

Robert Marcus resurfaces

TORONTO (GlobeinvestorGOLD) - In the 2000 edition of my Buyer's Guide to Mutual Funds, my co-authors and I paid homage to the top managers of the 1990s. Our clear-cut choice for Fixed-Income Manager of the Decade was Robert Marcus, who had been at the helm of the Altamira Bond Fund since 1991. During his tenure, he generated an average annual compound rate of return of 11.6 per cent for investors, making it the top-performing bond fund in Canada during the '90s. That's the kind of result most bond fund investors can only dream about.

At the time, we wrote: "Part of his success was being in the right place at the right time. Marcus took over the fund just as interest rates began a long downward slide. But it's one thing to be handed an opportunity. It's another to have the skill to take maximum advantage of it."

Ironically, Mr. Marcus was gone from Altamira within two years after being honoured when the company was sold to National Bank, which proceeded to install its own team. But now he's resurfaced and he thinks he may again be in the right place at the right time.

Mr. Marcus, along with another ex-Altamira manager Edward Jong, teamed up to start Majorica Asset Management, an independent Toronto-based company that focuses on fixed-income money management. Their first venture was the Majorica Bond Fund, which was launched in June, 2004. It has consistently outperformed the Scotia Capital Universe Bond Index, however because the fund has only been available through offering memorandum it requires a minimum initial investment of \$20,000 and has received little attention.

But now Mr. Marcus is back in the mainstream (sort of) with his recent appointment as lead manager of the new frontierAlt All Terrain Bond Fund, which has a minimum investment requirement of only \$500. Yes, it's a strange name and you've probably never heard of the company which describes its mission as focusing on leading-edge products (the website features pictures of a rock climber, mountain bike cyclist, and sports car driver to illustrate the point).

You'd think that a money manager with a track record like Mr. Marcus offers could have hooked up with a major company - there are lots of mediocre bond funds out there that could use a boost. But he says he likes the freedom offered by frontierAlt.

"This fund has more flexibility than Altamira Bond," he explains. "We can go up to 100 per cent Treasury bills in bad markets if we wish. So we have a lot of room to manoeuvre."

Of course, he's not thinking T-bills these days. In fact, he believes we're at a "unique juncture in the interest rate cycle in terms of the Federal Reserve Board and the Bank of Canada. It's clear to me that the next move is lower rates."

Mr. Marcus points out that whenever the central banks have entered a pause stage in the interest rate cycle "the next 12 months have been great for bonds." He's positioning his portfolio to take advantage of that, investing entirely in government bonds which he expects will outperform corporate issues by a wide margin in the coming months. As with Altamira Bond, his emphasis is on long-term issues - the fund currently has a duration of 12.6 years, about double that of the Scotia Capital Universe Bond Index.

An expected decline in interest rates isn't his only reason for feeling bullish. He also sees upward pressure on Government of Canada bond prices because of the supply-demand situation. The country's

strong fiscal position is creating budget surpluses which are being used to retire debt - some \$13-billion worth thanks to the 2005-2006 surplus. That reduces the supply of federal bonds just at a time when investors want more.

Looking across the border (about 15 per cent of his portfolio is in U.S. Treasury bonds, currency-hedged), he sees pressure mounting on the Fed to reduce rates because of the sagging housing market which is experiencing its first drop in home prices in two decades.

“About half of the Fed’s rate cuts haven’t even had an impact on the economy yet,” he says. “American consumers have been borrowing money against their home equity to spend and the country’s debt to equity ratio is now at an all-time high. Despite this, the Fed will probably wait too long to lower rates and this will induce a significant slowdown next year and perhaps a recession.”

Normally, recession is a bad word in the lexicon of investors. But when it comes to long-term bonds, there’s nothing like a full-blown economic downturn to propel prices higher and that’s when managers like Marcus shine. Look for his new fund to turn in impressive numbers in the coming months.

However, I have one problem with it. The expected MER is around 1.75 per cent, on the high side for a bond fund. Mr. Marcus has proven he’s a superior manager. He’s going to have to be if he is to overcome that disadvantage.

The fund is sold on a front-end load basis with a maximum commission of 5 per cent, but you should try to get your units for zero commission. Ask a financial advisor if it is appropriate for your account.

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