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STRATEGY LAB

Fund manager beats pack by steering around disaster

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Mountain bikers tested their mettle – and metal – earlier this month against the Hardwood Hills 50km Single Track Challenge, which took place just north of Barrie, Ont.

The riders careened down narrow paths while desperately trying to avoid an overly intimate encounter with the surrounding trees. Those with a sharp eye might have spotted money manager David McLean cruising by.

If you're like me, the thought of such a long ride through the wilderness is exhausting. But it's the 47-year-old's stock-picking prowess that should leave you gasping.

Mr. McLean runs the ROMC Fund, which gained an average of 16.1 per cent a year over the

The mystery of how he made money during the collapse is best revealed by starting at the beginning.

Mr. McLean launched the ROMC fund in the fall of 2007 with his own money and the desire to stay true to his investment philosophy. It's one reason why ROMC stands for Return On My Capital.

That's not to say that he hasn't been influenced by others. He clearly admires the approach taken by Warren Buffett, who transformed Berkshire Hathaway (BRK.A-NYSE) from an ailing textile concern into the massively successful company it is today.

He even modelled his fund after the partnerships Warren Buffett ran in the 1960s before taking up the reins at Berkshire Hathaway. Like those partnerships, Mr. McLean earns a fee when his fund gains more than 6 per cent a year. If he beats that mark, he collects 25 per cent of the excess. Otherwise he doesn't make a dime.

He also takes after Mr. Buffett when it comes to picking stocks. In a nutshell, he favours quality firms trading at reasonable prices that can be held for long periods.

More unusually, he happily focuses on only a very few stocks that he likes the most. These days his fund holds a grand total of eight stocks, which represents an extraordinary level of concentration. Most funds hold dozens of stocks.

The emphasis on quality and concentration starts to explain how he avoided losing money in the bruising collapse of 2008 despite being fully invested in the markets.

But it was his savvy decision to load up on

FFH-T (/investing/markets/stocks/FFH-T/) +2.19% ▲ (FFH-TSX) and its subsidiary aviation, energy, marine and property markets.

Mr. McLean particularly likes the firm's underwriting discipline – a vitally important factor for insurance companies. He also appreciates how its common-sense management team deploys capital.

Dividend investors will note Lancashire's habit of paying out large special dividends. S&P Capital IQ reports that the stock yields 16 per cent, based on the dividends it paid out over the last 12 months. However, as with all special dividends, that may change next year. With a bit of luck, Lancashire will pay for more than a few bike rides.