

PORTFOLIO STRATEGY

Rob Carrick's ideas for managing your investments

rcarrick@globeandmail.com

Low risk, high growth come together in 2010

Last year's winners were often high-risk, no-profit stocks in the mining and energy sectors; expect the opposite this year

What not to buy for 2010:
» Shares of companies with minimal profit growth, or no profits at all.
» Small, unproven stocks.
» Volatile stocks.

In other words, all the stuff that worked so amazingly well in 2009. This year, do the opposite. Look for larger-size companies with strong profit growth and less volatility. Lower risk plus higher growth? Can you get the two together?

"This is what the market's offering today," said Chris Guthrie, president of portfolio managers Hillsdale Investment Management. "It's pretty rare, and that's the cool thing. You can't usually get it."

If you've got cash piled up because you lacked the confidence to buy into the rally of 2009, here's a potential road map for getting back into the market. Same goes for cautious investors seeking ideas for their registered retirement savings plans and tax-free savings accounts.

Hillsdale's outlook for 2010 is based on an analysis of 20 different measures of size, risk, growth, profitability, valuation, indebtedness and other factors. The biggest stocks were compared with small stocks, the most volatile stocks were compared with the most stable names and so on.

The data used by Hillsdale stretched back to 1986, which means some patterns emerged to help explain what happened in 2009. First off, the various indicators were largely unanimous in highlighting how small, speculative stocks without solid profits did best last year. "We've just had a rally in no-growth, high-volatility stocks," Mr. Guthrie said. "In the U.S., they're calling it the dash to trash."

The other message sent by the various indicators is that a dramatic surge of small, speculative stocks like we saw last year is rarely repeated. One of the risk measures used by Hillsdale showed a pattern where a year in which investors embraced risky stocks was typically followed by one or more years of risk aversion.

Herein lies a key investing theme for 2010: Do not expect what worked last year to repeat. It's not just Mr. Guthrie and his firm saying this, either. In my Thursday column (read it here: <http://tgam.ca/Hjf>), Bob Gorman, chief portfolio strategist at TD Waterhouse, argued that dividend stocks will work better this year than the speculative stocks that led in 2009.

TWENTY STOCKS WITH GOOD GROWTH PROSPECTS AND LOW RISK

The portfolio management firm Hillsdale Asset Management screened 1,200 Canadian stocks and then scored them according to their profit growth. Here are lists of low-risk stocks with good growth and high-risk stocks with no growth.

Company	Ticker	Share Price (\$)	Yield (%)	12-Month Price Chg (%)	Score/100
Rogers Sugar Income Fund	RSI.UN	4.37	10.5	14.4	89.90
Rogers Communications	RCI.B	32.99	3.5	-6.1	86.50
Jean Coutu Group	PJC.A	9.59	1.9	16.8	84.90
Saputo Inc.	SAP	29.75	2	58.7	83.90
North West Co. Fund	NWF.UN	17.84	7.6	10.9	83.50
Armtec Infrastructure	ARF.UN	23.22	9.3	31.6	77.60
Keyera Facilities	KEY.UN	24.09	7.5	44.2	73.80
SNC-Lavalin Group	SNC	49.81	1.2	41.6	73.60
Tim Hortons	THI	31.2	1.3	4.9	73.60
Home Capital	HCG	41.69	1.5	146.7	71.90
Metro Inc.	MRU.A	40.2	1.7	3.9	70.50
Brookfield Renewable Power	BRC.UN	19.42	6.4	23.4	70.40
WaterFurnace Renewable	WFI	25.06	3.3	-6.5	68.10
Royal Bank of Canada	RY	53.01	3.8	73.1	67.80
Equitable Group	ETC	20.57	1.9	88.7	66.90
Astral Media Inc.	ACM.A	34.7	1.4	35.1	66.90
Stantec Inc.	STN	26.91	-	-0.3	66.80
Bank of Nova Scotia	BNS	44.84	4.4	50.9	66.10
DundeeWealth	DW	14.07	1	173.2	65.50
Shoppers Drug Mart	SC	42.84	2	-3.6	64.80
S&P/TSX composite index			2.9	28	

Note: yield and share price data to Feb. 4

Source: Hillsdale Investment Management, Globeinvestor.com

TWENTY NO-GROWTH, HIGH-RISK STOCKS

Company	Ticker	Share Price (\$)	Yield (%)	12-Month Price Chg (%)	Score/100
OPTI Canada	OPC	1.94	-	17.6	4.22
Paramount Resources	POU	14.94	-	116.5	21.60
MDS Inc.	MDS	8.37	-	-6.6	23.60
Greystar Resources	GSL	4.8	-	72.7	25.90
Iteration Energy	ITX	1.63	-	91.8	27.10
Ivanhoe Mines	IVN	13.74	-	287	27.80
Southgobi Energy Resources	SGQ	15.41	-	92.6	28.70
Nevsun Resources	NSU	2.19	-	59.9	29.00
Corridor Resources	CDH	4.42	-	107.5	29.10
Denison Mines Corp	DML	1.38	-	0	30.00
Vero Energy	VRO	6.72	-	78.7	30.10
Romarco Minerals	R	1.38	-	331.3	30.20
International Tower Hill	ITH	6.15	-	129.5	30.30
QLT Inc.	QLT	4.83	-	71.9	30.40
International Royalty	IRC	7.01	0.61	289.4	30.40
Detour Gold Corp.	DGC	15.39	-	86.5	30.80
Gabriel Resources	GBU	3.83	-	27.7	31.50
Harry Winston Diamond Corp.	HW	9.82	-	104.6	31.60
Westport Innovation	WPT	12.88	-	97.5	32.10
Tanzanian Royalty Exploration	TNX	4.02	-	-16.3	32.20
S&P/TSX composite index			2.9	28	

Note: yield and share price data to Feb. 4

Source: Hillsdale Investment Management, Globeinvestor.com

This is the year where this pattern works to the advantage of the gun-shy investor who views that 33-per-cent rise by the S&P/TSX composite index as an indication that stocks have rallied excessively and are risky. Yes, some stocks went crazy last year. But others, including many familiar names, are still worth a look. For this column, Hillsdale

created a list of 20 stocks it describes as offering good growth prospects with low risk, and a list of 20 no-growth, high-risk stocks. As a portfolio manager, Hillsdale mixes long positions in stocks (a bet on a rising share price) with short positions (you profit when a stock falls in price). The latter list of stocks would be candidates for short selling.

The lists were created from a starting point of 1,200 stocks listed on the Toronto Stock Exchange and the TSX Venture Exchange. Stocks with a market float (total of all their shares) of less than \$200-million were eliminated, and the remainder ranked according to their recent earnings and cash flow momentum. Earnings are like overall profit, whereas

cash flow reflects money actually coming into the business.

Stocks were then given a score out of 100 to reflect their growth potential. The best growers with low-risk ratings make up the first list, while the worst growers with high risk make up the second. Risk is defined as the extent to which prices bounced up and down over the past 180 days.

The names on the "good-growth, low-risk" list are a mix of the familiar and the unexpected. Along with Royal Bank of Canada, Bank of Nova Scotia, Rogers Communications and Tim Hortons, you'll find income trusts such as Rogers Sugar Income Fund and medium- to smaller-size companies like Stantec, Equitable Group and Home Capital.

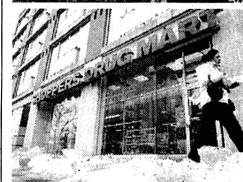
These stocks are not necessarily a "buy," Mr. Guthrie noted. Rather, they're a starting point for risk-conscious investors seeking opportunities in the stock market. Note that some of the stocks on the list have badly lagged the broad market, notably Rogers Communications, Tim Hortons, Shoppers Drug Mart and WaterFurnace Renewable Energy. Others, including DundeeWealth, Equitable Group and Royal Bank, have done far better than the market in the past 12 months.

With the sole exception of Stantec, all the good-growth stocks pay either a dividend or distribution. That's important because dividends pay you to wait for share price gains. Also, while it's dicey to generalize too much about dividend stocks being less risky than those that don't pay dividends, a company strong enough to pay out cash to shareholders each month is bound to be less volatile than one without a record of profitability.

That's the issue with the stocks on the "no-growth, high-risk" list. Many have performed spectacularly well in the past 12 months, but the score assigned by Hillsdale suggests poor growth opportunities. Mr. Guthrie said the lack of profitability with these companies is heightened by the fact that they're generally in the mining and energy sectors, where commodity prices have risen sharply since the lows of early 2009.

Regardless, these stocks represented what worked in the stock market last year. Suggestion for 2010: buy the opposite.

» Follow me on Facebook. I'm at Rob Carrick - Personal Finance.



Rogers, Saputo, Scotiabank, Shoppers and Tim Hortons: Five stocks with good growth prospects.

This is what the market's offering today. It's pretty rare, and that's the cool thing. You can't usually get it.

Chris Guthrie, president Hillsdale Investment