

Market watchers see opportunity in turmoil

BY CAROLINE ALPHONSO

Fluctuating stock markets are creating buying opportunities for investors willing to take risks, many market watchers say.

"This is a good time to find value in certain stocks," said Chris Guthrie, president of Toronto-based money manager **Hillsdale Investment Management Inc.**

Mr. Guthrie outlines two portfolios in which investors can find opportunities in this market.

In the first portfolio, levelled at market risk, he advises investors to look at Dofasco Inc., Cascades Inc., Sears Canada Inc., CCL Industries Inc. and Empire Co. Ltd.

These five stocks, which have fallen about 10 per cent over the past two weeks, pay dividends and have growing profits, he said. On a quarterly basis, Mr. Guthrie said their profits are growing at a rate of 25 per cent.

The stocks trade at 12 times forward earnings, while the market trades at around 16 times, he said. Also, these stocks trade at 1.3 times their book value, while the market trades at 1.8 times.

"They look better than the market, but are down by just as much," Mr. Guthrie said.

For the more risk-tolerant investor, Mr. Guthrie lines the portfolio with Imax Corp., Co-Steel Inc., Peyto Exploration & Development Corp., Stratos Global Corp. and Golden Star Resources Ltd. He said that these companies take on three times the market risk because they are smaller and less liquid.

At the same time, these stocks have their earnings growing at 50 per cent on a quarterly basis and are projected to grow 150 per cent over the next year. These stocks trade at 1.6 times book, which is still less than the market at 1.8, Mr. Guthrie said.

The stocks in this portfolio are "long volatility bets" that should move higher than the market when a turnaround takes place, he said.

Mr. Guthrie is not alone in seeing opportunities in this market.

Jim Doak, president of Enterprise Capital Management Inc. in Toronto, is finding buying opportunities in such stocks as Nortel Networks Corp., Celestica Inc. and Zarlink Semiconductor Inc.

He said Nortel's stock is a "rebound candidate." While the Brampton-based company's stock has fallen from its all-time high close of \$123.10 in June, 2000, to \$2.27 yesterday, Mr. Doak said the franchise appears to have stabilized and the sell-side analysts have pegged Nortel's earnings power at 20 cents a share.

Furthermore, he said that, despite the turmoil in the markets last week, Nortel was up for the week.

Celestica, meanwhile, has no financial problems and has \$8 a share of cash in the bank, Mr. Doak said. The company is scheduled to release its earnings today.

Zarlink is trading at a cheaper enterprise value compared with its U.S. peers, and has a lot of cash per share, he said. He suspects Zarlink could be a takeover candidate.

For Roger Mortimer of AIM Capital Management Inc. in San Francisco, a good bet is Molson Inc. The stock has fallen amid concerns about its acquisition of a major brewery in Brazil this year. But Mr. Mortimer believes these fears have been "overblown."

Mr. Mortimer said the stock trades at 15 times its forward earnings, which is close to half its growth rate.

"The value of the business is not reflected in the share price," he said, adding that the company is cutting costs and growing its profit.

Also, Toronto-based Onex Corp. is a good bet. The stock, which closed yesterday at \$19.27, down 13 cents, is trading at about 74 per cent of its net asset value, Mr. Mortimer said. On a net asset value basis, the stock is worth around \$26, he said.

The conglomerate has about \$1.8-billion in net cash on its balance sheet. Management staff, who are large shareholders themselves, are careful about how to invest the company's capital, he said.

Lastly, Mr. Mortimer likes E-L Financial Corp. Ltd., a Toronto-based insurer. "This is a company that doesn't have a high profile, but has good assets."

E-L Financial trades at 85 per cent of its book value, while Royal Bank of Canada trades at more than two times book value, he said. "I see it as a fundamentally more conservative business than a Canadian chartered bank. You're buying a conservative financial services firm at a significant discount to its book value."

Mr. Mortimer still remains fairly defensive in terms of the stocks he holds in his portfolio. The current valuations of equities already implies an economic recovery is in the works, but "the market is going to continue to waver back and forth between defensiveness and offensiveness," he said.