

# FP INVESTING

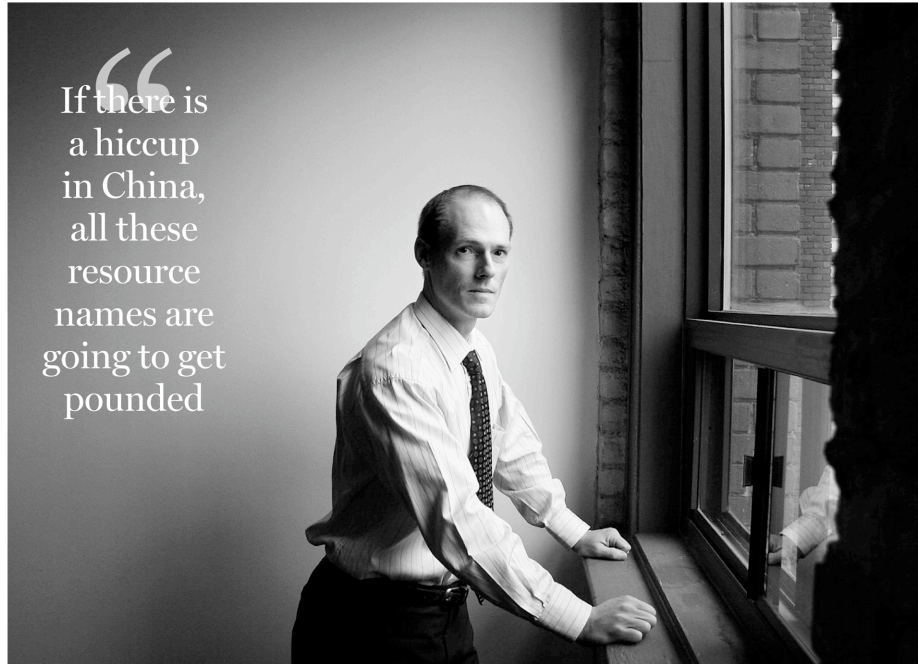
**FINANCIAL POST**  
**INVESTING**

**BUY & SELL**  
 AlphaNorth set for small-cap rally. *FPII*

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## BUY & SELL

*BIG PICTURE VIEWS, CURRENT ISSUES, OUTLOOK AND PICKS. BY JONATHAN RATNER*



J.P. MOCZULSKI FOR NATIONAL POST / FILES

“If there is a hiccup in China, all these resource names are going to get pounded”

Steve Palmer, manager of the AlphaNorth Partners Fund, says over the past 25 winters Canadian small-cap stocks have enjoyed an average gain of 13.5%, and December has been the best-performing month by a wide margin.

# Get set for small-cap rally in December

If history is any guide, the Canadian small-cap market will be fairly strong in the next few months. In the past 25 years, the BMO Small Cap Total Return Index has seen average returns of 13.5% for the December to May period, compared to a decline of 3.1% during the rest of the year.

Since December has been the best-performing month by a wide margin, AlphaNorth Asset Management president and CEO Steven Palmer is telling investors to take advantage of this seasonal trend. His long weighting for the portfolio is higher than average as a result.

While the AlphaNorth Partners Fund is not a resource fund and it has a more diversified approach than many of its peers in order to reduce volatility, the portfolio has nonetheless averaged about

55% exposure to resources since launch. That number is a bit higher these days due to the strong performance of several resource names in recent months.

However, Palmer is looking to reduce that resource exposure and focus more on special situations and technology.

“Resource names have been driving the performance over the last few months due to the strength in China,” he says.

“I like to have a more balanced portfolio because if there is a hiccup in China, all these resource names are going to get pounded. I think we’re probably due for a correction in the resource sector shortly.”

Palmer has been bullish on the rare-earth space for quite a while and took advantage of weaker markets this summer to increase the fund’s position in a couple of key names.

However, the portfolio

manager has been taking some profits on the sector’s recent strength as more obscure names continue to pop up.

“It’s getting a little mainstream and overheated at this point,” Palmer says. “The Street has also been highly focused on gold and precious metals recently, and I think that is even more overheated than the rare-earth space.”

Instead, he is focusing on oil and uranium. The spot price for uranium rebounded from a low of US\$40 a pound to roughly US\$60 recently.

“The price seems to have turned, there are some fundamentals supporting the long-term demand for uranium, and if you look at some of the stocks that were forgotten over the past couple of years, they’ve started to perform much better too,” the manager says.

*Financial Post*  
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### THE MANAGER

**Manager:** Steven Palmer, AlphaNorth Asset Management  
**Fund:** AlphaNorth Partners Fund  
**Description:** Long-biased small-cap hedge fund focusing primarily on Canadian companies  
**Style & Process:** GARP (growth at a reasonable price) and opportunistic  
**Assets under management:** \$45-million  
**Performance:**  
 1-year +51.5%  
 2-year +87.2%  
 Since Dec. 2007 inception +23.1% (as of October 31, 2010)  
**Fees:** 2% management, 20% performance