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YEN DIRECTION

Devaluation scares aside, traders look at the yen's movement in 1999. Page C12

* Value Contrarian manager straps in for continued ride



PATRICK BLOOMFIELD
Inside The Market

After Friday's mid-session attempt to put a better market face on this troubled world of ours, the week ahead might just see a little more stability — Brazil permitting.

But don't bet the office coffee money on it. While opinions reaching my ears appear to discount a rail smash, this will almost certainly be another good year for those pharmaceutical manufacturers that cater to investors with queasy stomachs.

Who knows when the next lurch will have to be ridden out?

For my reference to "purveyors of stomach, ulcer and related anti-anxiety medications" I have to thank Benjamin Horwood, the Quebec money manager who looks after the consistently successful Value Contrarian Canadian Equity Fund.

This relatively small fund (\$6.1-million in assets) is by no means for everybody. It was launched as a public fund in January, 1997, by way of an offering memorandum, and thus requires a minimum investment of \$150,000.

But those who have stayed with it have not done too badly. Its total return in 1997 was 38.3% (vs the Toronto Stock Exchange 300 composite index's total return of 15%). As for last year's rollercoaster, Mr. Horwood still managed to emerge with a total positive return of 7.5%, well above the equivalent for the TSE 300 of a negative 1.6%.

Taking into account its prior life as a private fund, Value Contrarian has achieved an annual rate of return of 21.1% since 1990, with no single year of negative return (it just broke even in 1990).

Mr. Horwood attributes his performance to three factors: "cash, cash and more cash;" no more than a small exposure to "trees, rocks and gold;" and a capital preservation strategy of going for stock-market singles and doubles, as distinct from heavy hitting in pursuit of home runs.

His perception for this year is that nothing has changed. The trend toward a global long-term disinflationary or deflationary environment remains intact. Long bonds still yield less than 6%. Japan's Nikkei 225 index is still around 14,000. Asian economies remain in depression, potentially to be joined by Latin American economies. North American stock markets are still "irrationally exuberant. And tulip-bulb mania has found a new home on the Internet.

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Vulnerability

INSIDE

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What really worries him is the narrowness of the North American market advance. While just a few stocks are powering the major market indexes, most stocks are still well off 52-week highs.

It reminds him, as it does other seasoned hands, of the "nifty-fifty" big-name stocks that were touted as the solution to all investment woes in 1973. Come the oil shocks of 1974 onward, and those high-multiple favourites bit the dust, in many cases taking until mid-1982 to stage a worthwhile recovery.

Mr. Horwood argues there is no room for disappointment built into the price of a great computer company such as Dell Computer Corp. (DELL/NASDAQ), selling at a "nosebleed" multiple of 75 times expected 1999 earnings.

When you have a fully valued stock market powered by massive liquidity and the hope of lower interest rates, it has to be vulnerable, he says.

Look for more thrills, chills and spills. High valuations or no, Mr. Horwood finds pockets of opportunity. He still likes banking and insurance and took an opening position in Fairfax Financial Holdings Ltd. (FFH/TSE) in the fourth quarter of 1998. He also in-

creased his holding in Laurentian Bank (LB/TSE), which he says offers all the things that make a boring bank beautiful (no foreign exposure, minimal exposure to volatile capital markets and plenty of earnings predictability).

Correction: As Rogers Communications Inc. president and CEO Ted Rogers has pointed out, I erred in my Dec. 3 column in suggesting his company was a TSE 35 stock at the time the names of the S&P/TSE 60 index participants were announced. It was last a TSE 35 stock in February, 1998.

Rogers also took me to task for doubting that his company would be sorely missed from the new index, noting its near 100% gain from February, compared with the TSE 35's loss of 9%.

On that score, I agree that market favour is useful, profitable and can be a good investment pointer. But, in my own humble view, profit record, level of debt and shareholder voting rights should also be taken into account. My Stock Guide screen has just three quarterly profit entries in black type this decade, though the trend does seem to be for the better, and there is interesting growth potential.

Patrick Bloomfield, a regular Financial Post contributor, invests in securities and may hold issues mentioned here. He can be reached by e-mail at pbloom@home.com