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THE NEXT BUFFETTS

THE WORLD'S GREATEST INVESTOR IS GROWING OLD. THE GOOD NEWS IS THAT WE'VE IDENTIFIED FOUR MONEY MANAGERS WHO REMIND US A LOT OF THE MASTER

BY IAN McGUGAN

Anyone who thinks Warren Buffett is past his prime should have seen the world's richest man tossing off one liners and charming the crowd at the Toronto Board of Trade earlier this year. Whether he was discussing his philanthropic endeavors (where he's teamed up with his good buddy Bill Gates) or how mortgage-backed securities poisoned the U.S. financial system ("the people that brewed this toxic Kool-Aid found themselves drinking a lot of it in the end"), the rumpled billionaire was as charismatic and as quotable as ever.

We hope that the greatest investor of all time has many, many good quotes left. But we also have to acknowledge reality. Buffett is 77 and even his steady diet of Cherry Coke and hamburgers can't keep a guy going forever. Investors who would like to put their money into Berkshire Hathaway, Buffett's flagship company, have to deal with the unpleasant fact that Buffett may be on his last lap or two as champion of the stock market marathon.

That raises a fascinating question: who is the next great Buffett-like investor going to be? He or she must be a great stock picker, of course. But that's just the beginning. What distinguishes Buffett is not only his stock market acumen. It's also his willingness to state his opinions in plain English, his independent turn of mind, and his willingness to treat investors as if they were his partners.

With that in mind, we went in search of younger investors with some of those same characteristics. We found four people in Canada and the U.S. who, in our admittedly subjective estimation, remind us of the master. One runs a hedge fund, one heads an investment trust, and the remaining two lead public companies. Each has demonstrated an ability to invest well. Each has been willing to go against the crowd and make courageous investing decisions. Each writes a Buffett-style letter to investors.

While we can't guarantee that these investors will do anywhere near as well over the next decade as Buffett has done in the past, each of them has already displayed some moves that remind us of the great man. Whether you're looking for a place to park your money or simply some smart investing commentary, we think they deserve your attention.

PREM WATSA
FAIRFAX FINANCIAL
TORONTO

WHO IS HE? The 56-year-old CEO of Fairfax Financial Holdings has often been called the Buffett of the North. He's run his insurance holding company since 1985 and has grown its share price by an average of 26% a year during that time.

BEST CALL Watsa and his investment team realized way back in 2003 that the U.S. housing boom was built on a shaky foundation of debt. They bet on a collapse in the mortgage market by buying what are called credit default swaps (CDS), a form of insurance against bad loans. Last year, Watsa's CDS position soared in value as U.S. home loans soured. He turned a $341-million investment into a $2-billion-and-counting payoff.

WORST CALL In 1998, Watsa acquired two U.S. insurers—TIG and Crum & Forster. Both were disasters and led to seven long years of dismal results for Fairfax.

WHY HE'S LIKE BUFFETT Watsa, too, is a value investor. And just as Buffett has built his empire around Berkshire, which is primarily an insurance company, Watsa has built his empire around Fairfax, which is also an insurance company.

WHY HE'S NOT LIKE BUFFETT Watsa is comfortable with far more debt and much higher risk levels than Buffett has been. Case in point: Watsa's ill-advised U.S. acquisitions. From 2004 through 2006 some investors questioned whether Fairfax could survive.

WHAT HE'S DOING NOW Watsa believes we are in the early stages of a massive unwinding of debt. He is preparing his company for a once-in-a-century financial storm. He has 80% of Fairfax's portfolio invested in ultra-safe treasury bills and government bonds. "Prolonged periods of prosperity lead to leveraged financial structures that cause instability," writes Watsa. "We are witnessing the after effects of the longest economic recovery (more than 20 years) in the U.S. with the shortest recession (2001). Regression to the mean has begun—but only just begun!"
HOW TO INVEST Fairfax trades on the Toronto and New York exchanges under the ticker FFH. To learn more, read Watsa's annual letters to shareholders at www.fairfax.ca. They're informative, plain-spoken and always interesting.

TIM McELVAINE
McELVAINE INVESTMENT TRUST
VANCOUVER

WHO IS HE? McElvaine, 44, is a native of Kingston, Ont., and a graduate of Queen's University. He qualified as a chartered accountant and earned his Chartered Financial Analyst designation before going to work for Peter Cundill, the famed value investor and fund manager, in 1991. Five years later, McElvaine set up the McElvaine Investment Trust.
BEST CALL The McElvaine Investment Trust has produced 14% average annual returns for investors since 1997, more than doubling the results of a typical Canadian equity fund. It has never lost money over the course of a year.
WORST CALL The Trust has produced decent returns over the past four years, but it has lagged behind the Canadian stock index during that period. Last year it managed to produce only a meagre 0.6% gain. McElvaine's big sin? He's decided to sit out the mad rush for commodity stocks. "I'm the only money manager I can think of to have entirely missed the oil and gas boom," he says.
WHY HE'S LIKE BUFFETT McElvaine is funny, self-deprecating and likeable. He also makes a point of eating his own cooking—98% of his personal portfolio is invested in his fund. Like Buffett, he regards buying a stock as buying a piece of the company. Consequently, he looks for stable, undervalued companies that can withstand economic storms and that aren't tied to cyclical industries. He particularly likes companies that are headed by owners who have their personal fortunes tied up in their enterprises. At the end of 2007, his holdings included Glacier Ventures, a publisher of small-town newspapers in Western Canada; Maple Leaf Foods, the Toronto meat packager; and Citadel Broadcasting, a U.S. radio broadcaster.
WHY HE'S NOT LIKE BUFFETT McElvaine is a fund manager, not a CEO. That means he charges annual fees: 1% of your investment, plus 20% of any gains over 6%. Also, in contrast to Buffett's sprawling empire, McElvaine runs a highly concentrated portfolio focused on a handful of what he considers outstanding values. At the end of 2007, a mere eight stocks made up 85% of his holdings.
WHAT HE'S DOING NOW Not much, according to McElvaine. "I make Homer Simpson look active," he insists. But all jokes aside, he's always on the lookout for undervalued stocks and special situations. The classic McElvaine holding is a firm of significant size in its own industry, with a reasonable debt load, headed by an owner-CEO who is in the middle of restructuring the company. "Take Michael McCain at Maple Leaf Foods," says McElvaine. "He's very focused on taking his company out of commodity products and into branded lines. If he can get it done the stock is worth significantly more than it is now."
HOW TO INVEST The McElvaine Investment Trust is open only to qualified investors, which means that the minimum investment is anywhere from $10,000 to $150,000, depending upon your province of residence. For more info, visit www.mcelvaine.com—and, while you're there, make a point of reading McElvaine's annual letters. They're both fun and illuminating.

DR. MICHAEL BURRY
SCION CAPITAL
CUPERTINO, CALIF.

WHO IS HE? Burry, 36, studied economics at UCLA, but despite a long-standing fascination with the stock market, stuck to his original plan of becoming a doctor. In 1995, as he was finishing his training at Vanderbilt Medical School, his father died and Burry began investing a small amount of trust money. Two years later, he launched his own website and began to write about stocks in the only time he had free—between midnight and three in the morning. His dissections of value stocks attracted a following and in 2000, *Forbes* magazine named his hobby site as one of the top investing destinations on the web. By then Burry was in the third year of a residency in neurology at Stanford University Medical Center and he figured it was time to choose between medicine and money management. He set up a hedge fund, named it Scion Capital, and became a full-time investor.
BEST CALL Burry's flagship fund has achieved a cumulative net return of about 455% after fees, or more than 20% a year, since 2000. Last year the fund soared 138% in value thanks to a huge bet that Burry had made on the subprime mortgage market. In similar fashion to Watsa, he had invested in credit default swaps and saw them nearly quadruple in value as the underlying loans started to default.
WORST CALL After a string of big early victories, Burry hit a rough patch. In 2004 and 2005, the Scion Value Fund generated only single-digit returns. In 2006, it lost 18% of its value, largely as a result of Burry's bet against the subprime mortgage market.
WHY HE'S LIKE BUFFETT Burry works largely by himself and offers only limited disclosure about what he's up to. He describes himself as a "contrary-minded individual" who profits by working far away from the "groupthink capital of the world"—New York. He made a killing in 2002 by buying up the distressed debt of WorldCom, the failing telecom firm. He cashed in again a year later by moving into South Korean stocks, which after a decade of inactivity had finally started to chug ahead.
WHY HE'S NOT LIKE BUFFETT Burry's willing to run bigger risks than Buffett—at least the current Buffett, that is. He's more comparable to the young Buffett of the 1950s and 1960s, who ran a free-wheeling investment partnership before settling down to manage Berkshire Hathaway.
WHAT HE'S DOING NOW. Waiting. Burry believes U.S. home prices still have lots of room to fall. His flagship funds are about half in cash,

waiting for opportunities to emerge from the chaos he sees ahead. "I see the virtuous circle of the past few years turning into a vicious spiral," he says. "All the good things that came with rising home prices are now going to occur in reverse."

HOW TO INVEST That can be a challenge. Burry won't discuss minimums or fees; would-be investors have to go to his website (www.scioncapital.com) and request info.

IAN CUMMING
LEUCADIA NATIONAL
NEW YORK

WHO IS HE? Cumming is a decade younger than Buffett, which puts him at a sprightly 67. He's a Harvard MBA who has been chairman of Leucadia since 1978. Together with partner Joe Steinberg, who serves as Leucadia's president, Cumming has built a long-term track record of investor returns that is actually slightly better than Buffett's. He does it primarily by looking for broken down, unwanted companies that he can fix and sell for a profit.

BEST CALL One of his best deals came in 1991, when he bought Colonial Penn, a troubled insurance company, for $128 million. He sold it six years later for $1.3 billion.

WORST CALL Cumming hasn't made a lot of missteps, but his forays into developing medical products are a money-losing disappointment, at least for now.

WHY HE'S LIKE BUFFETT Cumming looks for deeply undervalued companies and is willing to invest in a myriad of industries. He owns a timber producer, a plastics maker, an iron ore miner, a casino, real estate, wineries—and the list goes on.

WHY HE'S NOT LIKE BUFFETT While Buffett rarely sells a company that he's acquired, Cumming is happy to flip his investments. And while Buffett likes companies that make branded consumer products, Cumming has much of his money invested in low-cost producers of commodities. He's particularly fond of buying companies with tax loss carryforwards and using those losses to help shelter Leucadia's earnings. Unlike Buffett, Cumming has no public profile and never gives interviews.

WHAT HE'S DOING NOW He's buying into AmeriCredit, a U.S. auto finance firm, and pouring money into an Australian iron ore project as well as into a company developing synthetic hemoglobin. But his outlook is definitely mixed. Consider this nugget from his 2006 report, in which he discusses the creative tension between his outlook and that of his partner Steinberg: "One of us thinks the sky is falling and the dollar on the edge of debasement. One of us thinks the efforts of half the global population who struggle toward a western standard of life and liberty will cause a global bull market that could last a long, long time."

HOW TO INVEST Leucadia trades on the New York Stock Exchange under the ticker LUK. Before making any investment, go to www.leucadia.com and read Cumming's annual letters to gain a sense of Leucadia's far-flung operations. M

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