

# FP INVESTING

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### ORDER CANCELLATION HITS BOMBARDIER

The cancellation of a firm order for 25 Learjet 60XR aircraft from Europe's **Jet Republic Ltd.** is another sign of challenging conditions in the business jet market and may put the Learjet production schedule of **Bombardier Inc.** (BBD.B/TSX) at risk.

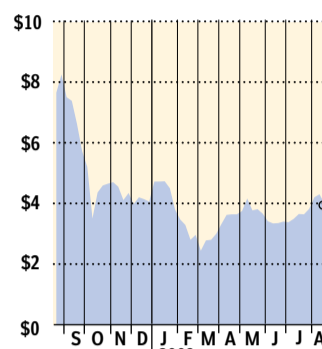
Jet Republic had placed an order for 110 of the aircraft, of which 85 were conditional. First delivery was scheduled for October 2009. The fractional jet ownership company is "technically insolvent" and has ceased operations.

The firm portion of the order represented 6% of Bombardier's total business jet backlog, according to Desjardins Securities analyst Benoit Poirier's calculations. However, he told clients that the order probably represented less in dollar terms since the lower-end Learjets have some of the lowest list prices among Bombardier's business jets.

The analyst highlighted the risk associated with two other large business-jet orders placed in the past two years by **XOJET Inc.** (20 firm orders for the Challenger 300) and **VistaJet Holding SA** (35 firm orders, including 24 for Learjets). He said both run

### BOMBARDIER INC.

BBD.B/TSX  
Aug. 20, Close: **\$3.98 -16¢**  
Volume: **13,832,325**



SOURCE: FPFOMART NATIONAL POST

similar operations to Jet Republic, but given that they are private companies, it is difficult to assess their performance and to determine how secure their orders are.

As a result of the termination of the Jet Republic order, Mr. Poirier believes Bombardier's Learjet production schedule might be in jeopardy. The company expects business-jet deliveries to decline by 25% in fiscal 2010, but the analyst expects it will have to reduce production further, by 30% in 2010 and 15% in fiscal 2011. *Jonathan Ratner*

### GOLD MERGERS HAVEN'T CREATED VALUE

The gold mining industry has been in a steady state of consolidation for the past couple of decades. But according to HS-BC Securities analysts Victor Flores and Lucia Marquez, this is not necessarily a good thing.

They argued that all the M&A activity in the sector over the last decade has created "only minimal value." In fact, they found a "strong inverse correlation" between deal activity and share price returns. Put another way, the companies that did less M&A have generally performed better.

"The potential value creation from most acquisitions has been eaten up by the purchase premium, leaving the acquirer to count on a rising gold price or the conversion

of resources to reserves to achieve a return," they wrote.

They wrote that the all-in cost of takeovers (including operating and capital costs) has, on average, exceeded the gold price. That breaks a common rule of thumb that the cost of an acquisition (per recoverable ounce) should be less than 75% of the gold price in order to generate a double-digit return. It also implies minimal return on a deal.

Gold equities have badly underperformed the gold price over the last decade, disappointing investors. Mr. Flores and Ms. Marquez think that overpriced acquisitions "largely explain" this phenomenon.

*Peter Koven*

### BIRD CONSTRUCTION UNITS SOAR

**Bird Construction Income Fund** (BDTun/TSX) announced two major contracts worth a combined \$132-million on Wednesday, moves that signal a possible thaw in the private construction sector.

Its units jumped \$1.43, or 5.2%, to \$29.15 yesterday.

The first, an industrial building for Potash Corp. of Saskatchewan, is worth an estimated \$90- to \$95-million and is expected to be complete by spring 2011. The other is a deal to design and construct two schools in New Brunswick, with construction to be complete by fall 2010.

"We recommend purchase

of the fund's units as we believe they offer one of the safest ways to invest in the Canadian construction sector," Frederic Bastien, an analyst with Raymond James, said in a note yesterday. "History has shown Bird is disciplined when approaching bids and thrives in a fixed-price environment, leading us to believe it will be successful in maintaining an acceptable margin profile in the foreseeable future."

Mr. Bastien rates Bird a 'strong buy,' with a target of \$35. Yuri Lynk, an analyst with Canaccord Adams, maintains a 'buy' rating and \$31 price target. *Eric Lam*

## BUY & SELL

Big picture views, current issues, outlook and picks. By Jonathan Ratner

# PLAY IT SAFE WITH BIG CAPS

### 'GREAT UNCERTAINTY'

By JONATHAN RATNER

Over the past year, Daniel Bain and Andrew Pink have taken the equity weighting in the Thornmark Enhanced Equity Fund from 20% to nearly 100%.

But they have not done it through aggressive stock-picking. Instead, the portfolio managers have chosen relatively safe names that are primarily large caps as part of a diversified portfolio of about 30 stocks.

"That's the first phase of getting back into the market," Bain says. "But whenever you're around an inflection point, it's our assessment that those are riskier times to be invested. Typically, as you get to inflection points, you see a flurry of adjustment. Those are great opportunities, but they are also times of great uncertainty."

The managers continue to believe that an economic inflection point will come toward the end of 2009, with a market inflection in advance of that.

"We haven't seen any materially positive economic data yet, but we have seen a lot of these 'V-bottoms' in the data that are typically associated with a turning point in economic conditions," Bain says. "I believe the fourth quarter is when we're going to see the next surge in the markets, if as we expect earnings estimates are revised upward and the outlook for 2010 is improved relative to what it was even a month ago."



PETER J. THOMPSON / NATIONAL POST

Fund manager Daniel Bain, left, with colleague Andrew Pink, sees these as "riskier times to be invested."

As the managers see a broadening of positive economic data, that is when they'll start the shift into lower-cap stocks, as well as more concentrated portfolios and sector allocations. From time

to time, about 25% of the fund will be in small caps.

Right now, their sector allocation is quite broadly diversified, including exposure to areas such as health care, consumer staples and utilities

**Managers:** Daniel Bain & Andrew Pink, Thornmark Asset Management

**Fund:** Thornmark Enhanced Equity Fund

**Description:** Tactical allocation fund, uses cash and equity, up to 25% leverage

**Size:** \$35-million

**Style & Process:** Value-Shift - an active-style allocation with a value bias

as a defensive component to the portfolio. However, these are expected to be eliminated before the end of the year.

While they can defend portfolio value in other ways than using cash — by buying put options or other protected positions — the managers chose not to during the market turmoil because the volatility was so high that it made protection too expensive.

As the fund began getting reinvested and increased its exposure to U.S. names, the managers focused on the foreign-exchange impact on their holdings. Concerns about the U.S. dollar lead them to hedge out virtually all exposure to the greenback.

"We do believe that due to the underlying fiscal situation in the U.S. relative to Canada and the rest of the world, the likelihood is that the U.S. dollar, in general, will weaken against the Canadian dollar," Bain says.

This is particularly important if the co-ordinated global economic expansion is to resume, he adds.

"That will be good for commodities, our economy and the Canadian dollar."

*Financial Post*  
*jratner@nationalpost.com*

### BUYS



**S&P Homebuilders ETF** (XHB/NYSE)

Although they missed the initial rally, the managers were able to establish this new position on a pull-back in early July. They wanted to get into the homebuilders space because they know it is highly cyclical. "The homebuilders are expected to lead the market recovery," Pink says. However, the managers are not particularly keen on any individual names at this point. "Typically, we haven't seen the kind of pain or fundamental problems in the housing sector we've seen this time around," Bain notes. "So whereas normally we would want to buy the individual names, this time around we're a buying the basket to diversify the security risk."



**Microsoft Corp.** (MSFT/NASDAQ)

The fund established this position earlier in 2009, almost immediately after Microsoft released earnings in January. These results were not received well and the managers thought the stock was being overly punished. "Ultimately, it's a play on where we think the economy is going to go," Pink says. "This next leg of the cycle is going to be an expansionary phase. Businesses are going to come back, personal spending is going to come back, and we think the valuation on Microsoft at around 13 times forward earnings is clearly too much of a discount on this stock." The manager also expects 2009 to be a trough for the company in terms of PC deliveries.



**Rogers Communications Inc.** (RCIB/TSX)

Pink expects this long-term holding to be at the top end of its guidance (7%-8%) for EBITDA growth this year. With more than 50% of Rogers' revenue coming from its wireless business, the manager sees growth there and good leverage to an economy that should start to strengthen. Rogers continues to buy back shares and increase its dividend. As far as the risk of new wireless entrants is concerned, the manager says this is an event that will need to be watched in 2011. In the meantime, he likes the fact that Rogers is not exposed to the underperforming traditional wireline voice segment, as are competitors BCE Inc. and Telus Corp.



**EnCana Corp.** (ECA/TSX)

The managers sold their position in EnCana in March after looking at the supply-demand fundamentals for natural gas. With new shale plays coming online, they see nothing but supply on the horizon. As a result, the fund's energy exposure is geared toward oil as a global commodity better levered to inflation. Pink notes that the benefit from a well-priced hedge on 50% of 2009 production expires in October and less than a third of 2010 total production is hedged at lower rates. While the company has said it is waiting for another rally to put on additional hedges, the manager says, "I don't think we're going to get it."

## I say spend; you say no. We're in love

### NEW STUDY

By CATHERINE RAMPPELL

Despite the old saying "opposites attract," scholars have found that in almost every way imaginable, people tend to choose mates who look, sound and act as they do.

But in the area perhaps most fraught with potential conflict — money — somehow, some way, people gravitate toward their polar opposite, a new study says.

"Spendthrifts" and "tightwads" (which, as it turns out, are actual academic terms) tend to marry the other. Unfortunately, these dichotomized duos report unhappier marriages than people with

more similar attitudes toward spending.

How do we know all this? Researchers at the University of Pennsylvania, the University of Michigan and Northwestern University looked at several surveys that asked a married couple to assess separately their personal feelings toward spending money. While the study used the responses of a self-selected group of online news readers, it was bolstered by a randomized poll commissioned by the researchers.

Respondents were then rated on a Tightwad-Spendthrift scale. The labels refer not to how much people earn or spend, but how people described their feelings about spending. Spendthrifts, on this scale, say they experience too little pain when spending, lead-

ing them to spend more than they should; they later regretted their financial recklessness.

Tightwads, by contrast, report feeling too much pain when spending. They have trouble parting with their pennies, and yet they frequently kick themselves for having so much difficulty living life. In other words, they live in a perpetual state of non-buyer's remorse.

From such yin-and-yangness, love blossoms. (At least to a modest but statistically significant degree, the study found.)

"Almost all prior research has found that birds of a feather flock together," said Scott I. Rick, a University of Michigan marketing professor who is a co-author of the study. "People have tried to

find evidence of complementarity, but they usually can't." The major previously identified exception to that rule is on dominant and submissive personalities, traits for which opposites do tend to attract.

Why do people seek out their opposites in spending attitudes? Most likely, what we hate in ourselves, we also hate in other people. And the more we hate that quality in ourselves, the more we avoid it, the study suggested.

"I can see how this might be one of those kinds of seductive differences in the early stages of courtship," said Stephanie Coontz, a professor at Evergreen State College in Olympia, Wash., and research director for the Council on Contemporary Families. "Maybe you say to yourself, 'This guy

makes me feel so free,' or 'This gal reins me in.'"

Which is unfortunate. As previous studies have found, spending decisions are a common source of marital conflict and a major contributor to divorce. And as prior literature would predict, this new study showed that financially polar pairs report greater conflict over money, and lower levels of conjugal bliss.

It appears that people are aware of this potential for conflict. In another set of surveys, the authors asked unmarried people about their ideal mates. The answers generally described a spouse who would be identical to them on consumption concerns: the more these unmarried survey respondents said they disliked spending money, the more they thought their soul mates should also dislike spending money, and vice versa.

"It turns out they're right:

They would be happiest with themselves," Prof. Rick says. "But for whatever reason, they are not able to or motivated to act on it when they get into the field, so to speak."

Perhaps this disconnect between the qualities people say they want and the spouses they actually choose happens because people don't talk about money, relationship experts say. Couples never come around to addressing how their different attitudes toward spending would play out in day-to-day married life.

"You would be shocked at how many people don't talk about these things before they get married," said Susan Reach Winters, a divorce lawyer in Short Hills, N.J. "I mean, they're willing to get naked with these people before they get married, but they don't, or can't, talk about money before they get married."

*The New York Times*