

Two Cents Worth



In This Issue October, 1999



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What is this bar code thingy at the bottom of this page?

Two Cents Worth now has an ISSN number. ISSN stands for "International Standard Serial Number". The ISSN is a unique code for identifying serial publications, such as periodicals, newspapers, annuals, journals and monographic series. It provides an efficient and economical method of communication between publishers and suppliers.

Because the ISSN system is international



and each ISSN is unique, an ISSN can identify a serial regardless of its language or country of origin and it will distinguish between serials with the same or similar titles.

Those are the official reasons behind the bar code thingy, but the real reason that **Two Cents Worth** now has one is because I think it is cool.



Life Gets in the Way, and it's a Good Thing. Many subscribers to this newsletter have asked me when the next issue was coming out. Much though I wanted to get this newsletter out earlier, Johanne discovered

that she was pregnant. We became parents on June 30, 1999 to Issac. The following day we moved. During her pregnancy Johanne had to be hospitalized due to a dangerous condition called pre-eclampsia. Issac was born premature at 32 weeks. Today mother and son are fine. We couldn't be happier.

Interview with Duncan Stewart, Manager, Navigator Canadian Technology Fund.

Duncan Stewart and Howard Sutton are co-founders of Tera Capital Corp., a company with a historic track record of demonstrated superior performance in both good and bad markets, with significant outperformance in declining market conditions. Together they manage the Navigator Canadian Technology fund. Duncan Stewart has previously worked with investment counseling and brokerage firms as well, he held the position of Vice President of a major capital management firm. He holds a BA from the University of British Columbia and has his CFA designation. Mr. Sutton has over 10 years experience in the high tech industry in engineering, marketing and business management capacities. He holds a P.Eng and MBA degrees in addition to his CFA designation.

Doug: I'll be honest with you. I don't have a single client in a technology fund. Many of my clients are envious of the returns that the technology sector has seen, but are frightened by the possibility that this is some kind of bubble that is going to burst. What can you tell me about this sector that will help me and my clients to get over these fears?

Duncan: The idea that technology is currently highly valued is a correct one. But with interest rates where they are investors will continue to pay high multiples for stocks with high growth and strong earnings. Until interest rates rise significantly, I do not see the high valuations of the tech stocks changing. The fundamentals of the sector have changed a great deal since the 1980's.

In that time period, it was possible to have a bubble since almost all the high tech valuations were concentrated in the very narrow PC sector. When PC sales weakened, the tech sector crashed along with it. That is unlikely to happen today, when less than 25% of the sector's sales come from computer sales: telecom and fiber and wireless and middleware and embedded devices and etc. are sufficiently diverse that a collapse in one need not necessarily infect the others. Just look at Internet valuations that have fallen by more than 50%, yet the NASDAQ continues to set record highs!

Doug: Just the idea of having to keep up with and be on top of the new developments and opportunities in the tech sector seems overwhelming. How do you do it?

Duncan: Most money managers have small parts of their portfolios in technology, knowing at best only a handful of companies well. Most are either very young with limited experience, or are grizzled veterans who regard technology with some wariness (the sort who don't know how to turn on their own computers). We cover the entire sector, and have for years. It's easier never having to worry about copper prices or bank deregulation or any of that stuff. It is also easier to cover 100 tech companies than only a few...there are synergies and what you learn covering Nortel gives you additional insight into Mitel, which helps with JDS, which allows you to understand Nortel better. There are dozens of virtuous circles just like that which occur across the hundreds of companies that Howard and I cover. Further, our experience investing in and sitting on the boards of venture companies gives us enormous insight into the details of running high tech firms: hiring, costs, production details,

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etc. Other mutual fund managers will have difficulty attaining this level of understanding: many firms and regulatory agencies forbid money managers from serving on boards. Additionally, Howard and I love this sector and these companies...that is why we started up Canada's first firm to specialize in technology!

Doug: The US technology sector has had fantastic returns and PE multiples. The Canadian tech sector hasn't experienced this. Are Canadian technology stocks undervalued compared to their American counterparts? Will the gap get closer in the future?

Duncan: The Canadian tech sector has, in fact, tracked the US sector quite well over the last three months. Prior to that, Internet valuations did create a valuation gap, but we expect that to be narrowed over time. Many of our premium companies trade at valuations that are approximately equal to American levels: Nortel and JDS being good examples. By and large, our tech sector does look cheaper than the US, but that is because we have a higher relative percentage of small and mid-cap stocks, sectors that have lagged the big caps over the last three years. As small caps become more in vogue you will see a narrowing of the apparent gap. Our companies can and do compete successfully with US technology companies, and while it is true that Canadian companies sometimes don't reach the lofty valuations attainable in the US market, neither do they get as beaten up as US stocks that disappoint.

Doug: The year 2000 bug frightens many people. Is this more of a concern in a technology fund?

Duncan: The Y2K issue is in fact a positive for technology companies. Many people are buying all new tech gear to become Y2K-compliant, and the much vaunted spending freeze is appearing only sporadically. The likelihood of my companies' internal systems failing is quite low...usually they have the newest equipment and many competent programmers to detect and fix year 2000 problems.

Doug: The politicians tell us that there is no "brain drain" due to excessive taxation in Canada. Is there a "brain drain" and if so, how will it affect future Canadian tech sector performance?

Duncan: There is no brain drain. While taxes in much of the US are lower, desirable areas like California have tax rates well in excess of the US average. Further, costs such as high housing prices, medical insurance, and the fact that in many US urban areas sending one's children to an expensive private school is viewed not as a choice but a dire necessity, all level the playing field. When combined with social issues such as less racial tension, lower crime, gun-related violence and decaying urban infrastructure the net efflux of professionals to the US is minimal. But when viewed in a global context, Canada attracts and keeps over 5 times as many technical people as we lose every year. The best and the brightest come from all over the world because of our low cost base, good quality of life, strong educational system and tax rates that are the third-lowest in the developed world (behind only the US and Japan). You can't blame the CEO's of high tech companies for trying (who wouldn't want to keep more of their money and receive what in essence is a gov-

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ernment handout) but the brain drain is a non-existent issue.

Doug: What's in store for Canadian investors in this sector in the near to mid-term?

Duncan: I have no idea. Technology stocks normally go up in the fall and down in the spring, but that cycle is becoming less and less true. I believe that technology will continue to do well and the sectors Canada is well represented in (like fiber optics and telecom) look great, while the sectors we don't have (like internet stocks) are the ones where I have concerns. But there is really no way of guessing what will happen over the near term...last summer saw a 20% correction occur in August...it could happen again. Long-term, I am still quite positive about the growth in the sector.

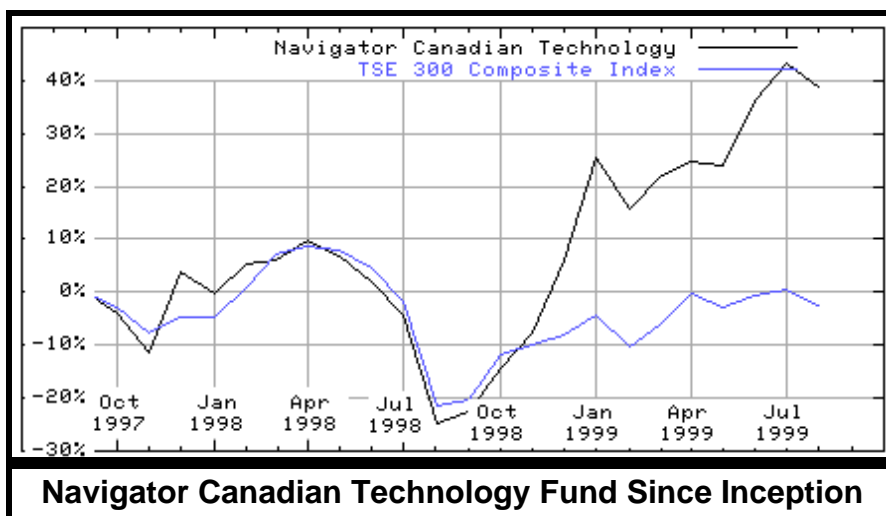
Doug: Can you tell us about some of your favorite companies?

Duncan: I do not recommend specific stocks. It is impossible to predict the fortunes of a single high tech stock...that is why the best vehicle is a mutual fund that

diversifies the risk yet still offers the upside of this sector. I obviously like my top ten holdings more than my bottom ten, but I am never comfortable talking about just one name.

Doug: You seem to employ a "buy and hold" strategy for your fund. Firstly, what is the turnover rate of your fund and can this strategy work in a sector that seems dominated by 'day-traders'?

Duncan: About two-thirds of our names are buy-and-hold. The other third is more trading oriented but does not fall into the day-trader category. The fund turns over every two to three years, and is therefore relatively tax-efficient, even when held outside of an RRSP. While it is true that there are many day-traders who play in the tech sector, their buys and sells tend to cancel each other out over the medium term and they have relatively little effect on the market. Further, their influence is minimal on most stocks that have reasonable floats. Additionally, they are much more prevalent in the US and have very little effect on the quality Canadian names that make up the bulk of my portfolio.



Thanks go out to **Dan McCormick**, Business Development Manager at Navigator Funds, for arranging for this interview.

For information on this and other Navigator Funds, you can visit their website at: <http://www.navigator.ca>

Retireware

Retireware is a very powerful retirement planning tool that offers many of the features and options that one would expect in a more expensive software program. A demo copy can be downloaded from the Retireware site. - doug

Apeiron Software Limited, a small Canadian software developer, recently introduced a new retirement planning software called Retireware. This new software is a valuable tool to help us in the important challenge that lies ahead: planning a secure retirement.

While we strive to have a comfortable and secure retirement, we rarely set clear objectives and have no definite plan on how to get there. Are maximum RRSP contributions enough? Can we run out of money at some point in the future? How much should we withdraw each year during retirement to ensure our families' well being over the long term? How do the different pieces fit together – government and company pensions, registered and personal savings, and other assets?

Retireware is the tool that makes it possible to formulate specific goals and establish a road map to retirement and beyond. The software projects the value of all assets and shows exactly how much each source of income will provide each and every year into the future.

With this information, the user can see which and how much of each asset will be necessary to meet financial needs throughout retirement. The user can then compare the growth of assets during the investing and retirement years and monitor progress to-

ward objectives, and take corrective action if necessary. It makes it possible to maintain confidently one's standard of living, knowing that the financial situation rests on solid grounds for the future.

Retireware takes into account all Canadian tax and savings rules and Government programs, including RRSP contribution limits, pension adjustments, LIF and RRIF withdrawal rules. Earnings, investment income, capital gains and dividends are calculated exactly each year in the future, not estimated. And it finds out exactly how much the user needs to save inside and outside the RRSP, and shows year-by-year accumulations graphically and in table format.

The user can select any type of asset as a source of retirement income – an RRSP, other investments, proceeds from the sale of the principal residence or other property, an ownership in a business. And Retireware calculates future income from the Canada or Quebec Pension Plan, Old Age Security, pensions from defined benefit or defined contribution plans and even part-time employment during retirement. There is also a Step-by-Step approach that guides the user through the retirement planning process and an extensive help file system.

You can purchase Retireware for \$29.95 plus applicable taxes for personal use, or \$59.95 for corporate use, by downloading the software directly from its web site: <http://www.retireware.com>. This software has a lot more to offer than other similar products for a very attractive price. A free 15-day demo is available for evaluation from the web site.

Above is a sample screen from Retireware.

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I'm using this software for some of my clients and find that it compares well with some of the more expensive programs out there.

When I last spoke with the owner of Retireware, there was some talk of raising the price. I see that it is still \$29,99 as of this newsletter.

Ottawa is upset with Bank Charges - Introduces Bank Charge Calculator

The Small and Medium Sized Enterprises (SME) Financial Service Charges Calculator compares the services charges of 52 small business accounts offered by 11 Canadian financial institutions.

The SME Financial Service Charges Calculator is designed to help small businesses easily compare the **monthly** cost of most business accounts offered by the major financial institutions in Canada.

If you think you are paying too much in bank charges go here and fill out the questionnaire: <http://strategis.ic.gc.ca/SSG/so02794e.html>

When Albert Einstein died, he met three guys in the queue outside the Pearly Gates. To pass the time, he asked what were their IQs. The first replied 190. "Wonderful," exclaimed Einstein. "We can discuss the contribution made by Ernest Rutherford to atomic physics and my theory of general relativity". The second answered 150. "Good," said Einstein. "I look forward to discussing the role of New Zealand's nuclear-free legislation in the quest for world peace". The third guy mumbled 50. Einstein paused, and then asked, "So what is your forecast for the Dow?"

The letter to dad:

Dear Dad,

School i\$ really great. I am making lot\$ of friend\$ and \$tudying very hard. With all my \$tuff, I \$imply can't think of anything I need, \$o if you would like, you can ju\$t \$end me a card, a\$ I would love to hear from you.

Love,

Your \$on.

The Reply:

Dear Son,

I kNOW that astroNOmy, ecoNOmics, and oceaNOgraphy are eNOugh to keep even an hoNOr student busy. Do NOt forget that the

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Site Review: globeinvestor.com

The guys that brought you globefund.com have done it again. This time with globeinvestor.com. I had this to say about globefund.com when it first came out *"In my estimation it is the best site on the web for obtaining a quick comparison of mutual fund performance"*. Now I have to say the same thing about globeinvestor.com for the quick and dirty evaluation of stocks and for maintaining your portfolio on the web.

You simply have to go to the page: <http://www.globeinvestor.com/> to get an idea about the wealth of information that can be found there.

At the globeinvestor website you can create your own favorite stocklist or portfolio, check out the day's winners or losers, graph a stock, or read Globe and Mail articles about the stock of your choice.

The company snapshots give a brief overview of the firm, the most recent financial statement highlights, key personnel and contact information.

As with globefund.com, there are also filters that help you to perform searches based upon performance. You can sort within an industry or on a particular exchange.

Every serious investor will add this site to their favorites list.

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Humour - Continued

pursuit of kNOwledge is a NOble task, and you can never study eNOugh.

Love,

Dad

Trading online is just great. I find it really speeds things up. I now get my margin calls 5 times faster than before.

Three guys are alone in a desert island: an engineer, a biologist and an economist. They are starving and don't have a thing to eat, but somehow they find a can of beans on the shore.

The engineer says: let's hit the can with a rock until it opens.

The biologist has another idea:
"No. We should wait for a while. Erosion will do the job."

Finally, the economist says:
"Let's assume that we have a can opener".

by: Garrido

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dian literature and 2) The Romance Depart-
ment prize for studies in linguistics. The
third year of this program was transferred
from l'Université Laval.

BACKGROUND AND EXPERIENCE

Doug has spent the last six years in the fi-
nancial services sector. Prior to that Doug
worked for the federal government as a bud-
get administrator and internal auditor. This
followed several years as a comptroller for a
medium-sized firm and several years with
KPMG as an Accountant.

Useful Links

Fund Performance:
<http://www.globefund.com>
<http://www.fundlibrary.com/home.cfm>
Garth Turner's Website
<http://www.garth.ca/Default.html>

DISCLAIMER

**Don't buy anything based upon what you
read here!** That's not how you buy mutual
funds, invest or conduct your financial plan-
ning. You buy investment funds after hav-
ing sat down with a qualified, licensed pro-
fessional and after having determined that
the fund in question meets your require-
ments and that it fits into your overall plan.
Always take the time to read the fund's
prospectus. Fund companies spend a lot of
time and money paying accountants and
lawyers to prepare these things - read them.
Ask your financial advisor about what you
read in the prospectus. Go over the finan-
cial statements, and the comparative perfor-
mance figures found therein.

