Why this small- and mid-cap money manager is buying Aritzia and a Calgary-based cannabis company

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Bruce Campbell, founder and portfolio manager at StoneCastle Investment Management Inc. in Kelowna, B.C.THE GLOBE AND MAIL

While many investors see the market as overvalued and expect prices to drop significantly in the months ahead, money manager Bruce Campbell has a more nuanced view.

"When we look at the markets, overall, we're not looking at it from a valuation standpoint," says the founder and portfolio manager at StoneCastle Investment Management Inc. in Kelowna, B.C., whose investing style includes technical and fundamental analysis.

Mr. Campbell agrees parts of the market are overvalued, particularly some large- and mega-cap stocks, but says the market can still grow into those higher valuations.

"Right now, everything we see is telling us we should be optimistic," says Mr. Campbell, who oversees $55-million in assets.

When the market eventually corrects, money can be made buying stocks at cheaper valuations, he says. And not every stock will be affected.

"There will still be companies that can perform [in a down market]," Mr. Campbell says.

His portfolio, which focuses on North American-based small- and mid-cap companies, has returned 3.5 per cent over the past year. Its annualized return since inception in September, 2009 is 4.7 per cent. The performance is as of Dec. 31, net of fees.

The Globe spoke with Mr. Campbell recently about what he's been buying and selling.

Name three stocks you own today and why.

Simply Solventless Concentrates Ltd. , a Calgary-based cannabis company, is a stock we started to buy in late December and into January. This company has built up revenue by selling cannabis products, such as vapes and dried flower, and is generating a profit. It recently moved into the cultivation space after buying a facility from Delta 9 Cannabis Inc. out of Delta 9′s CCAA [Companies' Creditors Arrangement Act] process.

The company is taking advantage of the challenging environment in the cannabis space. It's a risky, competitive, and highly regulatory business, but we believe opportunities remain as the market morphs and moves around.

Zedcor Inc. is a stock we've owned since April, 2024. The Calgary-based firm started as an oilfield services company, renting equipment such as generators and mobile office structures. It has since expanded into security and surveillance in and beyond the energy sector, including big box retailers and construction sites in Canada and the U.S. Its business is growing dramatically in the U.S.

ZEDCOR INC

The stock has risen by more than 500 per cent over the past year. The higher valuation is a risk. It also has a lot of competition in the security and surveillance space. There's also the potential competitive impact of artificial intelligence.

Zedcor shares were under pressure mid-week after it announced financing to raise money for its U.S. expansion. Many investors were concerned the company would need to take on more debt to have the cash to ramp up the number of towers built each month. They instead raised equity. I heard that the demand for the issue was very large. When these issues happen, the stock will often come under pressure, as it did. Looking out longer-term for the stock, we believe the issue is a net positive.

Aritzia Inc. , the Vancouver-based fashion retailer, is a stock we just started buying a few days ago. Its numbers have been strong, and it's doing very well with its expansion into the U.S. We've been waiting for a pullback but it hasn't [happened], so we've taken a small position. If it pulls back, we'll add more. We owned it in the past and did well on it.

ARITZIA INC

The management team has done a good job growing the company in an industry in which trends come and go. The risk is that the valuation and sentiment are high, based on expectations for its expansion, so if things don't go well that could impact the stock price.

Name a stock you sold recently.

Carvana Co. , the Tempe, Ariz.-based e-commerce platform for buying and selling used cars, is a stock we started selling in November after owning it for about a year. Its business has been great, but its growth is slowing. It has gone from one of the bigger positions in our portfolio to one of the smaller ones.

Hindenburg Research said in a recent report that it was shorting Carvana, which has put some pressure on the stock price. [Editor's note: The report accused the retailer of insider trading and accounting manipulation. Carvana called the report "intentionally misleading and inaccurate.”] It could be one we go back into at some point. We’re just sitting tight, watching it to decide what to do with our last little piece.