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## Why this manager is staying on the offensive



**JONATHAN RATNER** | August 12, 2014 7:04 PM ET  
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President and portfolio manager Bruce Campbell at StoneCastle Investment Management at his office in Kelowna, B.C.

Jeff Bassett for National Post

**Manager: Bruce Campbell, StoneCastle Investment Management**

**Fund: Redwood Equity Growth Class**

**Description: Primarily Canadian all-cap equity fund**

**Firm's AUM: \$100-million**

**Performance: 1-year: 53.72%; 3-year: 12.52% (compounded as of July 23, 2014)**

**Management fee: 2.5%**

Bruce Campbell is staying on the offensive in positioning the Redwood Equity Growth Class, despite acknowledging that the market is due for some sort of correction.

The portfolio manager at Kelowna, B.C.-based StoneCastle Investment Management has also made some significant changes to the fund as a result of both the macro economic outlook and the performance of certain sectors.

The fund ranks first in Morningstar's Canadian equity category over a one-year period.

~~"We haven't seen the correction everyone is forecasting and waiting for but from a statistical standpoint, we're probably ready for~~

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The manager, who also runs the Redwood Income Growth Fund and the StoneCastle Fund for high-net-worth clients, noted that history suggests there will be a pullback in stocks in the next three months, but he hasn't adjusted the portfolio as a result.

“The top-down indicators we follow are very positive,” Campbell said, highlighting the increase in positive earnings estimate revisions.

He also pointed to promising U.S. leading indicators such as improving consumer and executive confidence, and falling jobless claims.

Campbell's analysis of the relative relationship between Canadian and the U.S. indexes continues to give him comfort in TSX-listed companies, as he sees no signs of waning momentum.

“Energy and financials have been strong for much of the year, and in the past three months the materials sector has also emerged,” he said.

Campbell has shifted the fund's materials exposure away from the chemicals and forestry groups, and into precious metals, which currently has a 12% weighting. Energy accounts for about 20% of the portfolio.

“We don't own any base metals, but they're starting to show up on our list and look more attractive,” he said.

## BUY

*Easyhome Ltd. (EH/TSX)*

**The position:** Recently added to top 10 holding

**Why do you like it?** Easyhome's legacy furniture leasing business isn't growing much, but its Easyhome Financial consumer loan division is expanding fairly rapidly.

“The interest rates on customer loans are huge, with effective rates in the 30% range because they are sub-prime,” Campbell said. He noted the company recently increased its loan book to \$250-million, which should drive healthy revenue growth as it allows them to bring in more customers.

He also pointed out that Easyhome has been able to lower the interest rate it pays to lenders.

**Biggest risk:** Higher loan losses

*Patient Home Monitoring Corp. (PHM/TSX-V)*

**The position:** Initial purchase in Q4 2013

**Why do you like it?** This company acquires small health-care-related monitoring companies at typically very accretive multiples, with the majority of its business in the U.S.

“Patients are being discharged from hospitals sooner and the number of doctor visits is being reduced,” Campbell said, noting these trends bode well for PHM, as demonstrated by its latest quarterly results.

“Not only are they making acquisitions, but they're also seeing organic growth due to cross-selling between the companies they've picked up,” he said.

**Biggest risk:** A disappointing acquisition

*BlackBerry Ltd. (BB/TSX)*

**The position:** Recent addition

**Why do you like it?** Campbell looks for earnings growth, positive earnings revisions and price momentum, and BlackBerry fits the bill.

“Most people don't realize the company has surprised to the upside on earnings in three of the past four quarters,” he said. “We're also starting to see positive earnings revisions as CEO John Chen has started to turn some things around and take a company that was pretty much left for dead forward.”

**Biggest risk:** Competition from Apple/IBM's enterprise joint venture

## SELL

*Forestry sector*

**The position:** Exited in recent months

**Why don't you like it?** After owning names such as West Fraser Timber Co. Ltd., Canfor Corp. and Western Forest Products Inc., Campbell has eliminated the fund's exposure to the sector over the past three months or so.

"We saw valuations come up fairly strongly and the house-building numbers in the U.S. start to flatten," he said.

**Potential positive:** Improving U.S. home building figures



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