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[Gordon Pape](#)

TORONTO (GlobeinvestorGOLD) -- For years, I have been praising the fine performance of the little-known Chou Funds in my annual Buyer's Guide to Mutual Funds. Not only have they been terrific performers, but they are run by a man who should be an example to the entire fund industry.

His name is Francis Chou. His primary occupation is as a senior executive with Fairfax Financial Holdings Ltd. in Toronto and runs his funds, which began as an investment club, more-or-less on the side.

He is a dedicated value investor who refuses to overpay for a stock and who avoided the tech craze in the late 1990s. His comment to unitholders summed up his philosophy: "Paying 500 times for hot air is not an investment, it's pure speculation." His decision to eschew technology issues hurt performance in the short term, but it paid off for his investors when the bubble burst.

Sticking to your investment strategy (assuming it's a sound one) is a key to money management success, but that's not the only thing that has impressed me about Mr. Chou. Believe it or not, there have been years when he has actually reduced his already modest management fee because the funds didn't perform to his exacting standards and he didn't feel it was fair to charge investors the full nickel. How often have you heard about that happening? In my experience, almost never.

There are two Chou funds available. The Chou RRSP Fund is a Canadian equity fund that we rated a top \$\$\$\$ in the 2002 Buyer's Guide. It gained a remarkable 26.4 per cent in the year to Feb. 28, at a time when we were experiencing a bear market and the average Canadian equity fund was registering a loss. Five-year average annual compound rate of return is 18.8 per cent, the 10-year average is 14.3 per cent, and the 15-year average is 11.7 per cent. So there's real consistency here. What's even more impressive is that these results have been achieved with below-average risk.

I have developed a measure of fund consistency, called Average Quartile Rating (AQR), using figures available through Globefund. A rating of one is perfect, meaning the fund was in the top quartile of its category for the entire period being examined. A rating of four means it was consistently in the bottom quartile. The Chou RRSP Fund shows a very good AQR of 1.75 over the seven years to the end of 2001 and the first two months of 2002. During that time, only two years were below average in relation to the peer group.

The Chou Associates Fund is a U.S. equity fund, and it gets a \$\$\$\$ rating as well. It also has an AQR of 1.75 and gained 30 per cent in the past 12 months. Average annual return over 10 years was 16.4 per cent; over 15 years it was 13.5 per cent. Here again, risk was well below average.

Our one complaint has been that the Chou Funds have been hard to buy. The distribution network is limited, and they have been available only in Ontario. Now Mr. Chou has taken steps to rectify that. The funds are now available in all provinces from Ontario to B.C., and in Nova Scotia.

He is also reducing the minimum initial investment for the RRSP Fund to \$10,000, from the current \$25,000. The higher minimum will stay in place for the Associates Fund in order to, as he puts it, "deter speculators from coming in and out of the funds, hurting the long-term unitholders in the process."

As well, he is seeking to get a Dealer registration by July 1 so that interested investors can purchase the funds with zero-per-cent commission. At present, the funds have Limited Market Dealer registration. This means that only "accredited investors" can purchase the funds free of charge through the company. To qualify as an accredited investor, a person has to meet one of two criterion: a financial net worth of \$1-million or pretax income from all sources of \$200,000 per year for the last two years.

If you don't currently qualify and want to buy units, Mr. Chou says they can be obtained for a 1-per-cent front-end load through a brokerage house in Toronto. You can e-mail him at fchou@choufunds.com and he will direct you to the right broker.

Gordon Pape is one of Canada's most respected financial authors and the nation's leading expert on mutual funds.
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