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By [Michael Volker](#)

## **Making a Quick Buck, Capital Pool Corps Update**

### **Making a Quick Buck**

In Brent Holliday's column he often gets interesting and insightful readers' comments. Here's a sample of the kind of stuff I get from readers: "Should I invest in 360networks since the stock is so cheap, now? I've got \$10K to invest and I want to know what stocks have the most promise for a quick buck?"

I bet brokers love to get these kinds of questions from their clients. Although I found the question somewhat amusing, it got me thinking a bit about how to answer such questions since I'm sure we'd all like to know the answer. Who wouldn't like to make a quick buck, or any buck for that matter?

Before attempting to answer the question, one would have to determine what the reader means by a quick buck. What is the time frame for making a buck? I assume quick means months or even days - but not years. Also, how big a buck would he like to make? Bigness is best measured by rate of return (ROI) expressed on an annual basis compared to the standard benchmark for returns which is interest rates on short-term deposits (e.g. T-bills). These currently run around 3.5%. Longer term deposits, e.g. bonds will provide interest yields around 6% (the current prime rate). For example, the current yield on the Canada 5.75% bond due June 1, 2029 is 6.03%.

The great thing about our financial markets is that there are so many investment alternatives - literally something for everyone! The prudent investor must establish some goals and criteria before jumping into any investment and *before* asking for investment suggestions. Indeed, you will notice that when you sign up for an account with an investment dealer, they must ask you what your investment preferences are, i.e. are you interested in income, growth or speculative investments? And what is your risk propensity? Obviously, wanting to make a big buck fast will mean exposing yourself to more risk than making a steady buck over time.

Because this column is focused on technology investments, let's take a look at some investment scenarios with a high tech underpinning where possible.

Going back to the initial question about investing \$10K to make a quick buck, my answers would range all the way from "buy T-Bills" to "buy options on the Nasdaq Cubes" or, for that matter, "buy options on any volatile NasdaqNM tech stock (of which there are many these days)".

In the first - and safest case - the \$10K will return, as it turns out, almost exactly \$1/day (using a 3.5% T-bill rate). So, there's your quick buck: i.e. one every day on your \$10K (has a nice poetic ring to it, doesn't it?) for almost zero risk. Please note that there's no such thing as zero risk. Even Her Majesty can go bust. I guess that's why we sing "God save our Queen" - to help ensure zero risk on government-backed deposits.

In the extreme case, the \$10K could return 100% or more in a few weeks or even 30-40% in a few days. Case in point: if you bought 45 AugQQQ \$42Call options yesterday at \$1.50, you could sell them today at \$1.90, giving you a profit of C\$2700 on your \$10K *in one day!* Go figure out what the

annual ROI is on that! The QQQ's are the so-called Nasdaq "cubes" which are exchange-listed and traded (on the Nasdaq, of course). QQQ is the ticker symbol for the Nasdaq-100 index stocks which includes Burnaby's **PMC-Sierra** (NASDAQ:PMCS; \$30.35) and 99 other Silicon-Valley style companies. The \$42Call contracts give you the option to buy/sell 100 shares, i.e. the Cubes, per contract. Hence, 45 contracts represents 4500 cubes at a cost of U\$1.50 each, i.e. the \$10K which we're "investing".

You can be even more aggressive and take even greater risk by getting into the Futures market on indexes, e.g. buying or selling (shorting) the **S&P Composite Index**, but I'll keep away from that because you could lose more than the \$10K you're starting with - even with the prudent use of stop loss orders (does anyone remember Oct'87?).

Next, let's take a look at the next-to-extreme cases mentioned above, i.e. low risk/low return to high risk/high return and then let's take a look at the mid-range of investments, i.e. modest risk/modest return.

But what's in between these two extremes, i.e. the next-to-extreme cases? The choices range from picking junior speculative CDNX-listed companies (I won't go near the OTCBB companies - which you can't really call "listed" in any event) to picking senior tech companies listed on the NasdaqNM.

So, what will you pick? I'll limit my examples to B.C. since that's what this column is all about, i.e. B.C. technology. Will it be a CDNX company such as **Marine Bioproducts** (CDNX:MBP; \$0.50), **Electric Mail Company** (CDNX:ELE; \$0.35), **EXI Wireless** (CDNX:EXI; \$0.90), **CST Coldswitch** (CDNX:CST; \$0.25), **Prescient Neuro** (CDNX:PRE; \$0.58), **TIR Systems** (CDNX:TIY; \$0.60) or one of the many **CPC** stocks, exclusive to the CDNX, especially those with a tech focus (see further down in this column)? Or, will it be a Nasdaq company such as **PMC-Sierra** (NASDAQ:PMCS; \$30.35), **Pivotal Corp** (NASDAQ:PVTL; \$10.00), **CREO Products** (NASDAQ:CREO; \$16.00), or any of the others that you'll find listed on the T-Net top 20 companies? The smaller, riskier ones can give you a return in the multiples - hundreds of percent - (remember, companies like **QLT and Westport** were in this category). The larger, less-risky ones, can give you high double-digit ROI's.

Of course, even the biggies can tumble. Take **360Networks** (NASDAQ: de-listed) which was just this morning delisted from the Nasdaq pursuant to its voluntary filings on June 28 for protection under the Companies' Creditors Arrangement Act in Canada and its U.S. subsidiaries under Chapter 11 of the U.S. Bankruptcy Code.

As 360Networks demonstrated - not to mention our Canadian "favorite", **Nortel Networks** (TSE:NT; \$12.60) which is under fire - the big cap firms are not necessarily safer investments. Another example of this is Ottawa's **JDS Uniphase** (NASDAQ:JDSU; \$8.35) which is plastered all over today's financial press - having gone from being one of the most valuable tech companies to now having the distinction as reporting the biggest corporate loss ever, in Canadian financial history!

For those of you how find it tough to make investment decisions and tend to rely on "expert opinions", don't forget that these analysts' learned prognostications aren't much better than our naive hunches. To illustrate this point, go back one year to what was being said about Nortel when its stock was peaking at \$124.50. According to The Globe and Mail, "buy" and "strong buy" ratings were the norm. ABN Amro analyst Kenneth Leon raised Nortel to "top pick" from "buy" in late July, 2000. Credit Suisse First Boston analyst James Parmelee suggested in early August that Nortel could go to U\$150 within the next year, up from an earlier estimate of U\$120. Ha!

Unless we do a great deal of analysis on specific companies, which is still, at best, a crap-shoot, we might settle on a less-aggressive approach with a modest ROI.

So finally, let's look at the mid-range of the spectrum. I suspect that investors would fit a

bell-curve with respect to the foregoing investment scenarios. And, you'll find that the majority are in this middle range, i.e. where most investors put their dough. Just look at all the number of mutual funds and index funds, and the trading volumes in these, to get an appreciation of this.

In this category, we find a myriad of funds, with varying risk profiles and ROI objectives. Mutual funds are very popular because you don't have to pick specific winners. I liken these to a shot-gun investing approach over a rifle-shot single-company game plan. As well as mutual funds which are holding companies with investments in public companies, there are Venture-capital style funds such as BC's **Working Opportunity Fund** (non-listed, RRSP eligible and tax-driven) and **Discovery Capital** (CDNX: DVY; \$0.30) which both invest in emerging tech ventures. Discovery is presently raising \$30 million for tech sector investments. You can buy as little as 5 units for \$1,000 per unit.

Mutual funds which invest in public companies are frequently compared to index funds. An index fund is simply a basket of stocks selected in such proportions so as to mirror a specific index. When you buy the S&P500 index, you are effectively buying a basket of the 500 stocks in the S&P500 index. A managed mutual fund attempts to beat the market by making investment buy/sell decisions whereas an index funds is formula-driven. That's why managed funds have high management fees associated with them whereas index funds have little overhead.

My personal favorite index fund investment in this category is the **Nasdaq-100** (NASDAQ: QQQ; \$41.85). These are the Cubes referred to earlier. But, instead of buying options on the Cubes, just buy 'em and sit on 'em. You can certainly make a few bucks quickly with these. And if you don't score quickly, you can sit and wait. Or, trade them - day in and day out.

These so-called Exchange Traded Index Funds (ETIFs) are created by financial firms such as **Barclays Bank** in cooperation with the owner of the index so that investors like us can buy or sell the underlying index on a regular stock exchange.

A few years ago, we created the **T-Net20** index to track the performance of BC's tech industry. If you could have put the \$10K into this index when it was created in early '98, you could have cashed in last year at \$100K (900% gain over two years). Darn good! Alas, if you had waited until now, you'd only get \$14,750 - but even that's a pretty good - and fast - buck! The only problem here is that we're dealing with a hypothetical case since the T-Net20 is not a traded index. To invest in this index, i.e. to invest in BC's top public tech companies, you'd have trouble spreading \$10K around in 20 companies to mirror the T-Net20. Maybe some day....?

A very creative, unknown vehicle has been created by Canada's **Business Development Bank**. Take a look at their **Internet Notes** (TSE: BDB.n; \$6.75), a "simulated" basket of 20 internet stocks - including the likes of Microsoft. These have been trading on the TSE at less than U\$7.00 (52 week lo-hi of U\$6.00 - U\$9.75). These "notes" (they trade just like shares on the Exchange) are *guaranteed* by Her Majesty at U\$10.00 (i.e. they can be given to her in Exchange for ten bucks in 2009). But - the upside is unlimited! What a deal! How come nobody knows about this? This investment gives you the prospect of making a quick buck at virtually zero-risk. It's almost like a bond with unlimited upside, i.e. you get back U\$10 on a \$6.75 investment PLUS the upside is unlimited!

Just recently, i.e. in June, the BDB announced the issuance of 1.65 million **Canadian technology equity linked notes** which are listed under the symbol: BDB.C. These are currently trading at \$10.00. Then there's the BDB's principal-protected **Nasdaq-100 Index-Linked notes** (TSE: BDB.Y). Some interesting stuff. Great for risk-averse quick buck aspirants!

Regardless of your goals and risk criteria, it's got to be a great time to get into the market and find some companies (or funds) with good value. Markets tend to overshoot in heated times and retreat during cooling off periods (kind of a hysteresis curve for your techies). This is a good time to put that \$10K into the market!

## Capital Pool Corporation (CPC) Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies (see chart below) as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP and JCP programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Since the program was launched, more than 250 CPCs have been formed and more than 30 have completed their so-called Qualifying Transactions (QT). It takes at least a year - usually longer - for a CPC to find a suitable takeover candidate and another six months to a year for a deal to be finalized. One way to expedite the process is to eliminate the need for a special shareholders meeting to approve the deals - leave it up to the CPC boards.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**. This list is updated on a monthly basis.

Some recent additions to the list are **Dream Wizards Investments Ltd.**, a CPC from Alberta, and **The Jenex Corporation**, which is from Ontario.

Some companies that have come to trade include **Avic Technologies Inc.**, **Coastport Capital Inc.**, **Elite Capital Corporation**, **EREZ Inc.**, **Gateway Capital Corp.**, **Leitrim Group Inc.**, **My Venture Inc.**, **Quicksilver Ventures Inc.**, **Seneca Equities Corp.**, and **Vista Investments Inc.**

**Old Sun Resources Ltd** has been removed from the list because it has completed its QT.

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

### Footnotes

I'm taking a few weeks vacation this summer, so my next column will appear in 4 weeks, i.e. August 24th.

Although the summer is usually a quiet time for the Tech industry, a complete calendar of technology events can be found on [T-Net's Events page](#).

SFU's **TIME Centre** is open for business - business folks, that is. TIME is an acronym for Technology, Innovation, Management, and Entrepreneurship. TIME supports the growth and development of the tech industry in B.C. TIME features a "BusinessCentre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown Harbour Centre campus at 515 West Hastings St. More information can be found at [www.sfu.ca/time](http://www.sfu.ca/time). PS - there are some great facilities for holding your company meetings.

For a convenient printable, pdf version of this column, [click here](#).

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**What Do You Think? Talk Back To Mike Volker**

**Tech Futures** is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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