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Orfalea's Firm Sees Value In Oil/Gas, Convertibles

West Coast Asset Management, the investment management firm started by Kinko's founder Paul Orfalea, is mining the convertible stock market for opportunities. It also continues to see opportunity in stocks of companies in the oil and gas/energy exploration and production sector, said to Lance Helfert, co-founder and president of the investment committee.

The Ventura, Calif.-based firm, with \$325 million under management, does not presently hold any convertibles in its highly concentrated separate account portfolios but believes in the low interest rate environment, they'd be good for generating yield. "It's a great sector," said Helfert, conceding hedge funds are making convertibles more liquid but it also tougher to find good opportunities. The tax-efficient portfolios, which hold approximately 14 stocks, eight of which account for about 80%, are allocated approximately 35-40% to oil and gas. Despite the huge run-up in prices, the firm sees further upside due to demand from China outstripping supply and the fact that natural gas BTUs are at \$6-6.50 now and in the futures market, up from \$2-2.50 four years ago. The futures prices indicate prices could spike in the short term if an event such as a cold storm hit but are not artificially high and should hold over the long term.

The four-year-old firm, which charges 1 1/2% on the first \$1 million and 1% thereafter, holds a diversity of stocks including payroll processor ADP, Johnson & Johnson, chewing gum giant Wrigley and oil production company Magnum Hunter Resources, recently acquired by independent oil and gas exploration and production company Cimerex. It is an opportunistic investor that caters mostly to high-net-worth investors and family offices, some of whom describe West Coast's approach as a good alternative to hedge funds because of what they consider its strong research focus. "We visit the store, management, the production line," Helfert said, noting it looks at balance sheets not P/E ratios as it examines cash, assets and debt.



WEST COAST ASSET MANAGEMENT, INC.