

Small-cap prophet vindicated

Peter Hodson's job is getting less stressful every day. Only a few months ago, he was out in the cold, struggling in vain to convince investors that the beleaguered small-cap market was finally beginning its long-awaited recovery.

Now, small caps are regularly stealing the spotlight from their big-cap brethren and investors are falling all over themselves to stake a claim in the red-hot sector.

"After doing nothing for five years, small-caps are enjoying a big rebound effect. My life is a lot easier these days," said Hodson, portfolio manager for Synergy Mutual Funds' Canadian Small Cap Class Fund.

"I had thought the recovery would be sure and steady, but it's turned out to be pretty dramatic. The tide has turned completely. The whole world is gravitating to small-caps."

Indeed, in November, when Hodson addressed a financial advisers' conference in Vancouver, he had forecast a "stealth rebound" and anticipated that it would take until at least the second half of 2000 for investors to start getting excited.

"Things definitely took off a lot faster than anyone expected," said Hodson, who is predicting that small-caps will have no problem achieving double-digit returns this year. His own fund, which has about \$16 million in assets, is up 43.4 per cent in the 12 months to Jan. 31.

The small-cap revival is being fuelled by several factors, the Toronto-based portfolio manager said.

With Y2K issues now history,

Barbara Aarsteinsen

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Canadian portfolio manager comes in from the cold as investors rush to get a stake in the red-hot sector.

investors are shedding their blue-chip security blankets and getting a little more adventurous, he suggested.

The tech boom has also trickled down from the big-cap sector, with many investors determined to find the next market darling while they can get still in on the ground floor.

Then, the launch of the Canadian Venture Exchange has given Canadian small-caps a new profile. As was intended, many people who would never have invested in companies listed on the Alberta and Vancouver stock exchanges are now shedding their qualms and embracing the CDNX as a fresh start.

With the small-cap outlook thus strengthening, Hodson said the financing picture has gone on to brighten for many companies.

A year ago, raising money in the sector was next to impossible. Now, with stock prices picking up and liquidity improving, that shutout has ended and firms are expanding and hiring, he said.

That makes them even more attractive to investors, thereby resulting in a virtuous circle where the prospects just keep getting better and better.

"A year ago, a lot of compa-



nies had basically closed down the hatches and were just trying to survive," the portfolio manager said. "Now, as they're getting attention, they've got the ability to finance growth. Things have completely changed."

B.C. in particular, stands out as a hotbed of small-cap activity, said Hodson, who was visiting Vancouver and its environs this week to check out prospects.

Success stories like PMC Sierra Inc. and Ballard Power Systems Inc., which are both based in Burnaby, are helping to put the province on the investment map, he said.

"The whole investment community is watching B.C. very closely these days," Hodson said. "Because of the Worldwide Fiber IPO, the whole world is going to be looking at B.C. companies."

Vancouver-based Worldwide Fiber Inc., a fibre-optic company that changed its name to 360networks, filed in January to sell stock to the public.

The company recently agreed to buy GlobeNet Communications Group Ltd. for about \$600 million in stock and \$400 in assumed debt. GlobeNet, which is based in St. David's, Bermuda,

is developing an undersea cable communications network.

Among the other B.C. companies that have grabbed Hodson's attention are: Inflazyme Pharmaceuticals Ltd., Intrinsic Software Inc., Westport Innovations Inc., Triant Technologies Inc., eDispatch.com Wireless Data Inc. and Sierra Wireless Inc.

Next door in Alberta, Hodson is also keen on Wi-Lan Inc. and Global Thermoelectric Inc., both Calgary companies. Wi-Lan, in particular, has turned out to be a star performer.

Hodson thinks the small-cap rally is still too narrow, with too great a concentration on technology stocks.

However, he expects the focus to broaden during the next several months as investors get a little more cautious about the tech high-flyers and more open to sure-and-steady old economy standbys.

He doesn't believe the tech bull run is necessarily losing steam, but he thinks the kind of volatility the markets saw this week will spur some investors to start looking more at fundamentals instead of chasing speculative potential.

Hodson said many portfolio managers are being cornered into concentrating heavily on tech stocks because of the stellar returns many issues have enjoyed. But he has tread carefully in the sector, he said, explaining that his goal is solid returns with minimal risk.

"Our firm is really trying to focus on risk-adjusted returns. Our philosophy is that good returns with less risk is better than great returns with a lot of risk."

