

3G Capital's Pavel Begun: 'Two to three years out I think you will do very well. Now, what's going to happen tomorrow or next quarter is hard to say. I don't know the answer to that question and I don't think anybody does.' TIBOR KOLLEY/THE GLOBE AND MAIL

Sure, things are bleak – that's why this manager is buying



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For someone whose hedge fund is 100 per cent invested in stocks, Pavel Begun sounds remarkably sanguine about the turmoil sweeping the economy and equity markets.

Maybe that's because, at 30, the co-founder of 3G Capital Management has a long time to recover from the current crisis. But it's also because, having studied history, he knows the time to invest is when the outlook is darkest.

Whether you're talking about 1932, 1942 or 1982, people who bought stocks when it seemed like the stupidest, most reckless thing to do ended up getting rich.

And this time will be no different, he says.

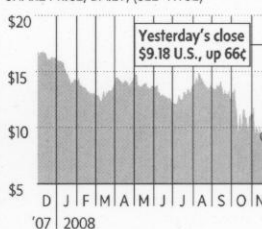
"Two to three years out I think you will do very well. Now, what's going to happen tomorrow or next quarter is hard to say. I don't know the answer to that question and I don't think anybody does," says Mr. Begun, whose fund has more than \$10-million (U.S.) under management.

Born in Belarus and educated in the United States, where he earned both an MBA and CFA by the age of 25, Mr. Begun now resides in Toronto. He and his St. Louis-based partner, Co-

Cheap stocks 3G has been buying

Sara Lee

SHARE PRICE, DAILY, (SLE-NYSE)



DOUGLAS COULL/THE GLOBE AND MAIL » SOURCE: THOMSON DATASTREAM

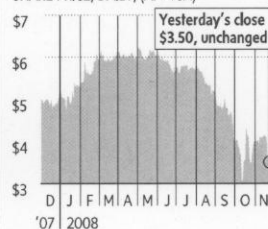
Portec Rail Products

SHARE PRICE, DAILY, (PRPX-NASDAQ)



Alarm Force

SHARE PRICE, DAILY, (AF-TSX)



ry Bailey, are value investors in the mould of Warren Buffett and Benjamin Graham. They look for stocks trading at a deep discount to their "intrinsic value" with the goal of holding them until the market recognizes their true worth.

While many investors have been frantically selling this fall, Mr. Begun has been buying aggressively, focusing on recession-resistant stocks that trade at low multiples of earnings and free cash flow.

Consider **Sara Lee Corp.**, which is best known for baked goods but also makes Ball Park franks, Jimmy Dean sausages and a range of other consumer goods including coffee and skin-care products.

The U.S. company sports a dividend yield of 4.8 per cent and trades at about eight times this year's estimated cash flow. What's more, it is restructuring to focus on its strongest brands and also stands to benefit from falling commodity costs, both

of which will lift profit margins.

"They make sausages and they make bread, and come hell or high water people are going to eat bread and eat sausages," Mr. Begun says.

Another recent U.S. purchase is **Portec Rail Products Inc.** The beauty of Portec is that it sells railway maintenance products – rail joints, spikes and lubricants, for example. No matter what shape the economy is in, railways need these products to keep their tracks running safely and smoothly, so sales are insulated from swings in the business cycle.

And yet the stock is trading at just 5.5 times this year's estimated free cash flow, he says. "That's insane. If you look at the business, it's not a capital-intensive business, either, so they throw off gobs of free cash flow."

Another of 3G's recent purchases was **Advanced Auto**

Parts Inc., which specializes in sales of parts and accessories to do-it-yourselfers and trades at about eight times cash flow. The thinking here is that, in a down economy, more people will repair their own cars instead of buying new ones.

3G, a long-only hedge fund with virtually no leverage, also owns a couple of Canadian stocks. Its largest position is **AlarmForce Industries Inc.**, a Toronto-based home alarm company. The share price has been clobbered, but sales and profits are still growing quickly, and Mr. Begun says AlarmForce stands to benefit from lower advertising rates as the economy weakens.

Time will tell if Mr. Begun's instincts are right and this bear market is a "once-in-a-lifetime buying opportunity" for investors. But yesterday's nearly 400-point rise on the Dow Jones industrial average is a reminder that stocks do not stay down forever.