FP INVESTING

COMMENT

You need a TFSA and an RRSP

For most it's not a choice between one or the other

JONATHAN CHEVREAU
Personal Finance

Dream retirement? Three in four Canadians won't achieve it, according to RBC. Meanwhile, rival BMO Financial Group is advising Canadians how to choose between making contributions to an RRSP or to the new Tax Free Savings Accounts (TFSA).

One thing I can say categorically. If you think you have to choose between an RRSP and a TFSA, you're not likely to achieve the retirement of your dreams. To me, it's a no-brainer: you have to do both.

Sure, there are exceptions. For example, young workers and students with no earned income hardly have any RRSP room anyway but can start their TFSAs at age 18, contributing $5,000 a year whether or not they made any money. How? By tapping the Bank of Mum & Dad.

At the other end of the life cycle, there's an argument that older low-income workers should favour TFSAs over RRSPs. In a low tax bracket, the tax deduction generated by an RRSP is less valuable than it is for high-tax-bracket workers. And once they hit retirement, the poorest seniors will find income withdrawn from TFSAs will be tax-free and won't harm income-tested programs or generate clawbacks of the Guaranteed Income Supplement.

As Mercer's actuary Malcolm Hamilton argued last week, our poorest seniors can "replace" 100% of their working incomes just through government pensions. Even so, a TFSA would give them a little more breathing room in what will otherwise be a bare bones retirement. At the other extreme, the most affluent — presumably the 25% RBC thinks will achieve a dreamlike retirement — will certainly need to max out both their RRSPs and TFSAs, with non-registered investments to boot.

In between are the great majority earning $25,000 to $125,000 a year. Hamilton says they are so accustomed to living on little after-tax income in their working years that most are happy to retire in their 60s, living on half of what they earned before retiring.

I'd argue this group should also maximize contributions to both RRSPs and TFSAs. David Chilton, author of *The Wealthy Barber*, says Canadians just aren't saving enough. We need to save till it hurts, especially in tax-sheltered vehicles.

BMO comes to the surprising conclusion Canadians are saving more, since 3.5 million opened TFSAs in the first half of 2009. Saving is a nice start but for a "Dream Retirement" you must go beyond saving and become an investor. Unfortunately, 90% of TFSAs opened are savings account or GIC TFSAs. Most don't seem to realize TFSAs can also serve as investment accounts holding stocks, bonds, equity mutual funds or exchange-traded funds. You can shelter not just interest income from tax but also dividends and capital gains.

To get that benefit, you must choose a Self-Directed TFSA: analogous to a Self-Directed RRSP. This doesn't mean you must take on stock market risk: you're still free to hold GICs and interest-bearing investments in self-directed TFSAs but you gain the possibility of investing in a broader range of securities — including bond ETFs.

> We need to save till it hurts, especially in tax-sheltered vehicles

As a Franklin Templeton survey found this week, too many Canadians missed out on the stock market recovery last year — including all those new TFSA account holders. And money market funds? You don't want to know how many centuries it will take to double your money at their current tiny yields. Yes, centuries.

Financial Post
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EXCHANGE-TRADED FUNDS GROW TO 4.6% OF CANADIAN MUTUAL FUND ASSETS

The market for exchange-traded funds continues to grow in Canada, but ETFs still have a long way to go to unseat mutual funds as the number one investment vehicle in Canada.

Canadian ETFs raised $8.5-billion in net new assets in 2009, up from $7.1-billion in 2008, says a new report on the global ETF market from BlackRock Inc., a New York-based investment management firm and proprietor of iShares.

Canadian ETF assets have grown by 29.6% over the past five years to roughly $31-billion or 4.6% of all mutual fund assets in Canada.

"ETFs have grown consistently by 30% per year over the past five years demonstrating their appeal to investors in market conditions of all kinds — from the bull to bear to recovery," said Heather Pelant, managing director, head of iShares Canada at BlackRock Asset Management Canada Limited.

"Without question, ETFs have become a popular and widely accepted tool that has fundamentally changed how institutional and retail investment advisors view the markets."

With $25.4-billion in assets under management, iShares represents 80.7% of the total ETF market in Canada. Making up the remaining pie is Claymore Investments Inc. with roughly 11% market share. AlphaPro Management Inc. and their suite of Horizons Beta Pro ETFs account for 8% of assets and Bank of Montreal, the most recent entrant to the ETF game, makes up less than 1% of the total market.

Globally, ETF assets increased 45% to hit a record high of US$1-trillion at the end of last year

David Pett

BUY & SELL

BIG PICTURE VIEWS, CURRENT ISSUES, OUTLOOK AND PICKS. BY JONATHAN RATNER

Venture index still has room to run

BY JONATHAN RATNER

The S&P/TSX Venture Index declined 80% from its May 2007 peak to its December 2008 low. Yet despite an extremely good performance in 2009, Canada's small-cap benchmark remains well below its previous high. In fact, it's only retraced roughly one-third of the decline off this extremely depressed base.

As a result, hedge fund manager Steven Palmer believes the Venture index has more room to run.

"If global economies continue to strengthen, we could still see some very significant percentage gains in small caps," says the president and CEO of AlphaNorth Asset Management.

His fund was up 160% in 2009 and has risen 31% since launching on Dec. 1, 2007, while the Venture index is down approximately 44% in that period.

Mr. Palmer's bottom-up and top-down approach, combined with technical analysis, tries to exploit inefficiencies in the small-cap universe. He prefers to focus on catalyst-driven stories, get in before there is any institutional ownership or research coverage, and looks for companies with market caps below $100-million.

While resources have proven to be the big winner over the past year, after being hit the hardest during the downturn, the portfolio manager is still finding some good opportunities in the space. This group, which includes energy, materials and mining stocks, represents about 55% of the portfolio.

"The China story, the stimulus money and all the construction that is going on over there are the immediate drivers for commodities."

He is also focusing on some small-cap technology names that haven't experienced a strong performance in the past year, but are making progress from a fundamental point of view. The manager has identified several that are successfully growing revenue and are at an inflection point in terms of turning cash-flow positive.

J.P. MOCZULSKI FOR NATIONAL POST / FILES

Steven Palmer, manager of the AlphaNorth Partners hedge fund, favours tiny companies that have no analyst coverage. His strategies carried the fund to a 160% gain in 2009.

Technology makes up approximately 25% of the fund, followed by biotech at 6% to 7%.

"A lot of people are not paying attention to the technology names because the bigger returns have been in the resource space," says Mr. Palmer. "It's easy to just ride the wave of commodity prices going up, but there are a lot of technology companies around that have been plugging away quietly over the last several years. They are growing revenue to a point where they are becoming break-even or soon-to-be break-even, which generally means a re-valuation at that stage."

While the manager is somewhat indifferent to the market's direction in the near term, he feels it probably does have an upward bias. As a result, he is not hedging the portfolio more aggressively right now or initiating new short positions just yet.

"That is something I expect to be doing over the next few months," he says.

Financial Post
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THE MANAGER

Manager: Steven Palmer, AlphaNorth Asset Management
Fund: AlphaNorth Partners Fund
Description: Long-biased small-cap hedge fund focusing primarily on Canadian companies
Style & Process: GARP (growth at a reasonable price) and opportunistic
Assets under management: $24-million

BUYS

Aeromechanical Services Ltd. (AMA/TSX-V).

The manager has been buying this real-time data communications company since the stock was below 20¢. Palmer trades around his position and has recently been buying the stock in the low-50¢ range.

Aeromechancial monitors and analyzes flight data to help airlines improve performance and cut costs. The company uses a global satellite network that allows it to track planes anywhere in the world. Existing systems often lose contact with aircraft when they are over the ocean, for example.

Aeromechanical also recently signed a sales agreement with major military supplier L-3 Communications Holdings Inc., which makes 78% of the black boxes for planes.

"This is a huge endorsement of AMA's technology and it will be a catalyst for future sales of their products."

Intertainment Media Inc. (INT/TSX-V).

The manager has owned this name for a while, but bought more shares recently after the company pre-announced its December quarter results. Palmer notes that Intertainment generated revenues of $1.45-million, which is particularly significant given that number was just $358,000 in the prior period.

The reason behind the 400% increase is the fact the company just went commercial with its social media network communications product with NBC. Intertainment receives advertising revenue from this portal that gives users a window for things like instant messaging, Facebook and free Voice over Internet Protocol (VoIP).

"They are really starting to get some traction and they are working on a couple other major brands that should start to roll out over the next few months," says Palmer.

Cline Mining Corp. (CMK/TSX).

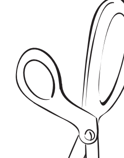
AlphaNorth participated in a recent private placement at 30¢ per share, while the stock is now trading above 50¢.

Cline is rehabilitating a metallurgical coal mine in Colorado. Its debt and equity raise was to help fund that program. The company hopes to be in production in the fourth quarter of this year, with plans to ramp up to one million tonnes annually.

"The rest of group, like **Grande Cache Coal Corp.**, has been moving up significantly because the coal market is extremely tight right now," says Palmer.

China, which uses metallurgical coal in steel production, is now importing the commodity for the first time in years. This is creating a very tight market, pushing the spot price higher and providing a boost to coal stocks.

SELL



Gold

Palmer continues to be short gold using the **Horizons BetaPro COMEX Gold Bullion Bear Plus ETF** (HBD/TSX) as a reflection of his bearish view on the metal over the shorter term.

The manager's technical analysis fortunately led him to initiate a short position on bullion just as it peaked on Dec. 3, but he still thinks gold is overheated in the short term.

Palmer's view is driven entirely by the U.S. dollar. While he feels it will continue to decline over the longer term, the manager sees no reason why gold should be spiking higher.

He also notes that most commodities have outperformed gold and feels there are better places to invest. Palmer does own several gold companies, but they are catalyst-driven stories that he would still believe in if gold fell to US$100.