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Commodities put Canada in the driver's seat

By SHIRLEY WON
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Fund manager says stock market will double over coming decade as gold, oil and agriculture propel gains

The Canadian stock market is in a sweet spot with exuberance about gold, oil and agriculture stocks poised to push its benchmark index to record highs, says the author of a new book on the Toronto Stock Exchange.

The S&P/TSX composite index will more than double from its current level and hit 30,000 points in 10 years as demand for commodities continues to grow, predicted Bob Haber, who spent 12 years as chief investment officer at Fidelity Investments Canada before launching Haber Trilix Advisors LP of Boston last year.

"It is going to become more obvious to the world that Canada is a special place that has those commodities," said the author of *Go Canada: The Coming Boom in the Toronto Stock Market and How to Profit from it*.

The S&P/TSX, which is still down from its record high of 15,154 points in June, 2008, has rebounded 86 per cent from its low of 7,479 in March, 2009. It closed Monday at 13,911. To hit 30,000 over the next decade, it would have to average about 8 per cent a year growth.

Mr. Haber sees no chance of the markets revisiting their 2009 lows. "Governments don't want it," said the market veteran, who now runs closed-end and mutual funds for Calgary-based Canoe Financial LP. "The United States is creating money at an incredible clip. ...The thing to worry about is inflation. Historically, every money-printing episode in history has created inflation."

He is bullish on gold despite its recent decline to around \$1,360 (U.S.) per ounce from more than \$1,400 last year. He expects the metal could eventually hit \$2,300 as demand rises amid declining production. "There is a growing mistrust in fiat currency - not just here, but in the developing world as well," he said in an interview. "Chinese citizens can now purchase gold. ...So you are seeing demand that did not exist three years ago."

Mr. Haber likes large-company gold stocks because they haven't rallied as much as their smaller-cap cousins while the price of the metal has been soaring in recent years. Gold-bullion exchange-traded funds (ETFs), which were introduced in the past five years, could have siphoned away some of the interest that would have normally gone to the big gold stocks, but the "stocks are a better value today than ETFs," he said.

The price of oil, which has rebounded to around \$85 per barrel in New York, could hit its 2008 peak of \$147 in three to four years, he suggested. With oil prices rising against the backdrop of recent turmoil in the Middle East, it only serves to highlight Canada as No. 1 in "stable oil reserves," he said.

Agriculture stocks are also coming on more investors' radar screens as the world, including developing countries such as China, consumes more protein, and more grain must be grown to create that protein, Mr. Haber said. "The first response to grow more grains is more fertilizer. In Canada, we have two of the important fertilizer companies in the world. Potash Corp. and Agrium are the blue chips in the next wave of growth stocks [in this sector]."

Mr. Haber said he has been bullish on the Canadian market since the late spring and summer of 2009 because of the stimulus being injected into the economy and the way commodities bounced back. "Most of the commodity indices I follow are past their 2008 peaks," while oil is holding back, he said. "I look at raw materials like copper. A lot of the grains are very much past their peak, as well as gold and silver."

The Canadian market will not go higher without occasional pullbacks, and a correction is due this year, he cautioned. But "at this moment, I see no evidence of a bear market in Canada or the United States."

The biggest headwind is China, which is raising interest rates to cool down its economy. That is "part of the wall of worry," he acknowledged. "Their nominal GDP [including inflation] is growing at about 15 per cent. If they raise short rates too much, they could slip that down into lower single digits, and that would be unexpected by the market. That would give quite a correction [to commodity stocks] if that were to occur."

The other risk comes from how developed countries like the United States, Japan and Europe deal with their debt burden, he said. If the strong European economies don't support the weaker ones, "that is going to cause a recession in some of those economies," he said. "But they don't seem to have an appetite for those types of hard decisions. It seems that the appetite is to print and rescue - just like we do here in the United States - rather than to take the pain."

Bullish on Canada

Bob Haber's top stock picks in three sectors:

Gold: Yamana Gold Inc. YRI-T: Now \$11.91

The gold explorer and miner, which has properties in South America and Mexico, has a mix of gold, silver and copper deposits. "That gives a little diversification," Mr. Haber said. He expects Yamana's profit to roughly double in 2011 from 2010 as it benefits from strong commodity prices. The stock is cheap, trading at about 11 times projected earnings and it is expected to be a "rapid dividend grower," he said. "They tripled the dividend last year from one penny a quarter."

Oil: Suncor Energy Inc. SU-T: Now \$41.61

The integrated energy giant, which merged with Petro-Canada in 2009, is the blue-chip stock of the sector, and is the "best operator in the oil sands," he said. Suncor will likely have oil production

growth of 10 per cent per share over the next 10 years, he added. "You get growth, great management and a strong balance sheet." The stock trades at 12 times forward earnings.

Agriculture: Ag Growth International Inc. AFN-T: Now \$53.15

The maker of grain handling, storage and conditioning equipment, which includes belt conveyors and storage bins, is growing by acquisition in the United States, he said. The company will benefit from farmers plowing back profits from higher grain prices into upgrading their grain handling equipment, he suggested. Its stock trades at 14 times projected earnings, but the profit per share is expected to jump by roughly 50 per cent in 2011 from 2010.

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