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INVESTING

Why buying and holding would be foolhardy this decade

BY SIMON AVERY
INVESTMENT REPORTER

It would be nice to know today what stocks we should all be holding at the end of this new decade. Not necessarily the high flyers that end up delivering exponential gains, but shares of 10 solid, profitable companies that are best suited to take an investor through the decade with minimum risk and that present opportunity for a healthy-sized return.

With all the market drama over the last decade, however, it's becoming much harder to find money managers and strategists who still advocate a buy-and-hold strategy. Many market experts say that with North American exchanges swinging between 60 per cent and 80 per cent within the past nine months alone, the notion of buy and hold has become quaint and even foolhardy.

A 10-year strategy for select stocks will simply give an investor a false sense of security, says Vincent Delisle, a portfolio strategist in Montreal with Scotia Capital Inc.

The markets have become far too volatile in recent years for a buy-and-hold strategy. He says his firm looks at a stock in terms of what its price should be relative to future earnings. When the stock hits that price, it's time to sell and move on.

Daniel Bain, president and chief investment officer at Thornmark Asset Management Inc. in Toronto, agrees that investors must be more tactical. His firm picks, holds and sells stocks based on a one-year rolling time frame.

"We have enough trouble

Biggest gainers

TOP STOCKS OF THE LAST DECADE

Looking at stocks in the S&P/TSX composite and S&P 500 today, the names below posted the biggest share price gains from 2000 to 2010.*

Company	Ticker	% price change
Southwestern Energy	SWN-N	5,776
FNX Mining	FNX-T	4,182
XTO Energy	XTO-N	3,238
Petrobank Energy	PBG-T	3,023
Inmet Mining	IMN-T	2,289
Range Resources	RRC-N	2,246
Home Capital	HCG-T	1,942
Precision Castparts	PCP-N	1,582
Flir Systems	FLIR-Q	1,511
Niko Resources	NKO-T	1,414

*U.S. stock gains are currency adjusted and reflect Canadian dollar gains

Source: Bloomberg

establishing a 12-month stock target, let alone one for two to five years. But we are very good at identifying themes within economic cycles," he said.

Those themes play out over several years and offer a variety of investing opportunities, he says. At the moment, he likes stocks associated with the mobile Internet, an industry still in its infancy and that is shining light on companies that include Google Inc., Intel Corp., Juniper Networks Inc., Qualcomm Inc. and Rogers Communications Inc.

Rogers, the biggest wireless carrier in Canada, is one of Mr. Bain's favourite picks because it has leading technology, a much smaller market value than other key stocks in the sector, and it

is "part of the backbone" in a market that is less saturated than the one in the United States. He thinks the stock is a worthwhile hold for three to five years. The most important factor in picking a stock that fits within a theme is not the price, but finding "a durable company that can weather financial storms that we can't even imagine yet today."

Research In Motion Ltd. is another key player in the hot mobile Internet sector, but Mr. Bain is less confident about the stock as a longer-term holding. While RIM has done an amazing job dominating the business market, the sector is moving beyond just messaging and into Web surfing and full Internet access.

"RIM lacks great technology for accessing the Internet. The risk is that they don't come up with one. The opportunity is that they do," he says.

While commodities have been hot sectors to date, they don't fit the definition of a market theme, says Mr. Bain, who advises against holding commodities for the long term because they are a highly volatile, cyclical bet and, over the next decade, will probably experience two economic cycles of boom and bust.

"Technology is a much better bet for sustainable gains during the period," he says.

Timothy Burt, president and chief executive officer of Cardinal Capital Management Inc., takes a very different tact. He has 35 years experience in the financial industry and says the recent market mayhem has not changed his long-term approach to investing.

"Market timing is a ridiculous game to be played," he says.

His firm in Winnipeg advises clients to stick with high-quality companies that pay dividends and have a record for increasing payouts. Historically, dividends have been responsible for about 40 per cent of market returns, he says. "Dividends give you a hell of a head start on everyone else."

Mr. Burt keeps about two dozen stocks in the firm's main portfolio, and favours energy, transportation and financials. His top 10 picks to hold for the decade are: Canadian Natural Resources Ltd., Suncor Energy Inc., Cenovus Energy Inc., En-Cana Corp., Enbridge Inc., TransCanada Corp., Canadian National Railway Co., Canadian Pacific Railway Ltd., Royal Bank of Canada and Toronto Dominion Bank.

According to his road map, the markets will hit new highs in July, 2011. The decade will see one recession in 2016 and two bear markets, in 2012 and 2016.

The energy sector is on a long-term upward trajectory, he says. Ten years from now, Canada's oil sands should be in full production, spewing out cash for players like Suncor.

Banks will do well over the decade, but will likely underperform energy stocks, he says.

Many strategists are distracted by an abundance of irrelevant market data. What matters most is a positive yield curve, Mr. Burt says. "It is the only 100-per-cent reliable indicator. The yield curve today is telling us there is nothing to worry about."