

## *View from the top: bullish*

Three top-performing fund managers tell Shirley Won why they are feeling optimistic as they place bets – and hopes – on foreign markets, resources and agriculture

### SHIRLEY WON

Report On Business: Globe Investor Special Report

Wild gyrations on North American stock markets have kept many mutual fund investors on the sidelines this RRSP season.

Much of their cash is flowing into money market funds instead, with the jury still out on whether the U.S. economic slowdown – triggered by the subprime mortgage mess – will be serious enough to affect global growth.

With such uncertainty plaguing the markets, we asked three portfolio managers with top-performing Canadian stock funds for their outlooks. All happen to be growth-style equity managers who emphasize fast-growing companies as opposed to cheap, out-of-favour firms.

### ROHIT SEHGAL

Chief investment strategist and fund manager, Dynamic Mutual Funds Ltd., Toronto

Mr. Sehgal is betting on a significant rally in North American markets later this year, despite the current volatility.

“Within six to 12 months, we think the markets could be higher,” he said. “Even if the U.S. economy goes through a recession and has two or three quarters of very weak growth, most of that is probably already [reflected] in the stock prices.”

The U.S. Federal Reserve’s move to aggressively reduce interest rates will also stimulate the economy, he added.

Mr. Sehgal, who looks for companies with strong earnings growth, runs the \$1.6-billion Dynamic Power Canadian Growth Fund. It posted an average annual return of 26.2 per cent over the five years to Dec. 31 in the Canadian-focused small to mid-cap equity category.

Mr. Sehgal pays close attention to the macroeconomic picture. “That has helped us stay ahead of the curve,” he said. “We were in commodities early.”

About 30 per cent of his fund is in foreign stocks. A U.S. economic slowdown will not stop the emerging economies of India and China from growing, he argued.

“Global growth still looks pretty good,” he said.

Forty per cent of his fund is focused on resource stocks, which should benefit from global growth, a rising demand for commodities and takeover potential, he added.

More recently he has been increasing exposure to natural gas stocks.

His energy picks include Duvernay Oil, EnCana, Suncor Energy, Petrobank Energy & Resources, Addax Petroleum, Petrobras and OAO Gazprom.

*“Global growth still looks pretty good.”*

Rohit Sehgal, Dynamic Funds

He is also bullish on agricultural stocks such as Potash, Monsanto and Agrium. This sector will benefit from improved diets among the emerging middle class in developing countries, and crops being used for biofuels, he added.

He has also been buying stocks of sugar companies, including Brazilian-based Cosan SA and India-based Bajaj Hindustan Sugar. “We think sugar is at the cusp of higher prices over the next two or three years,” he said.

### GLENN PARADIS

Vice-president and manager, Aegon Capital Management Inc., Toronto

Mr. Paradis has become more bullish, saying he believes that North American markets are finding a bottom.

“While it is going to be choppy, they should be able to trend higher over the next few months,” he said.

The U.S. will probably hit a recession – defined as two quarters of decline in economic activity – but that should not dampen global growth, which is being driven by China, India and Brazil, he said.

While a major U.S. slowdown could hurt the global economy, that is unlikely given the aggressive move by the Federal Reserve to cut interest rates, Mr. Paradis said.

He runs the \$22-million Imaxx Canadian Equity Growth Fund. It earned an average annual return of 22.8 per cent over the five years ended Dec. 31 in the Canadian equity category.

The fund is 85 per cent to 90 per cent invested in Canada. Mr. Paradis focuses on analyzing individual stocks as opposed to paying attention to economic or market cycles.

But he also screens stocks with strong earnings momentum.

He has started reducing his cash position, which was at 15 per cent. Last month, he unwound a short position held through a Horizons Betapro S&P/TSX 60 Bear Plus exchanged-traded fund, which he held during the second half of 2007.



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Agriculture remains a key theme in his fund. The sector will be driven by higher prices and low inventories for soft commodities such as wheat, corn and soybeans, he predicted.

Among his agricultural stocks are Potash, Agrium, Migao, AG Growth Income Fund, and Ritchie Bros. Auctioneers, which auctions used farm and mining equipment.

Mr. Paradis also likes the metals sector, especially gold. He owns such names as Barrick, Yamana, Franco-Nevada and Redback Mining.

The fall in interest rates will fuel inflation and help gold stocks because the metal is seen as a store of value; he expects gold to hit \$1,000 (U.S.) an ounce this year.

Mr. Paradis is also making a smaller bet on increased infrastructure spending, such as bridge and road construction, through such names as Aecon Group and Bird Construction Income Fund. "That is a theme that has to play out in Canada, the United States and globally," he said. "It's an area that is going to see money being spent by the government as well as private players."

#### DAVID PICTON

**President, Synergy Asset Management Inc., Toronto**

Mr. Picton has become more upbeat on North American stock markets despite doom-and-gloom talk about a U.S. recession and bear market.

"We are actually more bullish on the equity markets," he said. "We were bearish going into the summer of last year."

He runs the \$60-million CI Synergy Focus Canadian Equity Fund. It posted a 22-per-cent average annual return over the five years ended Dec. 31 in the Canadian focused equity class.

The move by the U.S. Federal Reserve to slash interest rates is typically "very positive" for stocks, he added.

The "massive liquidity pools" resulting from five years of loose monetary policy - ranging from U.S. corporations sitting on mountains of cash to monies held by sovereign wealth funds - has also got to get reinvested somewhere, Mr. Picton said.

His recent bullish outlook spurred him to go on a buying spree during last month's correction. He has reduced his cash position to 4 per cent from about 10 per cent to 15 per cent last summer.

Mr. Picton looks for companies with strong earnings momentum. He is a quantitative manager who uses a computer model to screen stocks but also analyzes them individually. About 26 per cent of his fund is in foreign stocks.

He holds companies - Shoppers Drug Mart and TransCanada Pipelines - that have strong balance sheets and can maintain consistent earnings growth in a slowing economy.

But he also buys cyclical companies. He likes the energy sector and holds such names as EnCana, Suncor, Niko Resources, Addax Petroleum and Coastal Energy. He also likes the agricultural sector and holds Agrium and Monsanto.

While he holds bank stocks, including Toronto-Dominion Bank and Royal Bank of Canada, he is underweight on the financial sector. Beaten-up financial stocks could drive a rally, but such a turnaround is expected to be short-lived, he said.

"The whole global financial industry is going to make significant writedowns and have negative headlines for some time to come," he said. ■

#### MEET THE MANAGERS

##### ROHIT SEHGAL

FUND: **Dynamic Power Canadian Growth Fund**

FUND ASSETS: **\$1.6-billion**

AVERAGE ANNUAL RATE OF RETURN: **26.2 per cent over the five years to Dec. 31**

INVESTMENT THEMES: **Foreign stocks, resources, agriculture, sugar**

##### GLENN PARADIS

FUND: **Imaxx Canadian Equity Growth**

FUND ASSETS: **\$22-million**

AVERAGE ANNUAL RATE OF RETURN: **22.8 per cent over the five years ended Dec. 31**

INVESTMENT THEMES: **Canadian companies, agriculture, metals, infrastructure**

##### DAVID PICTON

FUND: **CI Synergy Focus Canadian Equity Fund**

FUND ASSETS: **\$60-million**

AVERAGE ANNUAL RATE OF RETURN: **22 per cent over five years ended Dec. 31**

INVESTMENT THEMES: **Foreign stocks, resources, agriculture, energy**

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