

Green

HOTSHOT MONEY MANAGER OF THE MONTH

What a difference three months make in the life of a hedge fund manager. Last November, Bay Street hot-shot Peter Puccetti was seriously down at the mouth. The stock market was volatile, which is good for a long-short investor like Puccetti if he's on the right side of a trade. He wasn't, and a couple of bets were destroying his returns.

It was an unusual turn of events for the 36-year-old. Puccetti honed his skills at boutique firm Sprott Securities and ran his own brokerage before starting Goodwood Inc. in 1996. The company manages \$180 million for individual and institutional investors. After posting double-digit returns with alarming frequency, Puccetti was bracing for his first down year.

One big thorn in his side: a bet on Mosaic Group, a troubled marketing concern. It had seemed like an interesting proposal. When a company's debt exceeds the market value of its assets, investors usually panic and flee. But shrewd analysts will sniff around for time value in its shares, a concept borrowed from the option market. A call option gives its owner the right to buy shares at a specified price before a deadline. If the market price of the shares is less than that, you'd think the option would be worthless. But the company could recover before the deadline, and the option could soar in value. A distressed share also has time value, but it "expires" when the company's debts come due. If the company turns itself around, and it has a lot of debt on its books, a bet on its shares can have a huge payoff.

Unfortunately for Puccetti, Mosaic turned out to be all risk. Just before Christmas, it applied for bankruptcy protection. "I shouldn't have gotten so close to the management and believed their story," he says somewhat glumly. "We've gotten a little more cynical."

These days, he's decidedly more chipper, despite the fact that Goodwood's flagship fund suffered an 18.5% loss for 2002—a personal financial blow, since he and his partners have \$6.5 million of their own money riding on it. Rereading George Soros's authorized



Peter Puccetti,
chairman and chief
investment officer,
Goodwood Inc.

ANNUAL RETURNS (Goodwood Fund)

1997	41.1%
1998	2.5%
1999	50.1%
2000	51.4%
2001	25.0%
2002	-18.5%

biography, Soros: The Life and Times of a Billionaire, reminded him that even the greatest investors have ups and downs. A better mood-mender, however, was CanWest Global Communications.

Last fall, the company's shares were badly beaten up. Puccetti and his team sweated over the financials, blanketing the large marker board that dominates his office. Puccetti liked what he saw and bought a bunch, and his instinct was correct: CanWest's share price doubled from its lows within three months.

Now brimming with new ideas, Puccetti is back in form, and he isn't dwelling on last year's blowups. "I just pick the stocks and leave it at that." One he likes is Great Atlantic & Pacific Tea Inc., which owns A&P supermarkets. Its shares have traded near \$5 (U.S.) recently, and its net debt totals \$900 million (U.S.)—a manageable amount, says Puccetti. "Let's not forget this was a \$28 (U.S.) stock nine months ago," Puccetti adds. If the U.S. economy shows any sign of turnaround, "the stock could see double digits again."

—Fabrice Taylor