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Where will you put your money in 2001?

Top managers share some of their stock picks

Thomas Hirschmann

Financial Post

Last year saw much nail-biting and tears, and 2001 could bring more of the same, at least initially.

Peter Redman, National Post

Peter Schendel, manager of the Fallingbrook Growth Class A fund ...

But 2000 did offer active money managers a chance to outperform the market -- a task that had often proved difficult when the market was making easy double-digit returns.

A handful of the top stock pickers for 2000 gave us their outlook for the stock market in 2001. In general, they are bullish.

... Wendy Chua and ...

Mark Jackson, manager of the Transamerica Growsafe Canadian Balanced fund, expects that the stock market will recover, but that the recovery will be selective and driven by large caps. The U.S. economy should bottom in the first quarter, he says, then rally to the end of the year. Financial services, select technology and consumer products stocks will outperform.

Peter Schendel, manager of the more aggressive Fallingbrook Growth Class A fund, concurs that economic growth will be spurred in 2002 by rate cuts in 2001. The market will rally at mid-year in anticipation of the recovery. He thinks a lot of the "fast money" has been taken out of the market and a more orderly process may result. Oil prices will fall off, he says, but natural gas prices may cause trouble. Growth beats value.

Roger Mortimer, manager of the

value-oriented AIM Canadian First Class fund, is more cautious. He believes the U.S. economy may be slowing more quickly than the market has acknowledged. We may still have a significant slowdown before interest rate cuts take hold. Stocks, particularly expensive techs, have more downside. He is looking for stocks that have reasonable downside protection paired with the opportunity to generate positive returns.

Andrew McCreath, who manages Synergy Canadian Growth Class, predicts that equities will regain the pre-eminence they ceded to bonds and money markets in 2000. The latter part of 2001 will be particularly robust as corporate profits reaccelerate with likely Federal Reserve easing. The U.S. dollar will continue to weaken.

William Onslow and Wendy Chua, co-managers of the Altamira Health Sciences fund, operated in the most robust sector last year. Health sciences toughed out the turmoil and made solid returns on the year. Some are calling for the sector to be the next to correct, but Ms. Chua and Mr. Onslow are protecting themselves by investing in companies that are lower risk, with viable products or services already on the market.

We thought that these managers, among the top in their various style classes during a difficult 2000, might be able to extend their winning streak into 2001. Each has picked 10 likely winners, listed in no particular order, with a brief rationale. One-year returns are to Nov. 30.

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PETER SCHENDEL

Fallingbrook Growth Class A

Assets: $3-million

One-year return: 100.2%

Morningstar rating: 5 star

This year, it doesn't matter too much what banks are in your portfolio, as long as you have some. Industry consolidation will drive valuations higher, and I like the high-quality, aggressive management team at Toronto-Dominion Bank.

Some companies measure their backlog in

... William Onslow, co-managers of the Altamira Health Sciences fund...

... Andrew McCreath, Synergy Canadian Growth Class ...

Richard Arless, The Gazette

... Roger Mortimer, AIM Canadian First Class fund ...

months, while Bombardier Inc. (BBDb/TSE) does it in years. Excellent growth and good earnings visibility will keep this stock on track in 2001.

The industry gorilla JDS Uniphase Corp. (JDU/TSE) is more reasonably valued after a full body shave. Expect solid growth from the fibre-optics industry to continue for the next year.

Glenn Lowson, National Post

... and Mark Jackson, Transamerica Growsafe Canadian Balanced.

Demand for business-intelligence software continues to drive growth at Cognos Inc. (CSN/TSE). Our technology picks are focused on dominant companies in fast-growing market segments. This software niche is attracting attention and may be subject to consolidation over the next few years.

MDS Inc. (MDS/TSE) is a high-quality, diversified way to gain exposure to the medical and biotechnology industries, including proteomics. As a relatively mature company, an investor has the comfort of real revenues and earnings while participating in any upside from MDS's early-stage divisions.

Home Capital Group Inc. (HCGb/TSE) is a residential mortgage lender had a return on equity of 23.3% and experienced earnings growth of 29% over the previous year in Q3 2000. At eight to nine times this year's earnings, this company is a fantastic deal. Definitely one of the most overlooked financials in Canada.

Aastra Technologies Ltd. (AAH/ TSE) is another growth stock trading at a value multiple. Aastra has revitalized the phone business they bought from Nortel, transforming it into a high margin, profitable and growing business. With new Web phones and large-screen residential phones, the company should experience 20% growth next year. It trades at a ridiculous eight times this year's earnings.

Xplore Technologies Corp. (XPL/ TSE), a maker of ruggedized tablet computers, is fulfilling a large order from Home Depot and is looking to expand its relationships in the public safety, manufacturing, retail and defence industries over the next year. We are looking for strong sales growth in 2001.

The Web is generating a phenomenal amount of data, and large companies need a place to store it. EMC Corp. (EMC/NYSE) is a pure play on storage and is reaping the rewards that accrue to the leader in a fast-growing segment of the tech market. Corporate spending on IT budgets may slow next year, but storage will still see strong double-digit growth.

The stock of Intel Corp. (INTC/ NASDAQ) at these levels is fully discounting a slowdown in semiconductor sales into the PC and communications channels. It's a great company that will hold up well during a semiconductor slowdown and that will be one of the first to rebound given any strength in demand.

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