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DJ CANADA TIP SHEET: Wiseman Bracing for Small-Cap Downturn

By Andy Georgiades
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TORONTO (Dow Jones)—While Sam Wiseman believes a correction is inevitable for Canadian small-cap stocks after their extraordinary run, it's not his style to worry about it.

Wiseman, chief investment officer of Wise Capital Management Inc., a Toronto-based investment firm with nearly C\$150 million in assets under management, says his small-cap strategy has been able to produce solid returns over the years while minimizing volatility.

"We don't have the highest returns in the small-cap space, but we believe we have the more efficient portfolio and more conservative names, so when there is a downturn we think we'll weather that quite well," Wiseman told Dow Jones.

That said, he hasn't had a down year in small-cap, boasting a 24% annualized return since he founded the company in 2000.

"When people get scared, they tend to get out of small-cap first. There's a flight to large defensive names," he said, adding that the shift is particularly hard on the less-liquid names.

He relies on a combination of quantitative and fundamental analysis, though he acknowledges that the latter can play a more important role in small-cap relative to large-cap because many companies are ignored by research analysts. That makes the process of uncovering emerging-company "gems" all the more challenging—and fun—while putting a fund manager's skills to a real test.

Wiseman believes his strategy, with its focus on diversification, buying high-quality names on the cheap, and finding names that can blossom into mid-caps, will protect his investors from the imminent downturn. That's in contrast to many of his peers, who employ riskier strategies and hold less-liquid names, and therefore stand to get "pummelled" when the correction hits.

Likes Jaguar Mining, Bow Valley

In the resources area, a couple of names that he's bullish on are Jaguar Mining Inc. (JAG.T) and Bow Valley Energy Ltd. (BVX.T). In his search for value in global gold companies, the vast majority of which are overpriced, Jaguar was a rare exception, and so he bought it before most investors understood its potential.

Jaguar is one of the lowest-cost producers in the world, expected to produce 80,000 ounces this year and 300,000 ounces by 2009. "They have a really strong resource base in Brazil, and will realize high cash flows in the next couple of years," said Chavdar Russev, an investment analyst at Wise Capital.

Bow Valley, which is focused in the North Sea area, also was overlooked by the market. The economics of oil production in the North Sea are very favorable, especially since companies don't have to pay royalties to the U.K. government on new discoveries, which results in higher profits.

In the financials sector, he sees "deep value" in Laurentian Bank of Canada (LB.T) compared to the rest of the market. While it's a smaller and less-liquid company that a multi-billion dollar investment firm wouldn't bother with, he believes the day will come when the market comes around to its story.

Another bank he holds is Signature Bank (SBNY) of New York. He'll own foreign stocks when it comes to sectors that are underdeveloped in Canada, and smaller banks is one of them. Signature is appealing because of its focus on commercial lending, which means that it's not tied to the fortunes (and misfortunes) of the housing market. Wiseman especially likes its ability to hire business banking teams from other banks in order to expand its network.

Although he generally considers technology to be too risky and aggressive an area to invest in, he does own a couple of names, both

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operating in very specialized niche markets. One of them is Aastra Technologies Ltd. (AAH.T), which provides communications products for businesses. Wiseman said the company tends to sell off when the tech sector is in the dumps, mainly because of the word "technologies" in its name. But he doesn't consider the company, which makes telephones, a bellwether for the group. So he's been able to sell and buy it back from time to time and capitalize on the volatility.

"Trading is very important in the small-cap space," he said, adding that it can pay to be patient and accumulate positions slowly, even a few hundred shares at a time.

His other tech holding is Gennum Corp. (GND.T), a maker of chips for the video, data and audio markets.

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