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CANADA TIP SHEET: Bain Moves Back Into Stocks

DOW JONES NEWSWIRES

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TORONTO (Dow Jones)--Daniel Bain started the year with an 80% cash position, but he recently began buying stocks again.

Bain, portfolio manager of the Thornmark Enhanced Equity Fund, said the deteriorating economy and expectations for "horrible" corporate earnings prompted the dramatic increase in the fund's cash position. Typically, the fund is 90% invested in stocks.

Bain said he believes the economy will start improving late this year or early next. He noted that recent data on the U.S. housing, retail and manufacturing sectors showed small signs of improvement, or were "less bad."

Because markets typically rally six months ahead of a recovery, Bain said he increased the fund's stock weighting to 63% from 36% in early March. The move has paid off so far, as the S&P/TSX Composite Index is up about 16% since the end of February.

To be sure, Bain said the market remains "treacherous" and could easily reverse course, but he added that he wants to ensure that his unitholders participate in a recovery rally should one occur. Still, Bain noted that 63% equity for his fund is relatively low.

Bain said the C\$30 million fund adheres to a "value-shift investment philosophy," meaning he has the freedom to drift away from a strict value style. He said managers who adhere religiously to a value-investing approach can sometimes insulate unitholders from market crashes, but they also miss out on rallies and recoveries.

By contrast, Bain said he has the flexibility to shift to a growth, momentum or trading style as he sees fit. Such decisions aren't taken lightly and the fund's default investing style is value, he said. Still, in 2006, when the price of oil was soaring, the fund's energy weighting exceeded 40%, and the portfolio included a number of riskier small-cap names.

Ultimately, because the economy had been in an expansionary phase for more than four years, and because investors had rotated overwhelmingly into the materials and

energy sectors, a sure sign that the cycle had run its course, Bain shifted back to a more classic value style. He rotated money out of energy stocks, sold his small-cap holdings and raised the fund's cash position.

Now, Bain said he believes we're on the cusp of an expansionary cycle and he is starting to buy. Recent additions to the portfolio include BCE Inc. (BCE), Rogers Communications Inc. (RCI) and Potash Corp. of Saskatchewan (POT). Regarding Potash, Bain said he believes demand for food from developing nations will continue to increase, and companies that supply products that improve crop yields will benefit.

Regarding BCE, Bain said that, while the company's landline business remains under pressure, the stock is attractively valued and BCE is still a communications stalwart in Canada with dependable cash flow.

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

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