

= DJ TIP SHEET: Wasatch Readies Microcap Fund For Economic Upturn

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By Ann Keeton

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CHICAGO (Dow Jones)--Investors this year have turned their backs on the risky arena of microcap stocks, where share prices tend to be more volatile than those of larger companies.

The Wasatch Micro Cap Value Fund is down 8% year to date through Thursday, compared with a negative 3.5% return for the Standard & Poor's 500 Index, according to Morningstar Inc. But fund manager Brian Bythrow said he and his team at Wasatch Advisors in Salt Lake City are investing in shares of healthy small companies in the U.S. and globally.

Poor liquidity can be a problem with little-traded stocks of small companies, and traders may not be able to get in and out of holdings as quickly as they would like. Worried about that risk, "investors shunned these stocks in the first quarter of this year," Bythrow said. "Now, there are some really cheap prices on good companies."

With many of the stocks now priced at 10 times or 11 times earnings, they have the potential to jump quickly as investors begin to feel more confident about the future, Bythrow said.

Historically, when the economy recovers from a slowdown, small-capitalization stocks have rebounded faster than large ones. Microcaps can be an even better way to hop on the growth bandwagon, Bythrow said. "In one or two quarters, you can make up for two years of poor performance. The tricky thing is, we can't predict exactly when things are going to turn around."

The 4-year-old Wasatch Micro Cap Value Fund has \$126 million in assets under management and an average annual return of about 17% for 2004 through 2007, according to data from Morningstar, which gives the fund a five-star rating.

Bythrow also manages the Wasatch Heritage Value Fund of midcap and large-cap stocks.

There's often a "disconnect" between the growth of small, niche companies and the strength of the wider economy, Bythrow said. For example, "All the little medical-device companies continue to see a strong market for their products," as other sectors struggle. Bythrow also favors specialized technology

The following story was published on Thomson ONE:

companies.

One niche player, GuestLogix Inc. ([GXI.V](#)), is a favorite of the fund. The Toronto technology company is the leading provider of devices used by commercial airlines to collect fees for onboard sales of food, entertainment and other goods. Customers in the growing space include Alaska Air Group Inc. (ALK) and Ryanair Holdings PLC (RYAAY), as well as railways, hotels and others.

Globe Specialty Metals Inc. ([GLBM.LN](#)), a New York-based company traded on the London Stock Exchange, was a good find for the fund. Since last fall, shares in the company, which makes silicon metal for solar cells and silicon chips, have tripled in price.

SunOpta Inc. ([STKL](#)), in Norvel, Ontario, is in the organic food business. That's a good place to be right now, Bythrow said, because customers are willing to pay more for organic products, even when their pocketbooks are pinched. SunOpta's stock "was hammered this year, after a manager in the frozen berry division made what you might call a rogue trade." The small company has taken a one-time charge that sent investors scurrying. Bythrow believes shares will rise once the market feels sure that this was an isolated event. The company also has a division that processes cellulose ethanol byproducts, which could be spun off for a good profit, Bythrow said.

Spanish information technology firm Telvent GIT SA ([TLVT](#)) not only designs drive-through toll-collection systems for highways, but works on water and electricity management. Bythrow said that, for a company with many opportunities for international expansion, the Nasdaq-traded shares are priced well at about 19 times earnings.

Businesses of Oklahoma City-based LSB Industries Inc. ([LXU](#)) include making fertilizer and geothermal heat pumps. On the geothermal side, it's the U.S. market leader, with a 40% market share in a rapidly growing industry. "We think there's a good chance that they might sell or spin off the fertilizer business and invest in geothermal," he said.

(Ann Keeton covers airlines and aerospace companies for Dow Jones Newswires.)

-By Ann Keeton, Dow Jones Newswires; 312-750-4120; ann.keeton@dowjones.com

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LSB INDUSTRIES, INC.(LXU), SUNOPTA INCORPORATED(SOY-T), TELVENT GIT SA(TLVT), GLOBE SPECIALTY METALS, INC.(GLOSL), Guestlogix Inc(GXI-V)