

Long and short of it

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WINNIPEG (GlobeinvestorGOLD) - Fund manager John Schmitz has more diplomas and degrees on his office walls than most people have family photos.

An engineer with a PhD in finance, Mr. Schmitz runs the \$7-million SciVest Market Neutral Equity Fund, which -- through alternating short and long positions -- has gained 13.8 per cent for the six months ended Feb. 28, 2002, more than tripling the 4.1 per cent gain by the Toronto Stock Exchange 300 Composite Index. The fund also outpaced the 5.5 per cent average gain by alternative strategy funds - many of which can also sell stocks short. Between inception in May, 2001 and March 22, 2002 the fund gained 25.7 per cent compared with a decline of 0.4 per cent by the TSE 300.

"We didn't have to endure any pain from the bear market that prevailed last year because we are always neutral through a balance of shorts that fully offset dollar for dollar our long positions," Mr. Schmitz said. "Overall, equity markets have no impact on our ability to generate positive returns."

Mr. Schmitz adds other risk control rules to the portfolio. He insists stocks be liquid, diversified and that no one stock be more than 2 per cent of total asset value.

Currently in the portfolio of 350 stocks are long positions such as Metris Companies Inc., a Minnetonka, Minnesota-based high risk consumer loan company that went into the portfolio at \$16.60 (U.S.) per share. Recently, it has traded at \$20.79. The stock is bolstered by insider buying, positive earnings revisions and higher earnings expectations among analysts, Mr. Schmitz said. What's more, at 7.5 times expected 2002 earnings, the stock looks cheap, he added.

Mr. Schmitz carries a financial services hedge to offset his long position on Metris. Recently, he shorted Washington, D.C.-based financial services firm Federal Agricultural Mortgage Corporation at \$43.88. Insiders are selling and, after an 80 per cent rally in the last 12 months, the stock has gotten pricey, he said. With a price-earnings ratio of 23 on 2002 estimated earnings, he says it is expensive compared with Freddie Mac's p/e of 12.8 times 2002 earnings.

As well, Mr. Schmitz shorted FuelCell Energy, Inc., a Danbury, Connecticut-based producer of alternative energy technology, selling it at \$16.85. This company suffers from insiders jumping off by selling massive amounts of stock, analysts lowering their earnings forecasts, and projections of losses for several years to come, 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.