

Why Winners Likely to Keep Winning

Managers don't want to be caught not holding winners

BY IAN KARLEFF

This year's stock market winners are likely to keep on winning, as portfolio managers buy the names that will make them look good at year end.

Fund managers who, for example, didn't feel comfortable buying junior gold exploration companies, or highly volatile technology stocks, will feel compelled to buy them now that they have performed well, or risk losing face when statements are mailed to clients in the New Year.

This buying could provide even more support to the winners, and magnify or at least maintain already impressive gains, thereby serving to reward the 'late to the party' managers, albeit not as handsomely as those who made the bet back in April.

"It's partly hypothesizing and partly what I see happening," said Peter Hodson, portfolio manager at CI Mutual Funds Inc.

"Clearly there's some optics going on here. If the manager was not involved in those sectors, and the investors get their statements in the New Year, they might say 'what were you doing, why didn't you buy gold or technology?'"

If the theory proves correct, the technology group could add to its already 66% return, while financials, and materials, which includes mining and gold stocks, could improve upon returns that are hovering around 22% — and for some stocks such as Ivanhoe Mines or Golden Star Resources, in excess of 200%.

Fortunately for Mr. Hodson, he doesn't plan to be one these managers jumping on the bandwagon at the last minute as his CI Synergy Canadian Small Cap fund sits on an index beating 39% return year-to-date.

Two of his top picks include Southwestern Resources Corp. and Neurochem Inc., both of which are up around 190% in 2003. As an added bonus, these two could also benefit from the possibility of being added to the S&P/TSX composite on Dec.19.

Arun Kaul at **Hillsdale Investment Management Inc.** says "window dressing" of a portfolio is a common theme at year-end as well at the end of each quarter, however, tax issues also come into play at the end of the year.

"People don't sell their winners because they would incur large unrealized gains, and that is separate from window dressing. The names that have gone up tend to hold their gains through December... and then they tend to sell off in the first few days of January."

Of course, the year-end theory is predicated on the rally continuing to show upward momentum in what is traditionally a strong month for the S&P/TSX composite. Barring any unforeseen event, a sustained rally is looking increasingly probable.

The TSX index is up 21% this year, and this includes a 1.7% return thus far in December, although it's difficult to say that this momentum theory is already playing out in what has amounted to only four days of trading.

Many technical analysts who were bearish in the early fall, and strategists who believe stocks have already factored in a global economic recovery, are coming

around to the view that stocks will continue to rally for at least the next four months.

"Clearly there has been a very strong seasonal bias in the last 20 years that suggests December is the most favourable month of the year," said BMO Nesbitt Burns' economist Doug Porter.

In the past 21 years, the TSX has risen 20 times during December, with an average monthly gain of 2.6%, and the rally that we have enjoyed in 2003 has been backed by the belief that the global economy is recovering, and this will continue to be a dominant theme, he added.

"Some of the winners in the second half of the year will continue to be winners, some of them are the pure cyclical such as materials," said Mr. Porter.

The December effect is not going to bail out investors if the fundamentals "stink". However, low interest rates and a reasonable level of inflation creates a "sweet spot" for equities, he added.

The top performing stock in the TSX index this year has been Telesystem International Wireless with a 370% return, followed by exploration firms like Golden Star and Ivanhoe.

Fund managers might have bristled at punting on Robert Friedland's Ivanhoe, and after seeing it more than double this year, are probably even less enamoured by its \$2.7 billion market cap and only \$120 million in sales.

"It's often the case where they didn't want to join the party in certain sectors, but now they are throwing in the towel and admitting they were wrong," said Mr. Hodson.

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