It's job season

Don't slack off on your job hunt as the holi
approach. It's a good time to look, the expe
say in **Working,** Pages B5-B7

BUSINESS

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Two rate hikes pay off big for Hydro-Québec, B4

TSX	Dow	Nasdaq	Dollar	Oil	Gold
8896.37	10,539.01	2085.34	$83.84	$47.33	$437.90
+10.20	+69.17	+24.07	+$0.09	-$0.10	+$3.00

INVESTING STRATEGY PAUL DELEAN

No sugarcoating from this adviser

INVESTMENT MANAGER'S STYLE REFRESHING

Predicts lean times ahead, suggests buying good businesses that are out of favour

Anyone who attends investment-manager presentations on a regular basis quickly discovers there's a slick, sanitized sameness to most of them.

That's one of the reasons Ben Horwood is such a breath of fresh air.

Horwood, founder and manager of Montreal's boutique investment firm **Value Contrarian Asset Management,** doesn't mince words or sugarcoat. He tells it like he sees it.

And what he sees is trouble ahead. The Canadian economy, in his view, is setting up for a potential recession two years down the line, a result of the combined effects of high energy prices, a strong dollar, a slowing U.S. economy and rising interest rates.

The recession might come even sooner if oil was to spike into the range of $65 to $75 U.S. a barrel, Horwood told a group of investors at a dinner this week.

Though the mid-term outlook is clouded, Horwood said the next six to 12 months should be OK for equity markets in Canada and the United States as oil prices moderate and the U.S. economy muddles along.

That doesn't mean he'll be buying much.

His investment style is to buy good businesses when they're out of favour. After two years of steady stock-market advances, there aren't a lot of bargains left.

One company he did buy into recently was **Advanced Fiber Technologies,** which trades as an income trust.

A manufacturer of pulp-screening components for the forest-products industry, the company has operations in Lennoxville, and in Finland and South Korea. The units were issued at $10, climbed as high as $14.83, then dropped below $5 after the distribution was chopped to 60 cents from $1.20.

"We bought over the last month, after it dropped below $6," Horwood said. "It's a classic contrarian investment – a good business, out of favour. We see their current problems (price pressure from competitors and higher raw-material costs) as temporary."

Most of the time, Horwood steers clear of income trusts.

He considers many of the high-yielding oil-and-gas royalty trusts reminiscent of "Ponzi schemes" (where some early investors are paid off by money put up by later ones), paying out all income from assets that are depleting.

> "The only question is how far and fast BCE will drop."
> Ben Horwood

One investor at the meeting wanted to know how he felt about U.S. pharmaceutical giant **Merck & Co.,** which has taken a battering since it was forced to pull painkiller Vioxx from the market six weeks ago amid reports linking it to heart attacks and strokes. The stock price is now below $27 U.S., down from $45 at the end of September.

Merck is one to avoid, in Horwood's view. "It's not a one-off deal. The potential liability hanging over (Vioxx) is why I wouldn't invest in Merck. How many years will that litigation go on?"

Horwood is unimpressed with recent manoeuvres at brewer **Molson Inc.,** a company whose stock he bought three or four years ago that "unfortunately went to Brazil and blew their brains out (buying the **Kaiser** brewery)."

He's also decidedly cool on **BCE Inc.,** once the bluest of Canadian blue chips.

Facing imminent competition in local telephone service from cable companies, BCE can't help but lose market share, Horwood said. "The only question is how far and fast it will drop."

Even if it raises its dividend a few cents, the company no longer has the growth profile of many other solid Canadian companies, he said. Long term, he thinks bank stocks will be a much better repository for money than companies like BCE or **Manitoba Telecom,** even if bank mergers are a non-starter with a minority government in Ottawa.

"The competitive environment in telecom is cutthroat," he noted. "It's not the way it used to be."

Value Contrarian's $15-million Canadian equity fund, which went public in 1997, is having what Horwood called a "grinder type of year." It was up 6.7 per cent through the end of October, a nudge below the Toronto Stock Exchange index, and ranked in the second quartile of its mutual-fund category.

Going back three and five years, it had annual rates of return of 13.94 and 11.17 per cent, respectively, well above the category average and the TSX.

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