



Lamarche Long On The Economy

By **Stuart Weinberg**

of DOW JONES NEWSWIRES – January 16, 2004

TORONTO (Dow Jones)--Not long ago, during the Internet boom, many investors believed that the economic cycle would never turn down again. We all know how that one turned out. In fact, things went so far south for so long that some investors went the other way, fearing that the cycle would never turn up again. "When the economy contracted, we thought it would be a V-shaped recovery, then a U-shaped recovery, then it became more of a canoe," said **Normand Lamarche**, portfolio manager of the **Front Street Capital Small Cap Equity Fund**. But the economic cycle is very much alive, Lamarche said. Indeed, the strong economy is a major investment theme for Lamarche right now. He said there is synchronized growth occurring around the world right now, an unusual phenomenon that could signal the start of a "super-cycle" when it comes to commodities.

The manager uses themes - which could be economic, geopolitical, or specific to an individual sector - and builds the fund's portfolio around them. For instance, early in 2003, when the economic outlook was less certain, an important theme involved investing in supply-constrained commodities, such as nickel. Companies that produce such commodities are relatively safe bets in tough times because they are insulated from the weak demand that such economic times engender. Holdings included LionOre Mining International Ltd. (LIM.T) and Canico Resource Corp. (CNI.T).

As the year progressed and Lamarche began seeing signs of recovery, he rotated out of the aforementioned stocks and began investing in more demand-driven commodities. He increased the fund's natural-gas weighting, which was already considerable because natural gas is both supply-constrained and demand-driven.

Holdings in this sector include Ketch Resources Ltd. (KER.T), Compton Petroleum Corp. (CMT.T), Progress Energy Ltd. (PGX.T) and Midnight Oil & Gas Ltd. (MOG.T). All four companies have top quality management teams, he said.

Mgmt Teams Important When Investing In Small Caps

A quality management team is paramount, particularly when investing in small caps, Lamarche said. "Management is always very important to us because, by and large, you're dealing with asset bases that are diverse and more emerging and riskier to some degree than your large counterparts," he said. "As a result, you're counting on management more I would think to create opportunities for you...and at the same time to basically bail you out of difficult situations when they come along."

The C\$20 million fund has chosen its management teams, and themes, wisely in the past year. As of Dec. 31, the fund's one-year return was 62.45%, compared to 33.20% for its peers and 42.74% for the comparable index, according to Globe Fund.

In addition to playing the economic recovery, Lamarche sees power generation as another major investing theme. The industry needs to overhaul its long-neglected infrastructure to meet rising demand and maintain affordable electricity prices, he said.

Because natural gas, the main fuel source used to power electricity-generating plants for decades, is so scarce, Lamarche said he believes the industry will begin investing again in coal and nuclear-powered generating plants. "Uranium prices are up 40% over the last 12 months and we think it's just the beginning," he said.

The portfolio holds Southern Cross Resources Inc. (SXR.T), a uranium exploration company and International Uranium Corp. (IUC.T), which recycles uranium-bearing waste products. As a coal play, the fund holds Sherritt International Corp. (S.T).

Company Web Site: www.frontstreetcapital.com