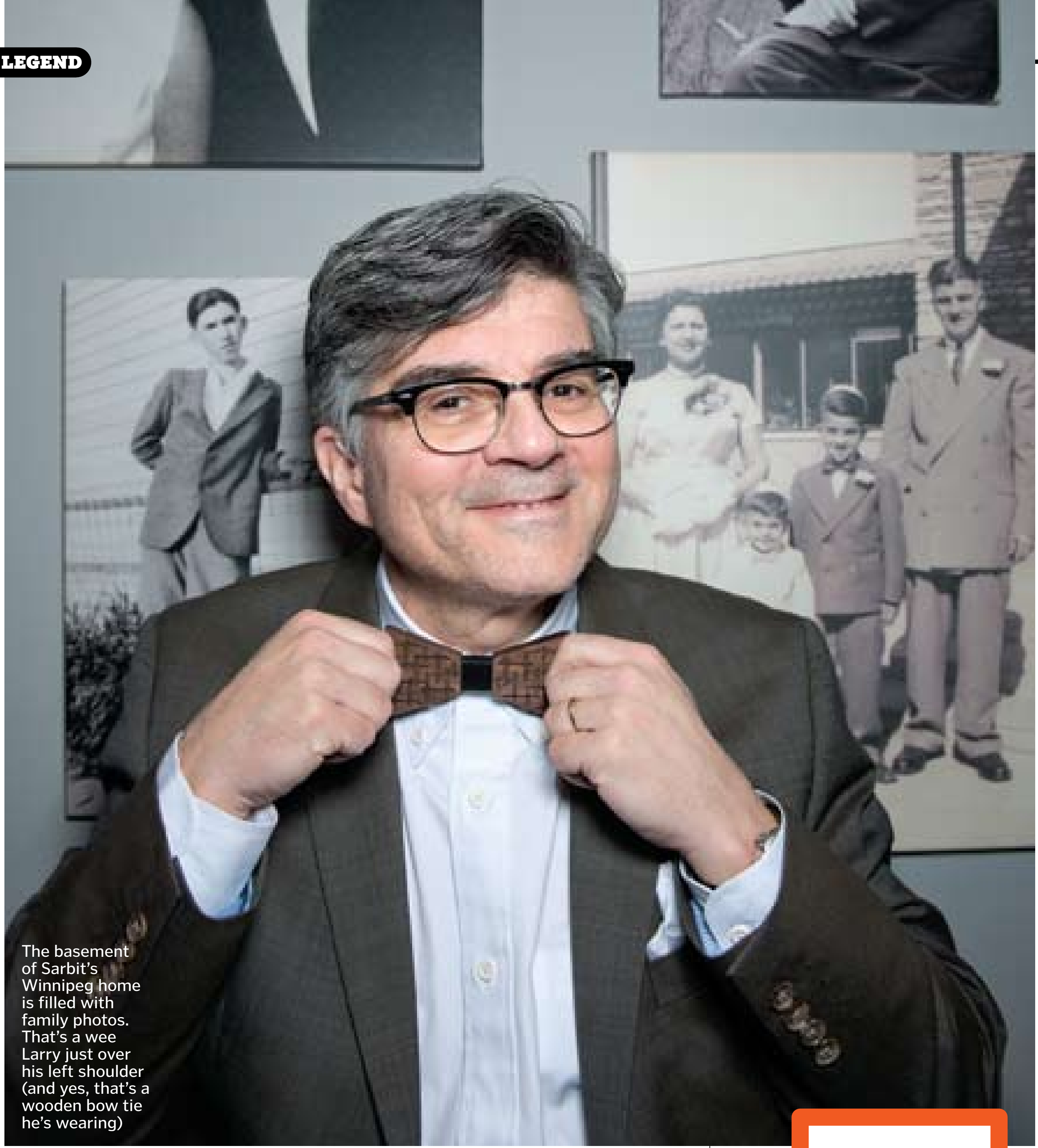
Larry Sarbit

The 62-year-old founder of Winnipeg-based Sarbit Advisory Services has spent 25 years running U.S. stock funds—using a Buffett-inspired value approach—and now oversees $1.5 billion in assets.



The basement of Sarbit's Winnipeg home is filled with family photos. That's a wee Larry just over his left shoulder (and yes, that's a wooden bow tie he's wearing)

PHOTOGRAPHS: (SARBIT) THOMAS FRICKE; (COXE) LARRY MACDOUGAL

How easy is it to find cheap stocks?
It's more difficult to find bargains. But valuations are nowhere near the beginning of the century, one of the most extraordinary periods in financial history, when stocks, on average, traded at 40 or 50 times earnings. More recently, they have been in the high teens. We like great businesses trading at low double-digit or single-digit price-to-earnings multiples, but we have no problem paying up if we have a high degree of certainty that a company is going to be worth a lot more in the next three to five years.

Where are you finding opportunities?
We own 12 stocks in the U.S. equity fund. Satellite radio service Sirius XM is our largest holding. It's a business with a high degree of predictability. The number of subscribers keeps growing—about 68 million cars today, and the estimate is about 120 to 130 million in five years. We love repeatable revenue companies with huge barriers to entry. That's why we also own stocks like Microsoft, QVC and Twenty-First Century Fox.

You run a fund of companies targeted by activist investors. How risky is that?
Activist involvement produces better-than-average rates of return. The problem is, there is no certainty they're going to succeed. So, why not wait until the activist gains control, convinces management to do what it wants, or gets on the board? You don't miss a lot of the returns at all. To us, an activist is an agent of change. We don't care if the changes come from inside or outside.

What was your best investment?
One was private student loan provider Sallie Mae. When Bill Clinton came in with a program to issue loans directly to students, Sallie Mae's stock got slaughtered. Investors were afraid this was going to be the end of the company. However, we did calculations and found that if Sallie Mae just ran with loans it had on the books, the company was worth more than the stock price. But Sallie Mae continued to grow. We made multiples on that stock.

What was your worst investment?
We lost money in Smart Technologies, a rare Canadian investment in the current U.S. equity fund. It makes whiteboards aimed at replacing chalkboards in schools. We thought it had a sustainable, competitive advantage. But we did not foresee the extent of problems, such as tight state education budgets. The stock got hit and has yet to recover.

What advice would you give investors?
Think about return of capital. We try to find a few terrific companies that we know are going to be worth more in three, five and 10 years. You can make a lot of money in a few companies. It is not done by spreading capital over 100, 200 or 500 stocks. On the other hand, when everyone around you is terrified and dumping their stocks at bargain prices, you should see this as a wonderful opportunity to buy.

/Shirley Won

Favourite...

METRIC
Free cash flow. "This is the end game for all businesses"

INVESTING BOOK
Psychology and the Stock Market: Investment Strategy Beyond Random Walk by David Dreman