

Q&A - FRIDAY, SEPTEMBER 2, 2011

Small Cap Fund Scores Big Gains

By GRACE L. WILLIAMS

Greg Roeder is co-manager of the Adirondack Small Cap Fund, which Lipper called the best of its group from 2008-2010. See what he likes now.

While summer is winding down, market uncertainty continues afoot. However, Greg Roeder of the [Adirondack Small Cap Fund](#) (ticker: ADKSX) keeps picking winning investments season after season.

This fund, which has traditionally sought out companies trading well below book value, also targets lesser-known companies and those out of favor due to transitions or a lack of Wall Street attention.

Adirondack's five-year annualized return is 5.97%, far exceeding the Russell 2000 at 1.53%, and the fund recently won a Lipper award as the best of 196 small-cap funds for the three-year period from 2008-2010. Adirondack also carries a five-star rating from Morningstar.

Manager's Bio



Name: Greg Roeder

Age: 48

Title: Co-portfolio manager

Education: B.S. in economics\accounting, SUNY Plattsburgh; M.B.A, Hofstra University; CFA designation

Hobbies: Hiking and golf

Roeder, who serves as co-portfolio manager of the small value fund with Matthew P. Reiner, recently spoke with Barrons.com about what Adirondack is investing in and why.

Edited excerpts are below.

Barrons.com: Why is now a good time to invest in small-caps?

Greg Roeder: Small-caps have always been a fertile area for ideas and for inefficiencies that ultimately could lead to alpha generation. As part of a well-diversified portfolio, small-caps combined with other asset classes could ultimately reduce the volatility of an overall portfolio. I am a big fan of putting assets together that have different correlations.

Q: Your fund got a nod from Barron's writer Tom Sullivan this past spring for choosing companies with so-called "investor fatigue." Can you explain that?

A: We are contrarian investors, so we are looking for the good in the company that has disappointed a number of times. We are constantly peeling the onion, digging deep and looking hard at the financials. A lot of times we are getting involved with tough names that have replaced the management team and taken a bit of a new course and direction.

Q: What is a company with "investor fatigue" that you have bought?

A: [IAC/InterActiveCorp](#) (ticker: IACI) is a hodge-podge of Internet properties and Barry Diller runs it. Its prime property is Match.com. We got involved over a year ago. The stock was down in the low \$20s; the company generates a lot of cash but had some choppy quarters. At that time, anybody I talked to would say "Oh, they are just a one-trick pony."

People would talk about how the company's got a lot of cash on their balance sheet, but they wondered what Barry Diller is going to do with it. We looked past things like that and instead looked at this bundle of assets that generates substantial amount of cash flow. We got involved trading it, and it has worked out pretty well for us. We still own it, and we are not sellers here. We think there is room to run with this stock.

Q: With most of your investments in the technology sector, what is your top stock there?

A: [Tellabs](#) (TLAB). It is a telecom company based in the Chicago area. They have some products skewed toward wireless and wireline. Many major telecoms are de-emphasizing their wirelines and milking those assets for cash flow while they are investing in wireless infrastructure. Tellabs has a fair amount of exposure to wireline, but they have some new wireless infrastructure products that are taking hold. They have had a series of disappointments, but they ultimately have a very strong balance sheet and a lot of cash.

Q: What new industries are you interested in right now?

A: We just started investing in banks, which we never owned before. [First American Financial](#) (FAF), [Brookline Bancorp](#) (BRKL) and [Knight Capital Group](#) (KCG) are trading below March 2009 lows and are good banks. They are not flyers, but they are thrown in with a real tough industry. They have a very good credit culture, good capital, and low levels of problem assets.

Q: Is there one that you like most?

A: Our largest financial holding is Knight Capital, which is trading at about 80% of book value right now. Their balance sheet is very liquid. At any given point in time, they have cash or near cash equivalents of roughly 70% to 80% of their balance sheet, so it's a pretty liquid company. Knight has got a defensive nature to it because when markets get wobbly like they have been over the last few months, they get trading volume surges and they make more money when volumes are higher.

Q: How does Knight Capital play into your investor fatigue strategy?

A: In the past year or so, trading volumes have been lackluster and people have grown somewhat fatigued with the Knight story, but what we saw was a company that isn't sitting still. Even during this downturn they are making some cost saving moves. They took clearing in-house this January, whereas before they would clear this through third parties, and that's a big money-saving move. This is a little bit contrary to the market, but we feel that our downside is protected in the book value of the assets.

Q: How risky are banking stocks currently?

A: The banking industry obviously is struggling. Consumer loan demand is weak. Credit conditions on the consumer side are very tight, and commercial and industrial loan demand is also weak. Banks are

competing heavily for that small pool of really high-quality commercial loan borrowers or consumer borrowers, so it's tough right now. We see some more consolidation and these banks are doing some as we speak. We are getting these banks at below book value, and a lot of the industry on the banking side is trading below book value.

Q: We also noted that you also invest in insurance companies. Why?

A: The industry is starting to look interesting. With all the natural disasters that we had, starting with the floods in Australia, earthquakes in New Zealand and Japan, the tornadoes in the United States, and now Hurricane Irene, it should result in a much firmer pricing environment, whereas for the past few years pricing had gotten fairly soft given the economic environment. Those are places that we are kicking around right now, so our financial exposure is now about north of 25%.

Q: What insurance stocks do you currently own?

A: We own [Selective Insurance Group](#) (SIGI), which is a commercial insurer, mostly on the East Coast. We also own a couple of reinsurance companies. One is [Endurance Specialty Holdings](#) (ENH). Endurance is a hybrid. They have a commercial insurance operation and they have a reinsurance business. The split is roughly 50-50, and on the commercial side they have these unique lines of business. They provide insurance for the agricultural industry in terms of crop protection, and they have carved out a nice little niche. Another is [Montpelier Re Holdings](#) (MRH), a Bermuda-based reinsurer that focuses on catastrophic risk, so we are crossing our fingers here with them. They are a smaller holding of ours.

Q: Thank you for your time.

Fund Facts (as of Aug. 31, 2011)

[Adirondack Small Cap Fund](#) (ADKSX)

Assets:	\$76.1 million
Expense Ratio:	1.50%
Front Load:	No Load
Annual Portfolio Turnover:	24%
Yield:	N/A

Source: Adirondack Small Cap Fund/Morningstar

Top 10 Holdings (as of Aug. 31, 2011)

Knight Capital Group	KCG
CTS Corp.	CTS
Cal-Maine Foods	CALM
GFI Group	CFIG
Trinity Biotech	TRIB
Fresh Del Monte Produce	FDP
Tellabs	TLAB
UniSource Energy	UNS
LSI Industries	LYTS
Genworth Financial	GNW

Source: Greg Roeder/Adirondack Small Cap Fund