

FP INVESTING

FINANCIAL POST

BUY & SELL

BIG-PICTURE VIEWS, CURRENT ISSUES, OUTLOOK AND PICKS. BY JONATHAN RATNER

Manager sees strength returning through 2011

Bullish outlook

MANAGER PROFILE

Manager Steven Palmer, Alpha North Asset Management
Fund AlphaNorth Partners Fund
Description Long-biased small-cap hedge fund focusing primarily on Canadian companies

AUM +\$100-million
Performance: 1-year +165.6%, 2-year +130.6%, 3-year +50.2% (as of May 31, 2011)
Management fee 2% management, 20% performance

Steven Palmer, president and CEO of AlphaNorth Asset Management, is bullish for the second half of 2011.

"This period of weakness we've been through during the past three months is a great buying opportunity for several reasons," he says.

The first is seasonality, since it is typical for the market to be weak during the summer. Much like last year, this has created an attractive entry point, Palmer says.

The hedge fund manager notes investor sentiment is very bearish at the moment, but he believes the U.S. government will not let the economy slip off the rails during the next 12 months with elections coming late in 2012.

"This gives me additional comfort on my market call."

Palmer uses technical analysis to help time buy and sell decisions, and recently got a buy signal for both TSX and TSX Venture stocks.

Palmer highlights the similarity between the TSX Venture's 21% decline during the summer of 2010 and the

recent pullback.

"That would be somewhat of a normal correction for small caps," he says. "The magnitude of the sell-off is what you would expect after the strong performance we've had between last summer and this January. It basically went straight up."

Since the beginning of 2011, he has shifted his focus away from resource names in the commodity-heavy TSX Venture. He has lowered the fund's exposure to resources to 55% from 75% in January.

"It was overheated, everyone was just focused solely on resource deals and the technology names offered a better risk-reward," he says.

He prefers energy over precious metals, favouring both oil and natural gas to gold, and generally buys junior companies with assets outside Canada.

"It's a pretty mature basin and there is not as much upside in Western Canada," Palmer says. "In other areas of the world there is more virgin territory and you can have a huge find."

He decided to put more money to work in the technology and biotech sectors, driving their combined weighting to 33% from 13% early in the year.

In the biotech and pharmaceutical space, Palmer focuses on later-stage companies with more advanced products, while targeting names with more than one product in order to have "multiple shots at success."

In the tech sector, the manager looks for companies with products that can generally ramp up very quickly and have huge market potential.

"There are a lot of compan-



BUYS

FUNCTIONAL TECHNOLOGIES CORP. Ticker **FEB/TSX-V**
 Close **80¢, down 1¢**

The position After recently exercising some warrants, AlphaNorth now owns more than 10% of the company.

Why do you like it? Palmer says he's very excited about the potential for the company's proprietary yeast products, which have proven to substantially eliminate carcinogens formed during baking and the fermentation of wine and spirits. The company is pursuing multiple avenues to commercialize its yeasts. The manager says the ability of Functional's yeast to eliminate acrylamide formation during baking offers the greatest near-term potential for the company as testing is well advanced with several large users.

Biggest risk? The timing of partnership deals.

ZECOTEK PHOTONICS INC. Ticker **ZMS/TSX-V**
 Close **50¢, down 2¢**

The position Accumulating for several months.

Why do you like it? The company has several products, each of which Palmer believes could be catalysts for a much higher share price. Zecotek's products include a 3D screen technology that doesn't require special glasses, for which it has a working prototype. The company also offers optical crystals used in medical imaging devices such as PET scanners.

Biggest risk? Product delays.

RYAN GOLD CORP. Ticker **RYG/TSX-V**
 Close **\$1.80, down 1¢**

The position Adding to position recently after owning shares for more than a year.

Why do you like it? Palmer says this low-risk exploration story has high odds of finding one or more major gold deposits in the Yukon. "They have identified several anomalies and drill targets on their extensive land holdings, and the company is well funded," he says.

Biggest risk? Exploration challenges.



SELLS

HORIZONS BETAPRO 30-YEAR BOND BULL PLUS ETF
 Ticker **HTU/TSX** Close **\$29.55, up 36¢**

The position Recently initiated short position.

Why don't you like it? While bonds have rallied considerably over the short-term, Palmer believes investors will reallocate funds to equities as after-tax yields are minimal for government bonds. "Given the recent sell-off in equity markets, bonds are much less attractive on a relative basis," he says.

A potential positive? "The risk to this trade is that the economy deteriorates into another recession, which may cause yields to be depressed for an extended period," Palmer says. "We do not believe this will occur."

ies doing interesting things, but investors haven't been paying much attention to them because it's been so easy to make money on the latest junior gold deal," he says. "Some of the technology names have done quite well recently, so that has attracted some attention to the space again."

The AlphaNorth Partners Fund is not accepting new investors after June 30. The asset manager's new mutual fund, the AlphaNorth Growth Fund, is expected to be available to investors at the end of July, with a minimum investment of \$1,000.

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