



**By Stuart Weinberg**  
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## Lamarche Says Get Used to Price of Oil

Toronto (Dow Jones) –

**Normand Lamarche** identifies themes or trends – economic, geopolitical and industrial – and selects stocks that are well-positioned to benefit from those trends.

That's not necessarily a novel approach but Lamarche, portfolio manager the Front Street Capital Small Cap Canadian Fund, has a knack for outperforming the index and his peers that merits attention. At May 31, the fund's one-year return was 24.7%, more than double its peers and almost triple the comparable index, according to GlobeFund. The comparisons are even more favorable when stretched over three and five years.

Not surprisingly, one trend that Lamarche has zoned in on for some time is the rising price of oil. "It's a worldwide theme. A big deal," he said.

High oil prices are here to stay, Lamarche said. Maybe not US \$60 a barrel, but a US\$40 environment is something we're going to have to get used to, he said. Rising demand is only part of the reason for this, he said. The supply side is another part, he said, noting that he believes the world's oil reserves are being mismanaged.

Specifically, oil-producing nations aren't allowing big energy companies to own and operate reserves on their soil,

Lamarche said. For example, Saudi Arabia, the world's largest reserve holder, refuses to permit companies such as Exxon Mobil Corp. (XOM), the world's largest energy company, to own and operate reserves in Saudi Arabia. It's a similar story in Venezuela, Bolivia and Kazakhstan, he said.

"They've got their hands out and they want a bigger piece of what they now claim to be a national interest, which is making it very difficult for the big companies to spend money in the upstream side of the business," he said.

The upshot is that we're in a growth environment for energy, and the best place to find growth is in small, nimble, well-managed companies, Lamarche said. Holdings in the C\$75 million portfolio include Rider Resources Ltd. (RRZ.T), Duvernay Oil Corp. (DDV.T) and Cyries Energy Inc. (CYS.T). "These guys are finders and developers of energy for the most part, as opposed to acquirers," Lamarche said.

Lamarche shies away from companies that grow by acquisition because this method of growth is becoming too expensive. That's because oil is getting harder to find, so when reserves come up for sale, competition is fierce, he said. On the other hand, companies with a history of finding new reserves are

value creators and are worth paying for, he said.

***Tired of “Friendly Deals” For Insiders in Oil Patch***

While Canada has a number of great, well-managed companies, Lamarche said he is getting frustrated with the “friendly deals” that some senior managers and insiders in the oil patch are giving themselves. He said many companies have converted into income trusts recently and – as part of the process – created separate exploration companies and awarded the insiders of those new companies shares and options at very attractive prices. Investors aren’t afforded the same opportunity, he said.

“These are shares that are mispriced way too advantageously to (the insiders) and it’s a dilution to existing holders,” Lamarche said.

Lamarche, who declined to provide specific names or companies, said he isn’t averse to insiders receiving incentives. However, things are getting carried away, he said. “The message to them and the message to the investment bankers which are structuring these things is don’t eat this little golden goose of ours, and (you’re) spoiling the party,” he said.

Globalization is another key investment theme, Lamarche said. He said he believes the center of world manufacturing is shifting eastwards from the U.S. to China and that has important investing implications. Specifically, investors should focus on stocks that supply things that China needs, such as commodities, he said. Holdings tied to this theme include LionOre Mining International Ltd. (LIM.T), a nickel mining company, and Aur Resources Inc. time cash flow, with clean balance sheets, he said.

Company Web Site: <http://www.frontstreetcapital.com>

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