Hold hard assets in a soft market

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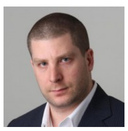

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October 17, 2012
7:49 AM EDT

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Manager David MacNicol and Ross Healy, MacNicol & Associates Asset ManagementFund Global balancedDescription Combination of equity, fixed-income and alternative asset strategiesAssets under management $150-million (150 families)

David MacNicol would like to have his client portfolios invested solely in a basket of value and growth stocks, but he is far too concerned about government debt and deficit levels around the world so he's making sure he has plenty of exposure to hard assets — precious metals and gold in particular.

"It is very challenging to make money in a sideways market," said the president and portfolio manager of Toronto-based MacNicol & Associates Asset Management, adding he continues to focus on dividend-paying companies for his equity exposure.

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"Gold is the only asset class that has risen for 12 years running," he said. "It's the ultimate currency and at some point will be an inflation hedge."

While MacNicol has been invested in gold bullion since 2002, he's also been a buyer of gold equities recently.

"Labour and energy inflation has been an issue for miners. So, too, has financing, particularly for the juniors," he said. "I see that starting to change. But in my opinion, gold equities are always going to lag the metal."

MacNicol and renowned fundamental analyst Ross Healy recently joined forces to offer their clients a blend of extensive fundamental research, stock-picking and alternative asset strategies such as real estate, private equity and third-party hedge funds.

Healy, chairman of Strategic Analysis Corp., is perhaps best known for predicting the downfall of Nortel Networks in the late 1990s.

His analysis shows the Dow Jones U.S. utilities index is trading near 1.5x book value, while the Canadian utilities sector is at roughly 2x book.

"The U.S. utilities are breaking out again under the impetus of QE3 and yield starvation," said Healy, noting the index's 3.5% average yield.

This is one reason MacNicol has been buying the iShares Dow Jones U.S. Utilities ETF and reducing exposure to the Canadian group.

"There is no comparison in terms of value," said Healy, attributing the difference to the fewer yield options and smaller utilities sector in the Canadian market.

BUYS

Davis + Henderson Corp. (DH/TSX)

The position: Owned for a few years; still buying for new clients.

Why do you like it? In addition to a dividend yield of nearly 6%, MacNicol notes Davis + Henderson is not the stagnant cash-flow earner some believe.

"Everyone still thinks of it as a cheque-making company. But that's less than 39% of its business now, down from 61% in 2009," he said. "Banks are outsourcing more of their back-office and technology platforms, and this company is picking up that business doing things like loan applications."

Biggest risk: Cutbacks in the banking sector.

Silver Wheaton Corp. (SLW/TSX)

The position: Held in all client portfolios.

Why do you like it? MacNicol is particularly interested in silver right now since demand is outstripping supply by a wide margin. However, he is more comfortable owning royalty-type names such as Silver Wheaton because they don't face inflation risk.

MacNicol points out the company is getting silver for US$4 an ounce from several mines on its books, and "they're selling it at US$35, so it's an incredible margin business."

Biggest risk: Lower silver prices.

Alaris Royalty Corp. (AD/TSX)

The position: Recent addition, small positions.

Why do you like it? Alaris doesn't use the typical private-equity model of gaining control of businesses, MacNicol explains, preferring to take a minority position through non-voting preferred shares — the top of the capital stack.

Alaris has stakes in eight businesses that provide average royalty yields above 13% and its stock currently yields roughly 5%.

"This is really a growth sector as people want to pass their companies on to the next generation," MacNicol said. "There is nothing else like this in Canada."

Biggest risk: Concentrated in just eight companies.

SELL

Atco Ltd. (ACO.X/TSX)

The position: Reducing exposure.

Why don't you like it? Moving out of Atco is a relative valuation call rather than a knock on the electric power generator and distributor.

"Its dividend yield is down to 1.7%, so you're going to see money gravitate away in search of higher yields," MacNicol said.

Potential positive: An extreme risk-off scenario will drive investors into stable names.

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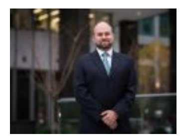

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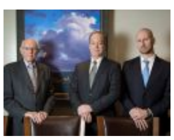

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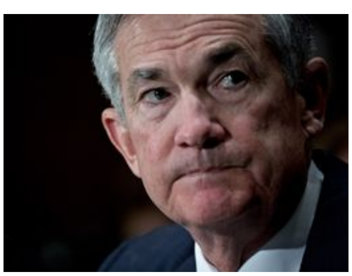

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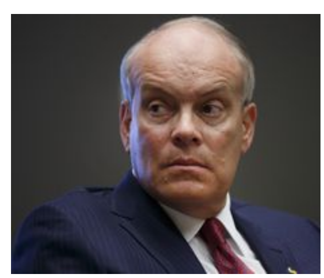

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