

Anything but neutral

09:56 EST Thursday, Aug 08, 2002

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WINNIPEG (GlobeinvestorGOLD) – Fund manager John J. Schmitz shorts stocks to stay long on returns.

Mr. Schmitz's SciVest Market Neutral Equity Fund has produced a 24.2-per-cent return for the 12 months ended July 31, compared with a decline of 25.7 per cent by the S&P 500 and a gain of 6 per cent by similar funds as measured by the CFSB Tremont Market Neutral Hedge Fund Index. The \$7-million portfolio of 360 stocks selected to be completely dollar neutral and market neutral produced the top return among all Canadian market neutral mutual funds. Managing director of SciVest Alternative Strategies Inc., Mr. Schmitz established the fund in May, 2001 as a way to make money in the market's sinking phase that began in the spring of 2000. The portfolio is an exercise in risk, he said, noting that without the aid of any market movement, all returns are based on stock picking. He selects stocks for long or short positions based on over a hundred variables that change in relative ranking according to macro and market environments. Holdings are 80 per cent U.S. stocks and 20 per cent Canadian.

"People may think they can't make money in this market, but we have shown it can be done," he said. "There are always companies doing well and others doing poorly. The trick is not only to know which is which, but to isolate them from market and sector bias."

Citigroup, the largest financial services company in the U.S., makes up 1.6 per cent of the portfolio. Mr. Schmitz bought Citigroup at \$42.72 (all figures in U.S. dollars) and seen the stock drop to \$31.52 in recent days. He said he is adding to his position because in the worst case, earnings should rise to \$3.65 a share in 2003 from \$3.18 a year earlier. Citigroup's current price-earnings ratio of 10 is cheap for a world class bank, he added. Within 12 months, the shares could rise to \$36.50 on the present P/E multiple, or more if the market's mood improves.

Fresh Del Monte Produce Inc. is a Miami, Florida-based fruit producer and marketer that Mr. Schmitz bought at an average cost of \$19.85 and now trades at \$24.47. A conservative play on consumer staples, earnings should rise to \$2.82 in 2003 from \$2.70 in 2002, he said. With a current P/E of 9.1, this non-cyclical food and beverage company, 1.1 per cent of the portfolio, is cheap, he explained. As well, the company's debt, 48 cents for each dollar of equity, is easily covered by operating income. Within 12 months, the shares should rise to \$28, he said.

Also in the portfolio is Sierra Health Services Inc., a Las Vegas, Nevada-based managed health care company that Mr. Schmitz bought for an average cost of \$23 and now trades at \$21.10. Earnings should rise to \$1.55 in 2003 from \$1.32 in 2002, he said. The company, 0.8 per cent of the portfolio, has 70 cents of debt for every dollar of equity, reasonable for the industry. Sierra Health serves one of the fastest growing communities in the U.S., he noted. Within 12 months, shares should hit \$26, he said.

Andrew Allentuck writes about investments for The Globe and Mail, and reviews books on finance for [globefund.com](#) and [globeinvestor.com](#). He is also the author of several books.