



## Changing Times, Changing Opportunities

We have an interesting life at Brownstone. The jargon used to describe our business is that we are on the “buy-side” of the capital markets. That is, we are net buyers of stock. Many of the opportunities are presented by the “sell-side”, the corporate finance professionals that package deals and raise money on behalf of aspiring companies executing their game plans. As a result, we review numerous opportunities, many of which are presented in our boardroom where lead executives of corporations present their management, financial health, company history, and plans for the capital they are raising.

The deal flow of opportunities that come through our office often reflects the dynamics of the broader marketplace. For example, a year ago we had a tremendous amount of energy deals laid before our feet. They ranged from simple western sedimentary basin plays where the owners held land, developed drilling prospects and simply needed capital to execute their dream, to long shot drilling prospects in Kazakhstan, where promoters were planning one very deep well with the hope of hitting a massive natural gas deposit. A tremendous amount of money was raised from the buy-side sector as crude oil and natural gas were hitting new highs, the war in the Middle East was in a state of continuous escalation and the trust market had a huge appetite. We bought some deals and passed on many – that is our job. At the same time we would hear pitches from a range of non-energy based firms: uranium miners, wireless technology companies, construction equipment leasing firms, and many more. Money can be made in strange places and we like to see as many opportunities as possible.

Today the energy markets have changed and the deals have dried up. The next step appears to be a consolidation and merger environment where energy companies that were built and designed to be sold to the trust market are now less valuable and hampered by poor economics. Natural gas is 50% below its high, and facing a cost structure that is not viable. Crude oil opportunities seem to be concentrated in the oil sands and classic oil plays with good upside are getting harder to find. We continue to search through the mine fields. We are still believers in energy, but we certainly have not changed our attitude with regards to the volatile and cyclical nature of energy investments.

We are motivated to seek investment opportunities for our clients outside of the long cherished energy patch. For example we invested in Grey Horse Capital, a small finance company that provides transfer agency, corporate trust, and foreign exchange services to North American capital markets. Another example would be Migao. This is a growing company that owns and operates fertilizer plants in China. So far, both have had strong returns.

The dynamics of the Canadian equity market seem to be in a state of continuous change which poses challenges for both the investing public and investment professionals such as Brownstone. On a daily basis, our efforts centre on appropriate assessment of current market opportunities, while always keeping an eye on the level of risk surfacing in our portfolios as the investing environment changes. Our results have been impressive to date and we are pleased our clients have enjoyed capital growth with investment portfolios that prove resiliency in volatile times.