

# COMMENT

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## *Activists spoil short selling*



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*Risk & Reward*

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**I**t takes brains, if not bravery, to short stocks in this bull market. You'd better be sure you're right, since cruddy companies tend to ride on the coattails of good ones in heady times like these. The rising tide lifts all boats, in other words.

However, another dynamic is adding to the trepidation of portfolio managers trolling for good shorts: the rapid proliferation of so-called activist investors.

These are the types who think buying undervalued stocks and just waiting for them rise is old fashioned and too slow. So they buy stakes in public companies and push for change, whether that leads to asset sales, slashing costs, refinancing or new management.

Over the past year, we've seen activists in Canada train their guns on companies including Creo Inc., Caldwell Partners International Inc., Dimethaid Research Inc., Transat A.T. Inc., Masonite International Corp., Manitoba Telecom Services Inc., MDS Inc. and Penn West Petroleum Ltd., among others.

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Over lunch at a restaurant...

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It is heartening to see aggressive investors shaking up Canada's capital markets with their demands. But this strategy is creating problems for some fund managers.

Over lunch at a popular Bay-Street haunt yesterday, a veteran hedge-fund manager lamented that going short this year has been far more dangerous and stressful than in recent memory.

In the back of your mind, the fund manager grumbled, you always worry about finding an obvious candidate for shorting, only to have an activist investor come along, rant and rave, and drive the stock up as others pile on.

It just takes one curmudgeonly shareholder to get the ball rolling and your short position can get killed. It is nearly impos-

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## **ONE CURMUDGEONLY SHAREHOLDER CAN KILL SHORT POSITION**

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sible to know when and where activist investors will strike next.

After all, the Canadian market is small relative to U.S., where there is more liquidity and more shorts to pick from.

There are a couple of catalysts for this new wave of shareholder activism. Many hedge-fund strategies, from convertible arbitrage to managed futures, are not working well right now. The CSFB/Tremont Hedge Fund Index is up only 1.3% this year.

So more and more investment funds, including those that used be long only, are picking fights with companies to generate above-average returns and attract more assets from investors.

For example, hedge fund J.C. Clark Ltd. is contemplating the public launch of an activist fund, likely in the fall.

Toronto-based Goodwood Inc., which is celebrating the success of its sizeable investment in Atlantic & Pacific Tea Co. before it sold its Canadian division, has joined forces with Burton Capital Management LLC to target Cenveo Inc., a printing operation based in Denver.

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# *Not easy shorting stocks these days*

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**KALAWSKY**

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Another catalyst for the activists is low interest rates, making it cheap for activist investors to finance their campaigns with borrowed money.

There are some fund managers that have decided to give up on shorting, at least for now. But shorting is not dead.

For one thing, activist investing will likely taper off once we get into another bear market. As indexes drop, it will be easier to find opportunities to short weak companies. Given the choice between a long, drawn out battle with a company or just shorting the stock, even activist investors will be more inclined to choose the latter.

For now, it's not going to get any easier for investors looking to short. Not only do they have to take a stance on when the market is going to turn, but they have to find names that won't catch the attention of activists.

As the veteran money manager mused over a glass of red wine, it is much easier to stay on the sidelines.

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