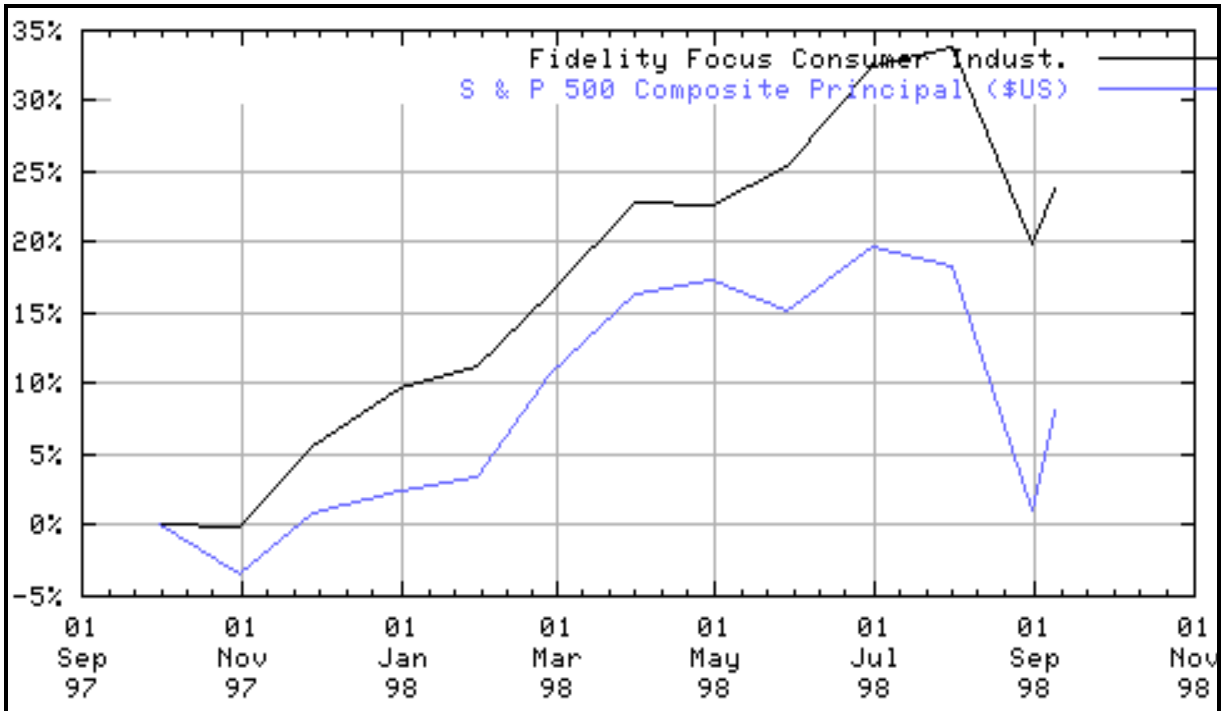
Scott: You're most welcome.



*Click here to go to
[marketplayer.com](http://www.marketplayer.com)*



Fund Review -



source: <http://www.globefund.com>

The Fidelity Focus Consumer Industries Fund

Investor Suitability

Focus Funds may be suitable for long-term investors who already have a diversified portfolio and who have a high tolerance for risk.

Before you read any further about this fund, please read the disclaimer on page 10 of this newsletter. What it says essentially is this "Don't buy a fund because I say nice things about it in my newsletter. Buy it because you have reviewed it with a qualified investment professional and it fits into the plan that you have made together to help you achieve your financial goals". Now I will say nice things about this fund.

You will also notice that I am only providing the performance for one year. The reason for this is simple - the fund's inception date is June 5, 1997. I am also comparing

a sector equity fund with the broader S&P 500 index. Some people would argue that there may be a more appropriate index to use. If this is a concern to you, have your financial advisor compare the fund to several indexes, including the sector index.

I use this fund to achieve some diversification and conservative growth in my clients portfolios. As it is considered foreign content, it can represent no more than 20% of an RRSP portfolio. Lately I have been keeping it to between 5% and 10%.

So why do I like this fund? Well the first thing that I like about it is that it is a Fidelity fund. I like Fidelity. They are the largest fund company in the world and

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have above average performance in 70% of their Canadian funds. What this gives me is the flexibility to move to another fund within the same family without a fee and with a reasonable expectation of decent performance in the new fund.

Let's look at the top ten holdings of this fund as at June 30th, 1998:

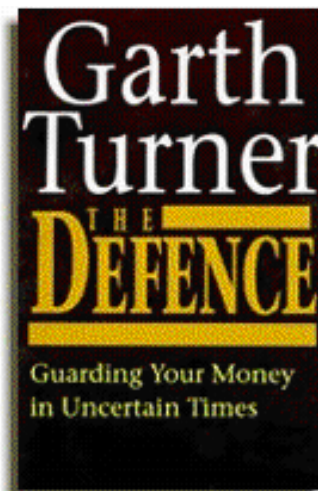
- 1) Wal-Mart Stores
- 2) Coca-Cola
- 3) Philip Morris Companies
- 4) Pepsico
- 5) Proctor and Gamble
- 6) Gillette
- 7) Home Depot
- 8) Walt Disney
- 9) Time Warner
- 10) MacDonalds

Now do you know why I like this fund?

During this recent financial crisis, did anyone read the newspaper less often, shave less, stop eating MacDonalds hamburgers, give up smoking, stop washing, drink less pepsi or stop going to the movies? I honestly don't think so. These are the kind of companies that Warren Buffet calls "wonderful companies". In fact Coca Cola, Gillette and Walt Disney are major holdings in the Berkshire Hathaway portfolio. That is why I like this fund.

In the next issue of "The Hudson Report"

- Interview with Fred Pye, President and C.E.O of @rgentum Mutual Funds - Canada's only "Quant Fund Company"
- In depth analysis of RESP's versus trust accounts for your child's education. A look at the tricks and traps with "what if" scenarios with all the numbers crunched for you.
- Book Review: **The Defence Guarding Your Money in Uncertain Times** By Garth Turner
Published by Key Porter Books
224 pages, illustrated with charts and graphs, \$22.95



This Newsletter has been prepared for you by:

Douglas F. Hudson, CMA, MBA, CFP, CD
Investment Representative,
KPLV Financial Planning
100 Alexis Nihon, Suite 595, Montreal,
Quebec, H4M 2P1

TELEPHONE: (514) 855-0505

TOLL FREE: (888) 855-KPLV

CELLULAR: (514) 830-FUND

FAX: (514) 855-0145

SPECIALTIES: Mutual Funds, Fixed Income, RRSFs, RRIFs, Insurance Products, Financial Planning, Retirement Planning, Estate Planning, Tax Planning, Leverage Strategies.

LANGUAGES SPOKEN: English and French

E-MAIL: doughudson@rrsp.org

WEB SITE:

<http://www.rrsp.org>

PROFESSIONAL

Certified Management Accountant (CMA)

Certified Financial Planner (CFP)

EDUCATION

Masters Degree in Business Administration, St. Mary's University, Halifax, Nova Scotia, 1982. **Bachelor of Arts (Honors)** in French from St. Thomas University, Fredericton, New Brunswick where he won two academic awards: 1) The Dr. Marguerite Michaud prize for studies in French Canadian literature and 2) The Romance Department prize for studies in linguistics. The third year of this program was transferred from l'Université Laval.

BACKGROUND AND EXPERIENCE

Doug has spent the last five years in the financial services sector. Prior to that Doug worked for the federal government as a budget administrator and internal auditor. This followed several years as a comptroller for a medium-sized firm and several years with KPMG as an accountant.

Useful Links

Fund Performance:

<http://www.globefund.com>

<http://www.fundlibrary.com/home.cfm>

Financial Advisor Pages

<http://www.fapages.com/links.cfm>

Garth Turner's Website

<http://www.garth.ca/Default.html>

DISCLAIMER

Don't buy anything based upon what you read here! That's not how you buy mutual funds, invest or conduct your financial planning. You buy investment funds after having sat down with a qualified, licensed professional and after having determined that the fund in question meets your requirements and that it fits into your overall plan. Always take the time to read the fund's prospectus. Fund companies spend a lot of time and money paying accountants and lawyers to prepare these things - read them. Ask your financial advisor about what you read in the prospectus. Go over the financial statements, and the comparative performance figures found therein.

If you don't know of a qualified financial advisor in your area, send me an email and I will try to help you find several to choose from.