Three risk on, risk off plays

If you have decided to position your portfolio more heavily toward risks, safety, or a little bit of both for the second quarter, the following are some names to consider.

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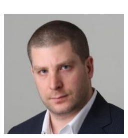

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Higher risk, higher reward

Equinox Minerals Ltd. (EQN/TSX)

Things have got a little messy in the base metals space as both Equinox Minerals Ltd. and Inmet Mining Corp. pursued Lundin Mining Corp. And it wouldn't be surprising if another party gets involved.

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Aurion Capital Management portfolio manager Craig MacAdam likes Equinox whether or not its bid is successful.

“I think the combined entity is quite attractive. It has a slightly higher growth profile because of the financial risk with the debt leverage,” he says.

“At the same time, if it gets voted down, I like Equinox stand-alone. I think it becomes a takeover target.”

As for copper itself, Japan may be out of the market for now and China seems to be cooling its consumption, so there is a bit of near-term risk. But in the mid to long-term, Mr. MacAdam is confident that the metal will be in a supply deficit.

“We can’t build enough copper mines to satisfy the demand,” he says.

D-Box Technologies Inc. (DBO.A/TSX-V)

The popularity of 3D movies has proven that theatre-goers don’t want the same passive experience they’ve had for decades. D-Box is helping to make things more interactive with its cutting-edge motion seating systems specifically programmed for individual films, TV series and video games.

Stephen Takacsy, chief investment officer at Montreal-based Lester Asset Management, considers D-Box his riskiest holding, but nonetheless thinks it has great upside.

Since the company has to finance its seats every time another order comes in, it’s a capital intensive business.

“So the more successful they are, the more capital they require,” Mr. Takacsy says. “But at some point, they are going to hit that cash flow positive stage and it’s going to be a real money-machine.”

Athabasca Oil Sands Corp. (ATH/TSX)

Bullish energy investors looking for a blue chip name in the sector should probably go with Suncor Energy Inc. But for those looking for a significantly higher-risk oil sands name, Athabasca Oil Sands Corp. fits the bill.

“You won’t see cash flow for a while, so there is a lot more volatility in it,” says Craig MacAdam, portfolio manager at Aurion Capital Management.

While many expected Athabasca would be a seller, it surprised the Street with its purchases of land at cheap prices in Alberta’s Deep Basin.

So while it’s sitting on cash for oil sands development down the road, the company hopes these assets will provide cash flow in the interim.

Mr. MacAdam thinks Athabasca is probably looking for natural gas in the Deep Basin, which would provide some diversification.

The Safety Play

ATCO Ltd. (ACO.X/TSX)

ATCO operates in the pipeline, natural gas, and electricity transmission and distribution businesses. It also has exposure to power generation, natural gas storage, manufacturing logistics and business systems solutions.

David MacNicol, president of MacNicol & Associates Asset Management in Toronto, admits the stock isn't cheap. But he has been buying ATCO nonetheless since its regulated business in Western and Northern Canada is expected to grow.

While it may be an unexciting utility, Mr. MacNicol believes ATCO will hold its value, at worst, while also providing a dividend yield of roughly 2%.

"With the unfortunate events in Japan, nuclear energy is sort of on hold in many nations right now," he says. "Electric energy and natural gas are going to get a lot more attention."

Cineplex Galaxy Income Fund (CGX/TSX)

Cineplex may have been overlooked as investors sorted through a number of global issues facing the market, but if you don't want to worry about how issues in the Middle East, inflation and deflation, or radiation affect your portfolio, the movie business is for you.

"Instead of trying to figure out the risk on, risk off trade, you can just go with a business that is more or less immune from that," says Lieh Wang, senior portfolio manager at Empire Life. "And the track record speaks for itself."

Cineplex is the dominant movie chain in Canada, it has a promising summer release schedule that includes titles like Cars 2 in 3D and Transformers 3, and the stock offers a dividend yield of around 5.4%.

Mr. Wang expects a dividend increase after Cineplex's annual general meeting later this year, noting that management has done a very good job of making the business less reliant on hit movies by offering other events at its theatres.

TransCanada Corp. (TRP/TSX)

TransCanada has been negatively affected by record-low natural gas prices and weak volumes. And while it may be a boring company, the stock offers a yield of about 4.3% and annual dividend growth of roughly 5.5% over the past five years.

TransCanada is growing earnings at about 5% to 8% per year. As a result, Dom Grestoni, portfolio manager of the $14-billion Investors Dividend Fund, doesn't see its dividend growth accelerating dramatically unless there is a massive shift to gas over the next several years.

He noted that TransCanada probably has higher risk given what is happening in Japan since it is working on a nuclear project in Ontario. But there is a lot of talk these days about natural gas coming back to life, the West Coast export market, and the increased emphasis on electricity generation with gas.

“All of those things would be positive for the gas industry, as well as those that are moving the gas to market,” Mr. Grestoni says.

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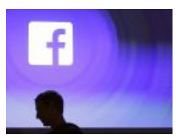

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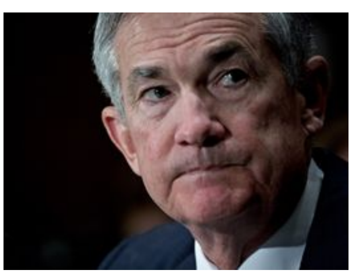

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