

## Bay Street rarity: a firm that's not afraid to pan stocks

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### ***Veritas has no underwriting department, and therefore no reason to fawn over stocks***

Just last week the shares of Poseidon Concepts Corp. imploded, following revelations by the company that most of its previously reported revenue in 2012, upon closer inspection, didn't exist.

The shares fell 70 per cent before regulators did the merciful thing and imposed a trading halt.

On the Street, the sell side analysts who toil away for investment dealers didn't see it coming. For much of last year, 100 per cent of them were bullish on Poseidon.

Over the years, we've seen this movie many times: crack ups in one-time market darlings that leave investors considerably poorer. Names that come to mind include Yellow Media, Timminco, Sino Forest and Nortel.

We've also seen a dearth of "sell" recommendations that would help investors avoid or make timely disposals of questionable stocks, even though many studies have found that the majority of stocks under perform their index.

That's why it's surprising that ***Veritas Investment Research Corp.*** hasn't attracted more attention. ***Veritas*** is one of the few research-only firms in the country, and lives or dies by selling research to paying clients. There is no need for its analysts to toady to companies for investment banking reasons, because ***Veritas*** has no underwriting department.

Most investment banks don't have the guts to keep a public, running tally on their calls.

***Veritas***, however, puts its record on its website, summarizing the collective results of every pick and pan since opening shop way back in 1999.

As of the end of January, its tally showed that its 179 buy calls outperformed the Toronto market by 7.1 percentage points while the recommendations were in place. The 217 sells underperformed the benchmark by 5.7 per cent.

Particularly noteworthy is that the sells outnumber the buys, unlike the Street's rare sell calls.

***Veritas*** didn't follow Poseidon because it focuses on larger Canadian companies of interest to its mainly institutional investor following. But over the firm's life, it has been right on many of the worst investment dogs, including Nortel, Timminco and Yellow Media.

I spoke recently to two of the firm's principal analysts, ***Neeraj Monga*** and ***Anthony Scilipoti***, about their outlooks for individual stocks and sectors. Given the firm's unusual willingness to issue sell calls, I focused on the stocks they don't like.

Among their pans are Detour Gold, MacDonald Dettwiler & Associates, CGI Group Inc., SNC-Lavalin Group Inc., Research In Motion Ltd. and Valeant Pharmaceuticals International Inc. – all firms that are popular on the Street or among investors.

MDA has been on a tear, following its acquisition of Space Systems/Loral, a U.S. satellite firm. The Street likes the acquisition. But **Mr. Scilipoti** said MDA's business in Canada has been slowing. He figures Lorel won't meet expectations.

Told the stock has been up because of the Lorel deal, he says "that's fine ... if we have a weakness, we're early. That's our biggest weakness."

The firm panned Detour Gold after reviewing court documents over reimbursement disputes the company has been having with contractors at its flagship Ontario mine project. **Veritas's** worry is that cost escalation and project execution risks are increasing the odds the company will issue more stock, diluting existing holders.

SNC-Lavalin stock has been recovering nicely from its tumble due to the Libyan bribery investigation, but **Veritas** worries that accounting and legal problems tend to be like cockroaches: You never see just one. **Mr. Scilipoti** says he doesn't believe the company's problems are "fully resolved" and worries that there may be fallout on its engineering consulting business.

RIM is still too high risk to take the plunge, even though the company's new BlackBerry has been getting good reviews. "We have a sell on Research in Motion because we are not sure this platform is going to gain traction," says **Mr. Monga**.

For Valeant, there are concerns over earnings quality and growth of the business. On CGI, the concern is over the company's accounting for acquisitions.

Many Canadian investors have gold bug tendencies, but **Veritas** has a negative take on the precious metal and consequently pans the miners. It also figures natural gas prices are going to stay low, so there isn't much reason to be excited by companies like Encana.

"The reason we think the gold price is going to go down is because we expect production growth [of gold] to outpace demand growth," **Mr. Monga** says. He expects gold prices to weaken or be flat, hardly bullish for producers that are also coping with rising capital costs on projects.