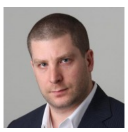
Preparing to go on the investment offensive

The momentum shift playing out in North America equity markets has portfolio manager David MacNicol taking a more cautious approach, but only in the short run



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Investing › **Buy & Sell**

Manager: David MacNicol, MacNicol & Associates Asset Management
Portfolios: Individual growth and value-oriented global portfolios
Description: Combination of equity, fixed-income and alternative asset strategies
Assets under management: $150-million (150 families)

The momentum shift playing out in North America equity markets that has sectors such as technology falling in favour of more defensive areas has David MacNicol taking a more cautious approach in the short run.

However, the president and portfolio manager of Toronto-based MacNicol & Associates Asset Management anticipates further market strength by the summer, particularly in Canada.

“The market is confused about whether the Fed’s stimulus is going to be productive overall for the economy,” he said. “The majority believes they are doing the right thing, but sooner or later those debts have to be repaid.”

MacNicol sees plenty of room for optimism despite the economy recovering at its slowest-ever pace out of a recession and China’s lower GDP.

He highlighted the positive impact that higher oil and natural gas prices are having on the Canadian energy sector, as well as improving manufacturing data in places such as Germany, Italy and Spain, the U.S. continuing to drive the global recovery story, and the pockets of opportunity in emerging markets.

“We’ve raised a fair bit of cash to ride out the current volatility,” he said. “But we’re likely going to deploy more of that soon to make sure we’re more fully invested.”

MacNicol, who chairs and sits on the investment committees of several foundations, helping to advise another $200-million in assets, also offers clients alternative strategies including private equity, real estate and third-party hedge funds.

Due to the volatility in the technology sector, for example, MacNicol limits his client's exposure on the public-equity side and invests more in private late-stage companies that also benefit from positive sentiment in the sector. These investments are also designed to have less volatility during pullbacks.

Another market where MacNicol is putting some money to work is South Korea through the iShares MSCI South Korea Index Fund ETF (EWY/NYSE).

"The stocks in this market are still very difficult to access, but I'm blown away by its depth," he said. "The economic make-up is very strong so you can just pick away and find some great returns."

BUY

FirstEnergy Corp. (FE/NYSE)

The position: Recent purchase

Why do you like it? MacNicol has been investing in the utility space as a source of yield since the credit crisis.
"FirstEnergy is a very defensive name that looks really attractive on a valuation basis," the manager said. "After cutting its dividend in January, the company has seen a dramatic recovery through both its balance sheet and investments in growth. This is a very good entry point at less than its book value and a strong balance sheet."

Biggest risk: Rising interest rates

The India Fund (IFN/NYSE)

The position: Recent purchase

Why do you like it? MacNicol believes India is one country that will outperform in an environment of slower global growth.
"We see India catching up to China in terms of economic prospects," he said, noting that India is set to have the world's largest population by 2030. "This makes for one of the best demographic layouts as it also has a very young population, which is positive for the economy. Their new, business-oriented prime minister should also make a world of difference there."

Biggest risk: High inflation

Easyhome Ltd. (EH/TSX)

The position: Recent purchase

Why do you like it? MacNicol may be cautious about financial service companies due to the threat of higher interest rates, but he noted this merchandise leasing company is less vulnerable.
"Companies that tend to focus on higher-margin financing will be treated less harshly in a rising rate environment," he said. "It's also got great growth prospects."
Easyhome is currently trading at around $19 per share and the manager

would look for an exit point in the $27 range.

Biggest risks: Higher interest rates; regulatory changes

SELL

Canadian Pacific Railway Ltd. (CP/TSX)

The position: Trimmed exposure

Why don't you like it? This holding has been a big winner for MacNicol, who praised the railway's management team. However, he noted the stock trades at close to 4x book value, compared to around 2x historically.
"We're also starting to see the pricing of moving commodities like oil soften up" MacNicol said. "If Keystone XL gets closer to being built, a lot of railway stocks will come under pressure."

Potential positive: Keystone XL decision is delayed further

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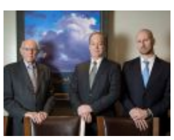

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