



tera- (symbol: T)

A prefix indicating 10 to the power of 12,
often attached to bits and bytes

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DJ CANADA TIP SHEET: Sutton Eyes Microcaps With Substance

By Ben Dummett
Of DOW JONES NEWSWIRES

TORONTO (Dow Jones)--As a veteran investor in technology stocks, Howard Sutton isn't blinded by hype.

The technology bubble and its bursting showed that investors, at great cost to themselves, can become so enamored of the promise of a company's technology that they lose sight of its ability to generate cash flow and profits.

Sutton, manager of the C\$5 million Tera Capital Global Technology fund, mainly focuses on microcap technology stocks, which means those with market valuations of less than C\$100 million. He believes that they offer greater potential for bigger returns because they are often overlooked by most of the market.

"We feel with microcaps there is an inefficiency in that they aren't covered as well (as other groups) or there isn't as many experienced money managers paying attention" to them, Sutton said. "We find experienced people are either (focused) in (the areas of) venture (capital) or in large- or mid-cap" stocks, the money manager said.

Sutton scours for stocks that he believes over time can generate a 400% return. That said, he stresses this analysis is based on "earnings and cash flow" and "not based on some multiple of revenue or something like that."

The strategy has certainly paid off for the fund's investors. Over a three-year period ended Nov. 30, the Tera Capital Global Technology fund is up 29%. By comparison, the comparable group has returned an average of 5.2%, while the relevant index is up 4.0%, according to Globefund.

Oustream Corp. (QVC.V), one of the fund's holdings, makes large-scale routers for high-definition television broadcasting and professional audio and video markets. Driven by the increasing demand for high-definition television, Sutton believes that demand for transmission equipment for high-definition television will be strong because the installed base of this type of gear within Oustream's targeted markets is relatively small, Sutton said.

Icron Technologies Corp. (IT.V), another of the fund's holdings, is developing a wireless USB solution for the computer and consumer-electronics market. USB, or Universal Serial Bus, is used to transfer data from peripheral computer devices and electronics to computers. Sutton bought the stock when it was trading at 14 Canadian cents and he took some profits this summer when it traded above C\$2.00. He more recently bought some more shares when it was trading closer to C\$1. The stock closed Monday at C\$1.20 on the TSX Venture Exchange.

Both stocks highlight the manager's focus on investing in companies that own intellectual property rather than own service providers or distributors.

Companies with intellectual property are in a better position to protect their profit margins - at least for a period of time. Eventually, competitors can figure out a way to get around the patents, but in the meantime if a company can leverage its advantage in order to increase market share, then "that's good thing," Sutton said.

VIQ Solutions Inc. (VQS.V), a developer of digital record workflow products, is another of the fund's holdings.

In addition to public companies, Sutton can invest up to 10% of the fund in private holdings. Tekion Inc., a fuel-cell developer, is one such investment. Tekion's fuel-cell technology is aimed at radios, cellphones and other portable devices for use in areas where an electrical grid doesn't exist, making it impossible to recharge the batteries for a mobile phone or radio.

Company Web Site: <http://www.teracap.com>

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