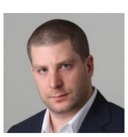
Bullish on gold, China

While Europe is very important and investors need to monitor what is happening there, David MacNicol, president and portfolio manager at MacNicol & Associates Asset Management, is much more focused on China

Michelle Siu for National Post



Jonathan Ratner

January 20, 2012
8:26 AM EST

Filed under
Investing › **Buy & Sell**

Manager: David MacNicol, MacNicol & Associates Asset Management

Portfolio: Global balanced

Description: Combination of equity, fixed income and alternative asset strategies

AUM: $150-million (150 families)

While Europe is very important and investors need to monitor what is happening there, David MacNicol is much more focused on China.

While the president and portfolio manager at MacNicol & Associates Asset Management sees signs of life in the U.S. economy, he believes much of the global outlook depends on China.

"The slowdown in their economy is having a ripple effect throughout the world," MacNicol says, highlighting China's massive $155-billion trade surplus in 2011, which has fallen from a peak of almost $300-billion in 2008.

The economic slowdown has also negatively impacted Chinese equities, with the Shanghai Stock Exchange composite index registering one of the worst performances globally in 2011.

MacNicol believes the trade slowdown in China is partially due to the upcoming New Year holiday later in January. As for the economy's broader weakness, he thinks that is inevitable after 30 years of plus-10% growth.

The portfolio manager is confident China will experience a soft landing, rather than the severe downturn many fear.

"The Chinese will be able to create more policy support or quantitative easing, especially in light of the trade surplus and the amount of cash they are sitting on," he says, noting the transition of political leadership in both China and the United States in 2012.

"That has got to be positive for the system in terms of putting more money into economies," MacNicol adds.

"But these dollars still have to be paid back."

These high debt levels and loose economic policies are primary reasons why he is so bullish on gold – both the metal itself and mining stocks.

However, the manager is generally underweight other commodities in anticipation of less demand from China, and until policymakers get more realistic with their approach.

MacNicol is shifting his portfolios to get more exposure to goods that will benefit from rising wealth in China, particularly luxury brands.

"The Chinese consumer now has a fair amount of capital to spend because they've been good savers throughout the past decade," he says.

MacNicol is also holding a healthy cash position and focusing on dividend-paying stocks.

His firm offers clients exposure to alternative assets – a real estate fund focusing on generating cash flow in the form of rental income, a private equity fund, and a series of third-party hedge funds.

"These forms of hard assets are doing exactly what they are intended to do: run counter to sideways capital markets," MacNicol says.

BUYS

NEWMONT MINING CORP. (NEM/NYSE)

The position: Long-term holding, buying for new accounts

Why do you like it? While many mining stocks continue to disappoint investors despite the dramatic run-up in gold prices, MacNicol likes the fact that Newmont also pays a dividend. In fact, it's new payout policy links these dividends to the price of gold.

"I think management is very smart to tie a dividend policy to the price of the underlying commodity," he says, noting that the current payout of $1.40 could rise as high as $2.30.

That would see the dividend yield on Newmont shares climb to roughly 7.6% from around 2.2% currently. Those figures assume a long-term gold price of US$2,500 per ounce, which MacNicol considers realistic.

He also notes U.S. investors are "woefully" underweight precious metals stocks, but that should change due to the lure of income with gold stocks.

Biggest risk: Failure to deliver on production forecasts, regulatory changes.

POSEIDON CONCEPTS CORP. (PSN/TSX)

The position: Recent addition

Why do you like it? MacNicol believes the United States could be self-sufficient in energy based on its natural gas deposits. The problem is getting it out of the ground in an environmentally friendly manner.

Poseidon's fluid tank business for oil and gas fracturing, which is experiencing strong growth, provides one solution.

"The margins on these tanks are incredibly high," MacNicol says. "In the short run, they should be able to collect some good contracts."

The manager also likes the fact the stock pays a dividend yield of roughly 8%.

Biggest risk: Increased competition, volatility in commodity prices

BERKSHIRE HATHAWAY INC. (BRK.B/NYSE)

The position: Buying since fall of 2011

Why do you like it? Warren Buffett has never been a believer in buying back stock or splitting shares as he thinks the only people who make money in those situations are brokers, accountants and lawyers. However, Mr. Buffett's Berkshire Hathaway has instituted a share repurchase plan after seeing its shares fall to a value considered too cheap not to.

"We think that puts a floor on the price of the stock," MacNicol says. "It's as undervalued as it's ever been."

He estimates the stock could rise as much as 60% as the company has more than US$40billion for investments and buybacks, including the US$20-billion cash cushion it wants to keep on hand.

Biggest risk: Insurance losses due to natural disasters

SELL

BCE INC. (BCE/TSX) & CGI GROUP INC. (GIB.A/TSX)

The position: Trimming exposure

Why don’t you like it? While MacNicol continues to own both names as he views them as high-quality franchises, the manager reduced his holdings in both BCE and CGI based on valuation. This was also part of an effort to reduce exposure to equities and free up some cash.

Potential positive: If the market favours more defensive names

BUY & SELL

Why cyclical stocks, not defensives, are the place to put your money

Playing both sides of the electric vehicle and autonomous driving trade

Finding value in founder-run companies one of this fund manager's keys to success

Bifurcated market reminds these fund managers of the dotcom bubble

There is plenty of value in real estate stocks, if you know where to look

Why this energy fund manager is being cautious

Show More ▾

TOP STORIES

Fed raises interest rate, steepens path of hikes as outlook strengthens

The Fed is now implying there will be three rate increases next year, compared with two 2019 moves seen in the last round of forecasts in December

'A high-ball opening offer': First Quantum reels as Zambia slaps it with $7.9-billion tax bill

The dispute offers another example of the rising tensions between mining companies and the government leaders in cash strapped countries where they operate

Mark Zuckerberg says Facebook 'made mistakes' in Cambridge Analytica data scandal

Zuckerberg said the company 'made mistakes, there's more to do, and we need to step up and do it'

Scotiabank CEO shoots down globa watchdogs’ red flags over Canadiar debt

Brian Porter says banks are in a better position to weather future crises