



FOCUS ON PRODUCTS

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PAGE 29

Looking for gains in equities

Portfolio managers of Canadian equity balanced funds say that despite economic woes in Europe, many companies are in good financial shape

BY MICHAEL RYVAL

ALTHOUGH CANADIAN EQUITIES markets took a drubbing in 2011, fixed-income markets did well, thanks to investors seeking the safety of government bonds as concerns mounted about Europe and slowing global economic growth. Yet, managers of Canadian equity balanced funds continue to emphasize stocks over bonds, despite the macro-economic challenges in 2012.

"We see upside potential in markets, although Bay Street analysts are too optimistic about earnings," says Stephen Carlin, senior vice president and head of equities with Toronto-based AEGON Capital Management Inc.

SECTOR WATCH

and portfolio manager of imaxx Canadian Fixed Pay Fund. And although the consensus estimate sees 15% earnings growth in 2012 for Canadian firms, he adds, his view is much more conservative, at 5% earnings growth: "Analysts are making assumptions in the materials sector, for instance, that are a little too rosy."

North American gross domestic product growth will hover around 2% in 2012, Carlin believes, and global growth will be around 3%. But Europe's is likely to be flat, if not in recession. "The European crisis is real," says Carlin, "and it has caused people to re-evaluate the growth prospects for the global economy."

Still, Carlin believes that European policy-makers are working to solve the crisis and also recapitalize their banks. "The devil is in the details," he says. "Tell us where the money will come from, and the market will settle down."

Meanwhile, he notes, the U.S. will remain weak and its prospects look dim, as the country must find US\$2 trillion in 2013 to

Canadian equity balanced funds AS OF NOV. 30, 2011

Fund	1-yr.	2-yr.	3-yr.	Exp. ratio	3-yr. std. dev.	Assets (\$mil.)	Advisor
1. Norrep Income Growth Class	5.8	19.1	24.6	3.01	15.5	60.0	Hesperian Capital Mgmt.
2. Dynamic Diversified Real Asset	-2.6	11.2	22.4	2.53	13.9	278.2	M. McHugh, Goodman & Co. Inv. Counsel
3. AGF Monthly High Income	2.0	11.4	21.0	2.42	12.3	608.9	P. Frost, T. Sones, AGF Management
4. imaxx Canadian Fixed Pay	8.8	15.0	20.1	2.67	9.0	188.1	S. Carlin, AEGON Capital Mgmt.
5. Aston Hill Growth & Income Cl. A	2.6	9.2	17.8	2.45	10.5	35.3	A. Hamblin, V. Lo, Aston Hill Financial
6. Acuity Pooled Canadian Bal.	-2.9	3.1	12.8	0.14	10.9	61.7	H. McCauley, AGF Investments
7. BMO Guard. Cdn. Div. Mo. Income	2.5	8.1	12.7	2.45	6.7	345.3	J. Priestman, Guard. Cap; M. Stanley, BMO AM
8. FMOQ Monthly Income	1.7	7.6	12.6	0.95	6.8	120.8	F. Bourdon, A. Yeates, Fiera YMG Cap. Mgmt.
9. TD Monthly Income Cl. A	3.1	6.8	12.2	1.46	8.6	5,458.5	team, TD Asset Management
10. Acuity Social Values Bal.	-2.2	3.5	12.1	3.05	10.3	64.2	H. McCauley, AGF Investments
14. Trimark Div. Income Cl. A	6.9	6.8	11.5	2.14	9.8	588.6	R. Ronan, Invesco Canada

NOTE: FUNDS HAVE A MINIMUM OF \$10 MILLION IN ASSETS AND ARE RANKED BY THREE-YEAR PERFORMANCE SOURCE: MORNINGSTAR RESEARCH INC. INVESTMENT EXECUTIVE CHART

deal with budget demands. Says Carlin: "We are in a sustained period of subpar growth."

Because GDP growth will be anemic, Carlin sees potential total market return of about 5%-6%, including dividends, in 2012. However, he favours stocks — they account for 77% of the imaxx fund's assets under management, followed by bonds (20%) and cash (3%). The fixed-income component's average duration is 6.6 years, equal to that of benchmark DEX universe bond index.

About 28% of the imaxx fund's AUM is in energy and pipeline stocks, 16% is in REITs, 15% is in banks and smaller weightings are in sectors such as utilities. One of the top holdings in the equities component of 35 names is Bank of Montreal. "The banks have positive earnings growth and are trading at reasonable valuations," says Carlin. "My objective is to generate a dividend yield that's 50% higher

than the market's. If the dividend yield is 2.8%, then I'm looking for 4.2% or better. A number of banks fall into that category."

BMO stock, which has a 5% dividend yield, is trading at 9.6 times earnings. Carlin believes the stock, which is trading at about \$57 a share, could reach \$65 within 12 months.

Another favourite is Crescent Point Energy Corp. "[It has] dominant land positions in Western Canada, and production volume growth at 8% a year," says Carlin, noting the firm currently produces about 80,000 barrels of oil equivalent. "With the combination of a flat commodities price environment, coupled with [Crescent Point's] intended capital expenditures in 2012, we see outperformance for this name."

Crescent Point's stock, which has a 6% yield, is trading at about \$46.20 a share. Carlin's 12-month target is \$50.

WHILE THE SOVEREIGN-DEBT crisis in Europe grinds on, corporations are in relatively good shape, says Peter Frost, vice president with Toronto-based AGF Management Ltd. and co-manager of AGF Monthly Income Fund.

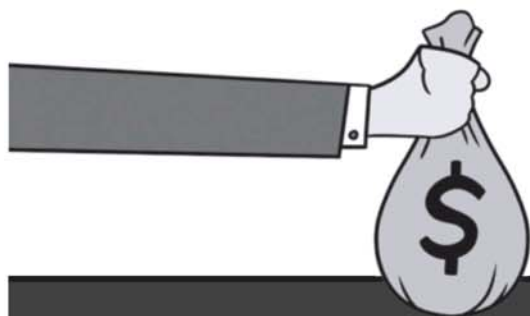
"[European companies are] in better shape than they have been since the early 1990s. If you can get companies with attractive dividend yields, you will have to be patient with [the debt crisis]," says Frost, who believes that a resolution to the crisis is likely in 2012. "But the problems reside mostly on the government side. It's not a corporate issue. That's why we're favouring corporate bonds — and equities, too."

Although markets would like a quicker resolution, says Tristan Sones, vice president of AGF and co-manager of the fund. "We are

> TURN TO WEAKNESS / PAGE 30

INSIDE THIS SECTION

Guaranteeing income with annuities	30
Fixed-income arbitrage	32
Conscientiousness counts	32
Product Watch	32



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