



## Top hedge fund manager turns to tech micro-caps

By SHIRLEY WON — INVESTMENT FUNDS REPORTER  
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*AlphaNorth's Steven Palmer rode the resource boom to 114-per-cent return in 2010, but sees market shift ahead*

Canada's best performing hedge fund manager of the past year has generated triple-digit gains from surging resource stocks, but now expects market leadership to switch to technology wallflowers.

"There will be a pullback in resources this year," predicted Steven Palmer, the president of Toronto-based AlphaNorth Asset Management Inc. "By the end of this year, resource stocks will be flat to modestly higher, but returns won't be as good as we experienced in 2010."

In contrast, large-cap technology stocks such as Research In Motion Ltd. (RIM-T59.880.891.51%) are looking attractive as they "have been beating earnings estimates, trade at cheap prices, have tons of cash on their balance sheet and have been buying back stock," said Mr. Palmer, who runs the \$65-million AlphaNorth Partners hedge fund, which garnered a stellar 114-per-cent return in 2010.

He has been accumulating positions in technology micro-cap stocks with unique

concepts, ranging from new ways to raise fish to language-translation software. "If you are positioned early, you can be ahead of the curve," he said. "This is what we did with rare earths. We were positioned last summer with our biggest weightings in a couple of rare-earth names - Stans Energy Corp. and Ucore Rare Metals Inc. - and they have been star performers."

His rare-earth stocks were among the winners that helped his fund become the top-performing Canadian hedge fund last year, according to data compiled by Globe Investor.

Over three years, the fund has posted a 37.5-per-cent annual return versus a 6.9-per-cent loss for the S&P/TSX Venture index, and a 2.1-per-cent gain for the S&P/TSX composite. The strong performance came despite a 53-per-cent loss in 2008, the year of the global stock market crash.

While Mr. Palmer turned bearish early in 2008 as markets rallied strongly amid a looming recession and credit crisis in the United States, he didn't anticipate the severity of the downturn. Because his fund owned many illiquid stocks listed on the TSX Venture Exchange, he couldn't sell. He stuck with his investment strategy and his portfolio sprang back with a vengeance when the markets rebounded.

The 2008 selloff was a bit of déjà vu for Mr. Palmer, who also endured the popping of the dotcom bubble. He is a former vice-president of Canadian equities at AIG Global Investment where he ran a Canadian small-cap pooled fund, which posted an annual 35.8-per-cent return for nine years ended July 31, 2007.

Mr. Palmer remains bullish on the Canadian stock markets this year, but expects returns to be less robust than in 2010. Despite his growing fondness for technology, his fund is still two-thirds invested in resources because of gains on its past purchases.

Within the resource sector, he likes junior uranium miners and has invested in names like U308 Corp. UWE-X and Athabasca Uranium Inc. UAX-X The spot price of the radioactive metal climbed to \$70 (U.S.) a pound this week from a low of \$40 last year, but it is still below its peak of \$136 in 2007. "There is a lot of momentum for the price of uranium to go higher" because of the expanding use of nuclear power in countries like China and India, he said.

He also owns junior oil companies like Primary Petroleum Corp PIE-X and Simba Energy Inc. SMB-X He expects crude oil to jump to as high as \$105 a barrel from its current level around \$87 because of continued global growth and increasing demand from Asia.

While he does own some juniorgold GC-FT stocks, "I have been bearish on gold

for close to a year," Mr. Palmer said. He expects the price of the yellow metal to fall to between \$1,000 and \$1,200 an ounce, and has been shorting the HBP Comex Gold Bullion Bull Plus exchange-traded fund (ETF).

"The gold price has continued to go up during [the past year], but other commodities - which I prefer to focus on - have gone up much more, like oil, copper, and uranium," he said. "A lot of the drivers of the gold price in recent years has been all this investment demand into ETFs ... Retail investors have piled into it thinking the world is ending. I know all that retail money is going to go out faster than it went in."

Even the driver of a cab he took recently in Toronto was looking to invest in the yellow metal. "Everyone I talk to is almost exclusively bullish on gold," he said. "So, my view is a contrarian call."

### Palmer's Picks

Hedge fund manager Steven Palmer has been accumulating positions in junior tech plays. Here are three favourites:

#### Functional Technologies Corp. FEB-X

Known as First Venture Technologies until 2008, the Vancouver-based company has developed a patented yeast that can reduce acrylamide, a carcinogen, in baked goods, Mr. Palmer said. "Functional is working with some major companies, which are testing their new yeast ... If it is adopted by these companies, this could be significantly positive." The company has started making some revenue from selling another strain of yeast to U.S. wineries, he added.

#### AgriMarine Holdings Inc. FSH-X

The Vancouver-based company runs fish farms using a proprietary system of enclosed tanks. This method is considered more environmentally friendly than farming fish in open nets and cages because it prevents the spread of disease, and water quality can be maintained, Mr. Palmer said. The company, which recently started raising fish in British Columbia, has also been raising salmon in China for high-end Beijing restaurants.

#### Entertainment Media Inc. INT-X

The Toronto-based provider of online marketing solutions is getting a lot of attention for Ortsbo.com, a social media and translation website, Mr. Palmer said. "It allows people to chat in different languages, and the software automatically converts one language to another." Launched last fall, the Web site is generating advertising revenue, he said. Last September, a U.S.- listed company made an unsolicited offer to buy the Ortsbo division for \$30-million (U.S.).

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