THE GLOBE AND MAIL

December 26, 2009

Some timely suggestions for 2010

By Rob Carrick

For 2010, consider paying down debts, and stop following hot trends, advises Rob Carrick

Some cold, hard advice for 2010: Avoid chasing hot trends, hold your fund managers accountable, beware a rising dollar and consider paying down debts instead of investing.

Let's start with the new themes, hot stocks and fabulous funds you're bound to read about as the investing world looks to the year ahead. Investment adviser Scott Tomenson of Wellington West Capital warns against getting caught up in this sort of hype because it's often meant to sell products rather than build sound portfolios.

Trend-chasing can also set you up as a patsy. Mr. Tomenson said the pros will sometimes take a position in a particular stock or sector, and then talk it up as a big opportunity. Great excitement ensues, individual investors buy in and the pros lock in their profits.

"When the music stops, more often than not it's the retail investor who's getting stuck," Mr. Tomenson said.

Next piece of advice for 2010: Evaluate the job done this year by the money managers looking after your investments, and the value you're getting for the fees you pay.

Anthony Layton, president of PWL Capital in Montreal, recommends comparing your various portfolio components with the appropriate benchmark stock and bond indexes. For example, the S&P/TSX composite index for your Canadian equity funds or individual stock holdings, and the DEX Universe Bond index for bond funds.

"Make certain you're getting close to what the market is providing," Mr. Layton said. "This is a time when we've had huge volatility in the market, so you have to make sure that your account has not fallen off a cliff."

Mr. Layton said money managers should have taken advantage of the market lows of March to re-balance portfolios. That means taking money out of safe investments and buying beaten-down stocks. But just as many investors have insisted on staying conservative and thus missed out on the stock market rally, so have some managers. "They have been too defensive and are still sitting on cash," Mr. Layton said.

Some investment firms provide statements that do a great job of showing how client accounts are doing, while others offer so little information that you have to wonder if they're made a corporate policy of being evasive. Mr. Layton said that if you don't get a proper statement from your firm, ask your adviser to provide you with an

analysis of how your portfolio has done in the short and long term. Remember to ask for not only your own returns, but also those of the appropriate benchmarks.

Now for a completely different spin on benchmarks, particularly stock indexes like the S&P/TSX composite: At Avenue Investment Management, they suggest that investors avoid comparing their returns to index ups and downs.

Bill Harris, a portfolio manager at Avenue, said the S&P/TSX index is actually a "terrible" index for influencing the holdings of mainstream investors. "It's 50 per cent resources when, the last time I checked, that's still a cyclical industry," he said. "The rest is financial companies and Research In Motion - that's basically our index and it's crazy to compare yourself against that."

This is a bit of an exaggeration in that about 20 per cent of the index is in other areas. Still, Mr. Harris suggests focusing less on trying to match the index and more on trying not to lose money while generating a steady rate of return. His firm strives for 8 to 10 per cent a year. Care to try this approach for yourself in 2010? Then consider a couple of examples of the kinds of investments that Avenue looks at.

One is TransCanada Corp. TRP-T, which has a 4.5-per-cent dividend yield and, in Avenue's assessment, the capability for average annual growth of 4 to 5 per cent over the next decade. "The stock in any given year is going to go up and down," Mr. Harris said. "But over a decade, I'm pretty sure were going to get close to a 10-per-cent rate of return. And that's enough."

Another example is bonds issued by resource company Sherritt International S-T that currently yield about 7.5 per cent. These bonds have been given a speculative rating from bond raters, but Mr. Harris said he's confident investors will make 7.5 per cent.

If you're investing in U.S. or global stocks, funds or ETFs, then you have two kinds of risk to worry about. One is related to the stocks you're exposed to, while the other concerns the Canadian dollar's value against other currencies. If the loonie rises in 2010, as is widely expected, then your U.S. and global returns will suffer.

That's why protecting yourself against currency volatility by using hedged or currency-neutral funds or ETFs is another piece of advice for 2010.

"The volatility of the currency can really affect the overall rate of return once you're getting into U.S. and international investing," said Kathryn Del Greco, vice-president at the financial advice arm of TD Waterhouse. "If you are at retirement or within retirement within five years, I do not see the need to have any currency risk exposure to your investments."

Ms. Del Greco is like many advisers in that she's fine with having unhedged foreign content if you have 10 years or more to go until you need your money. But there are others who say that hedging makes sense at any point in your investing life cycle because it removes a major source of unpredictability from your returns.

A final suggestion for 2010: Consider paying down debt with money you'd otherwise invest. This idea came from Dominic Rinaldi, a partner at Patient Capital Management who believes the stock markets are at fair value right now and thus highly unpredictable in the year ahead.

"The risk of losing gains you may already have is there," he said. "When you pay down debt, it's tangible, it's after tax and it can't be taken away."

Debt reduction is also an option for all the investors who are keeping money safe in money market funds, savings accounts and short-term guaranteed investment certificates. Returns from such investments are in the range of zero to 2 per cent, whereas credit card interest rates are as high as almost 20 per cent.

Given the Bank of Canada's concern about how a rise in interest rates would affect consumer debt burdens, paying down your borrowings might be the best investment move of all in 2010.

For more see Rob Carrick's five bright ideas for 2010 [http://www.theglobeandmail.com/globe-investor/investment-ideas/features/portfolio-strategy/rob-carricks-five-bright-ideas-for-2010/article1410842]

CTVglobemedia Publishing, Inc

CTVglobemedia Publishing Inc. All Rights Reserved.. Permission granted for up to 5 copies. All rights reserved.
You may forward this article or get additional permissions by typing http://license.icopyright.net/3.8425?icx_id=/icopyright/?artid=1410772 into any web browser. CTVglobemedia Publishing, Inc and Globe and Mail logos are registered trademarks of CTVglobemedia Publishing, Inc . The iCopyright logo is a registered trademark of iCopyright, Inc.