

OUTSTANDING RECORD

Keen nose for young growth firms provides key to Formula's success

By Amy Booth
MONTREAL

ONE OF THE most outstanding records in the Canadian mutual fund industry is held by Formula Growth, a Montreal-based fund.

It started 24 years ago as an investment club (a young lawyer named John Turner was one of the original group and its first treasurer, now of course he's Prime Minister). The fund has been so successful that it has taken itself off the market to avoid becoming too large.

And its success shows how a consistent investment policy has built an initial \$160,000 into a fund worth almost \$50 million today.

The average investor has probably never heard of most of the securities in the Formula Growth fund. Even so, there are some exceptional winners that have kept it among the top-ranking mutual funds.

It bought Cousins Properties' shares, for example, for \$127,000 in 1977. At the end of last year, the holding had a value of \$1.2 million.

It's the same story with Charter Medical: the class A stock, acquired for \$93,000 in 1979, is now worth \$1.1 million; and H-mana has put on almost \$1 million since its purchase in 1979, as have Service Merchandise (bought in 1977) and Jackson National Life (bought in mid-1980).

Searching

Finding these successful young growth companies before, as President John Dobson puts it, "they get into the Merrill Lynch system," is now the raison d'être of Formula Growth.

Almost all the firms are based in the U.S., where Dobson says there is a growing network of regional brokers who are promoting such companies:

"We deal with 40 brokers and go to about 20 regional meetings a year where we hear about new companies coming on the market."

The fund seldom goes into the traditional venture capital situation, but many of its holdings are in what is now being called the mezzanine financing category — that is, one stage before an initial public offering.

That hasn't always been the case. Formula was started in July, 1960, as an investment club by 11 friends, among them Dobson and Turner.

Dobson finds it amusing that the fund has had three treasurers: the first was



Prime Minister Turner (seen here at the Liberal Party leadership convention) was one of Formula's founding members

Turner, the second Donald Johnston, a Liberal leadership hopeful and now minister of Justice. However, the current incumbent, Stuart Cobbett, is a staunch Conservative.

Each of the friends put up a minimum of \$10,000 and set up business with a fund of \$160,000. They'd all been looking for new investment opportunities on their own, but there didn't seem to be much in Canada that was exciting, Dobson recalls. "The Common Market was off and running and some of us were trying to make a few investments in Europe."

The geographical strategy has adapted over the years. There have been investments in Costa Rica and at one time as much as one third of the portfolio was in Japanese stocks.

That began to change after the capital gains tax was introduced into Canada in the early 1970s. "Accounting for Japanese stocks was unbelievable after the advent of capital gains," Dobson says.

Now, the portfolio is almost entirely in the U.S., where "we can keep tabs on our companies." At last report, these numbered 90.

One thing that hasn't changed is the "formula" that provided the fund's name.

It is a simple but stringent one: all stock held should be capable of growing at a rate of 20% a year. The time span is relatively short: the fund looks for stocks that will be performing well in one-three years' time.

If the 20% growth target isn't met, the stock is sold. If the stock performs well, it is

held unless the price/earnings multiple exceeds 25, when the holding is reduced to 1% of the total fund. In addition, no holding can form more than 7% of the portfolio.

Dobson says he gets calls from people wishing to buy units in the fund, but there is no longer any prospectus issued so the fund is effectively closed to the public. Currently there are about 300 shareholders.

The major reason is size: "If the pool gets too big, we'd not be able to function as we're doing now."

With \$47 million of total assets (as of June 30), it's necessary to make investments of about \$400,000, or 1%, at a time in order for a holding to be meaningful.

Management philosophy is, however, laid back — the job gets done but a few laughs along the way are a prime ingredient. Dobson, now 55, has a ready wit and, it sometimes seems, knows everybody.

He became president in 1962 when the founding group could no longer handle the workload by meeting in each other's houses every Tuesday night. He has degrees from McGill and Harvard, and spent seven years at Dominion Engineering Works as assistant to the president.

The fund is run by a handful of people — six in all and not all full-time.

"We like to do the work ourselves, to get to know the companies we invest in and how they operate. If we were to become too big, we'd be managing staff, not investments," Dobson explains.

Top five-year growth

1. Formula Growth	+218.4%
2. AGF Special	+206.7%
3. Taurus	+170.4%
4. Goldfund	+169.9%
5. American Growth	+165.6%
6. Cundill Value	+161.7%
7. B Tremblay Int'l	+152.7%
8. Dynamic Am	+139.2%
9. Guardian Enterprise	+140.5%
10. Dominion of Cda Gen	+142.0%

• Eligible for RRSP's

Top 10-year growth

1. Formula Growth	+1033.9%
2. AGF Special	+898.1%
3. Taurus	+826.2%
4. MD Growth Invest	+806.1%
5. Templeton Growth	+845.9%
6. Cundill Value	+587.9%
7. Growth Oil & Gas	+482.7%
8. AGF Japan	+469.0%
9. Eaton/Bay Int'l	+462.4%
10. Phillips H & N Fund	+447.5%

• Eligible for RRSP's