


# Globe Investor

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## ALTERNATIVE ENERGY INVESTMENTS

# 'Opportunistic' fund rockets to huge gain

BY SHIRLEY WONG  
FUNDS REPORTER

Unlike most peers in the mutual fund world, Steve Martin has been able to defy gravity in the market collapse.

The 28-year-old manager runs Creststreet Alternative Energy Fund – the top mutual fund performer last year with a 142-per-cent gain. Over the year ended Feb. 28, it is up 94 per cent.

"We are very opportunistic," says Mr. Martin, who joined Toronto-based Creststreet Asset Management Ltd. as an analyst in 2005. "We almost run it like a hedge fund."

Like a handful of rivals, his \$25-million fund has regulatory approval to do limited short selling. And it charges a 20-per-cent performance fee for beating a benchmark. In his case, it's the S&P 500.

Even though his fund is billed as an alternative energy investment, Mr. Martin will short clean-energy stocks or exchange-traded funds [ETFs] if it will make money.

"Alternative energy in the pure sense was extremely unattractive for much of 2008," he said. "We do not promote the fund as being altruistic, environmental friendly or socially responsible investing."

### What is your fund's mandate?

We will invest in anything that exploits an opportunity outside traditional, carbon-based-emitting sources of energy. But we have expanded the sandbox as there is just not enough names, liquidity or good opportunities to keep it narrow. But it would be at most a quarter of the portfolio so we have even invested in oil and natural gas stocks, and even small amounts of gold bullion. We have even invested in Suncor Energy. It is the largest ethanol refiner in Canada even though it is a minor part of their business.

### How did you make 142 per cent last year when most funds crashed?

I don't think that [return] is sustainable given the current size of the fund. A lot of that performance was generated when the fund was less than \$3-million in assets. And it was very high turnover – it was more trading than investing. What I am more comfortable with is what we have done probably in the last six months – a target closer to 25 per cent per year.

### What did you invest in when the fund started in late 2007?

It was a fairly indiscriminate basket of solar names. They all just had a ton of momentum and there was a mini-bubble forming. It was very aggressive investing. We took on a lot of risk at that time, and we were fortunate.

### Why did you do a lot of trading in 2008?

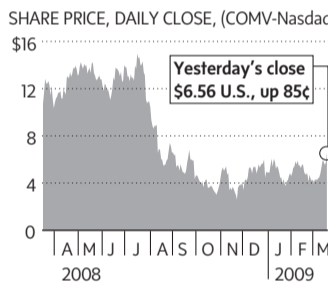
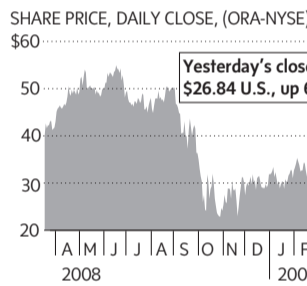
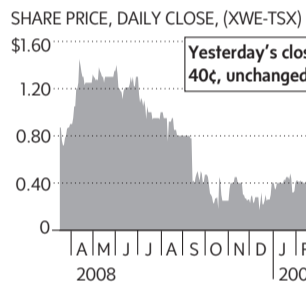
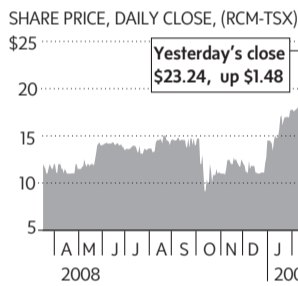
We were very much wary of the [credit] problems looming in the world. We didn't want to get committed to something that we couldn't sell or get out of within a couple of days. The



Creststreet's Steve Martin: 'We do not promote the fund as being altruistic, environmental friendly or socially responsible investing.'

FERNANDO MORALES/THE GLOBE AND MAIL

## FUND MANAGER STEVE MARTIN'S TOP PICKS



THE GLOBE AND MAIL SOURCE: THOMSON DATASTREAM

### RUGGEDCOM INC.

The maker and seller of industrial-grade routers for utility substations has strong management, can benefit from North American fiscal stimulus plans and is a potential takeover candidate, he said.

### WORLD ENERGY SOLUTIONS INC.

The firm, which hosts online auctions for the trading of electricity contracts and carbon credits, can potentially benefit from the implementation of U.S. carbon cap-and-trade legislation in the United States, he said. "It is a speculative micro-cap play."

### ORMAT TECHNOLOGIES INC.

The "undisputed market share leader in geothermal power production and equipment sales" should benefit from U.S. fiscal stimulus loan guarantees for renewable power production, he said.

### COMVERGE INC.

The firm sells gear to help consumers cut power use to relieve stress on electricity grids, and sells the power back to a utility. "It's not yet profitable, but has a solid cash position and are poised to experience strong sales growth resulting from subsidies targeted to utilities to improve energy efficiency," he said.

entire [first] six months was just the end of a very large bubble. And it was no different than the tech bubble in 2000, and the last credit bubble of the early 1990s.

### Where did you make money?

We were shorting uranium equities, and were long some grain ETFs like PowerSharea DB Agriculture Fund. We made very good returns from potash – not just Potash Corp. but from junior potash names like MagIndustries, and some natural gas names like Petrohawk Energy and Chesapeake Energy. We had a very speculative position in Largo Resources, which has a battery-grade vanadium deposit. I think it was a 10-per-cent position, and we made 40 per cent on it.

### What about the second half

### of 2008?

We started to take on more short investments so the fund was more market neutral in the second half. We were short the Claymore/MAC Global Solar Energy Index ETF, as well as PowerShares WilderHill Clean Energy ETF and PowerShares Global Clean Energy Portfolio ETF. We were short solar-specific equities like Solarfun Power Holdings and Suntech Power. We were short some independent power producers like Canadian Hydro Developers and Plutonic Power. But we were long higher-yielding infrastructure plays like Great Lakes Hydro Income Fund and AltaGas Income Trust.

### What about your cash position?

We had a very large cash posi-

tion for the second half of the year. It varied anywhere from at least 50- to 90-per-cent cash. We used it to trade in and out of some very highly liquid stocks, specifically, in the few days when it seemed like the world was falling apart last October. First Solar was a name that we bought once on a big capitulation day, and we sold it into a subsequent rally.

### How different is your strategy today?

The one big change is that we have started to really drill down into the fundamentals of individual companies to understand their earnings power. At the end of 2008, we finished the year with 90-per-cent cash, and now that's at 65 per cent. We have been adding about 10 per cent a month roughly. We are taking our time. I don't think the econo-

my or the world is out of the woods yet by any stretch of the imagination.

### Do you see opportunities in U.S. President Barack Obama's plan to make renewable energy and climate change key to his plans?

There is a strong focus on renewable energy. But there is also a new emerging subsector that is getting a lot of focus – what we call the smart grid. It's updating the electrical transmission infrastructure. It's a big investment that needs to be made, and we are starting to identify companies that are exposed to that.

We are also going to see the implementation of some sort of carbon cap-and-trade system, and that can benefit companies positioned for that change.

## GLOBAL FUNDS

# Managers' confidence increases

BY VIRGINIA GALT

Global fund managers, who have been in "a very, very recessionary mindset" for the past several months, appear to be regaining confidence in the world economy – but they are not yet willing to bet their money on the stock markets, according to Merrill Lynch's monthly survey of fund managers.

The 213 survey participants, who manage a total of \$533-billion (U.S.) in assets, were evenly split last week on whether the global economy will get worse or better – with 41 per cent saying things will go from bad to worse in the next 12 months, 41 per cent predicting some improvement and the rest expecting no change either way.

"For the first time in three years, [a majority of] investors do not predict lower economic growth over the next 12 months," Bank of America-Merrill Lynch said in reporting the results of the global survey.

"However, the prolonged banking crisis seems to be stopping them from putting cash into equities," the firm said.

The March measurement of fund managers' sentiment about global economic prospects stood at zero, with the optimists balancing out the pessimists.

While a reading of zero might not appear to be impressive, it marks "the highest level of growth expectations since September, 2005, and compares to minus 24 per cent at the start of the year and a low of minus 60 per cent back in October," the firm said.

"Zero is a lot higher than it was six months ago ... It was a very impressive jump in global growth expectations," Michael Hartnett, co-head of international investment strategy for Bank of America-Merrill Lynch, said during a conference call yesterday.

Even so, confidence in the stock markets has not returned.

"March's survey shows signs that investors want to believe in an economic recovery. However, caution on banks is firmly capping risk appetite," the firm said.

This risk aversion dates back to last October, when global equity markets plunged dramatically and the global economy entered a recession.

"Risk appetite in equities took a marked downward turn [again] in March despite the improved economic outlook. Respondents say they have reduced their equity exposure in the past month while increasing cash holdings and fixed-income investments," according to the report.

"A net 41 per cent of respondents are underweight [in] equities, up from a net 34 per cent in February. World equities fell by 15.5 per cent during the days the survey took place," the firm noted.

"Investors appear to have flooded into bonds, with a net 26 per cent of the panel overweight in the asset class, up sharply from a net 7 per cent the previous month. Average cash balances rose to 5.2 per cent from 4.9 per cent in February," the survey found.

## FIVE TIPS

# A few ways to find tax relief for your battered portfolio



### TIM CESTNICK TAX MATTERS

Tim Cestnick is managing director at WaterStreet Family Wealth Counsel and author of 101 Tax Secrets for Canadians. tcestnick@waterstreet.ca

When filing your tax return for 2008, why not make the best of a bad situation? Here are five ways you can gain some tax benefits related to your portfolio:

#### CARRY LOSSES BACK

Let's face it, many Canadians experienced capital losses in

2008.

If you sold some of your losers, you'll be able to apply those losses to reduce any gains you might have realized in 2008.

To the extent you didn't have sufficient capital gains in 2008 to offset those losses, you can carry those losses back to 2007, 2006 or 2005 to apply them against capital gains you might have reported in any of those three years.

Make sure you file Form T1A by April 30 with your tax return this year in order to carry your losses back. This will allow you to recover taxes you might have paid in a prior year.

If you didn't have capital gains in any of those three prior years, you can carry your 2008 net capital losses forward indefinitely for later use.

#### CLAIM LOSSES ON DEFUNCT SECURITIES

What happens if you own an investment that ceases trading because the company is bankrupt or insolvent? Can you claim a capital loss? Quite possibly. Subsection 50(1) of our tax law will allow you to state that you sold a security for nil proceeds, if certain criteria are met. If you claim a capital loss and sell the security later, you'll be taxed on a capital gain on your proceeds at that later time. Speak to a tax pro for more information.

#### CALCULATE YOUR CORRECT ACB

The higher your adjusted cost base (ACB), the lower the taxable capital gain will be on any investment dispositions you made last year. (Your ACB is

the cost of your investments).

How do you maximize your ACB?

First, remember to add to your total ACB any reinvested mutual fund distributions or dividends under a dividend reinvestment plan. These are treated like additional purchases, and will increase your ACB.

Second, if you inherited certain securities from someone other than your spouse, your ACB should be the fair market value on the day you inherited the securities, not the ACB of the person who gave you the securities. If you inherited securities from your spouse, you'll generally continue with the same ACB that your spouse had (unless an election was made to transfer the securities to you at fair market value).

#### DEDUCT CARRYING CHARGES

There are two types of carrying charges I want to mention: Interest costs and investment counsel fees. Interest costs are normally deductible when you've incurred those costs to earn "income from property" (which includes interest, dividends, rents or royalties). Remember to claim your brokerage or margin account interest, or interest charged on a Canada Savings Bond payroll purchase plan. Even where an investment has gone sour and is no longer held by you, a portion of the interest on the money borrowed to buy that investment may still be deductible.

As for investment counsel fees, those costs are deductible when they were paid for ad-

vice on the purchase or sale of securities, or for the administration or management of securities. Sorry, but fees related to registered accounts are not deductible. What about commissions? Sorry, these aren't deductible, but will be added to your ACB on a purchase and will reduce your capital gain or increase your loss on a sale.

#### TRANSFER DIVIDENDS TO YOUR SPOUSE

It may be possible to save tax by transferring Canadian dividends from the lower-income spouse who may not be able to use the dividend tax credit to the higher-income spouse who can use the credit and will be able to claim a higher spousal credit. A calculation will have to be done to see whether this will be beneficial for you.