WEALTH

FEBRUARY, 2015

A monthly commentary on personal finance and investments, by Randal van Eijnsbergen

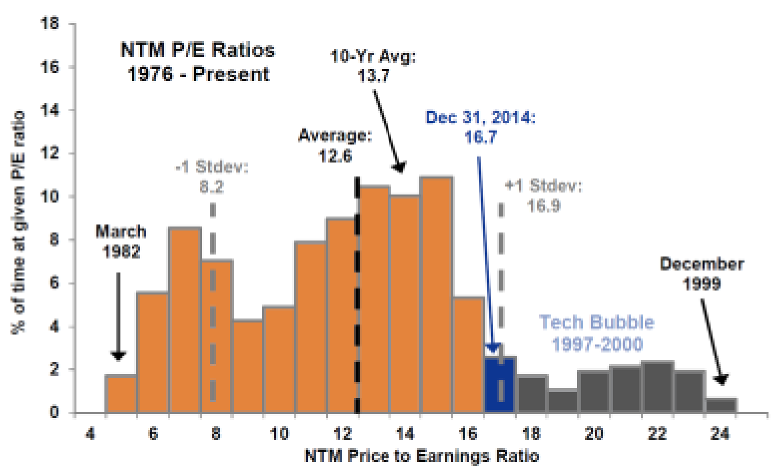
Monthly Returns:			CAD		0.7872	-8.7%	Cdn 30-yr	1.84	
TSX	14,673	0.3%	Gold	$	1,282	8.3%	US 30-yr	2.24	
S&P	1,997	-3.0%	Oil	$	47.66	-11.2%	VIX	21.7	

Personal Wealth Management

'Tis the season. Last month Canadians could put another $5,500 into their Tax Free Savings Accounts (a no-brainer) and by the end of this one, we can notch our 2014 RRSP contributions in for a nice tax-deduction. But don't stop there… On January 1st, you may also make your 2015 RRSP contribution and get that money working on a tax-deferred basis 14 months before that contribution deadline. If you have the funds available, consider changing your habits and simply making both TFSA and RRSP contributions in early January for that fiscal year. The longer they are in those tax advantaged accounts, the better.

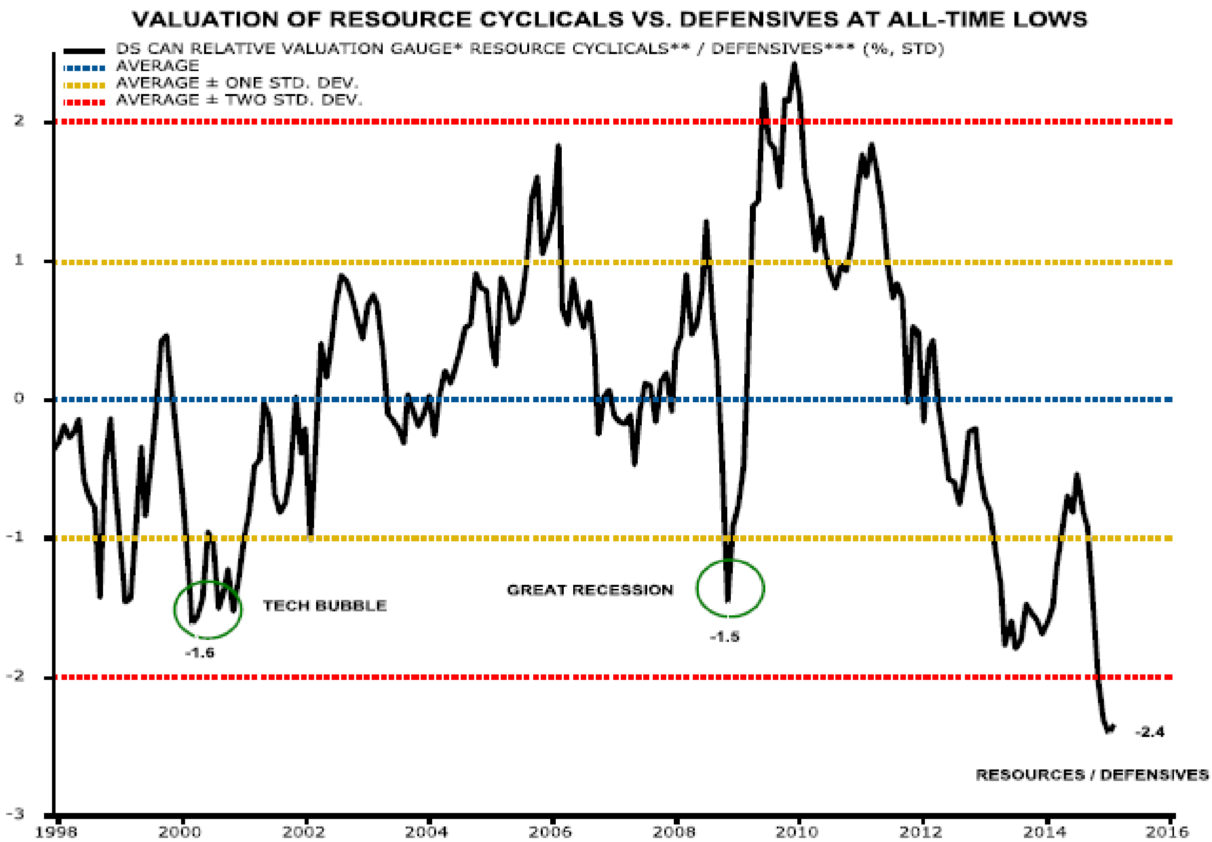
Markets

A volatile January may be a sign of the maturity of the bull market in defensive and blue-chip equities. Indeed, the valuation of the S&P 500 is higher than it has been in all but the dot com boom (chart at right,) and the valuation of resource cyclicals has hit new lows relative to defensives as per the chart below.



Source: Goldman Sachs

Further, volatility is typically a sign of a change in direction and should be heeded – both in the broad equity markets and in the gold trading pits.



Source: Thompson Reuters Datastream

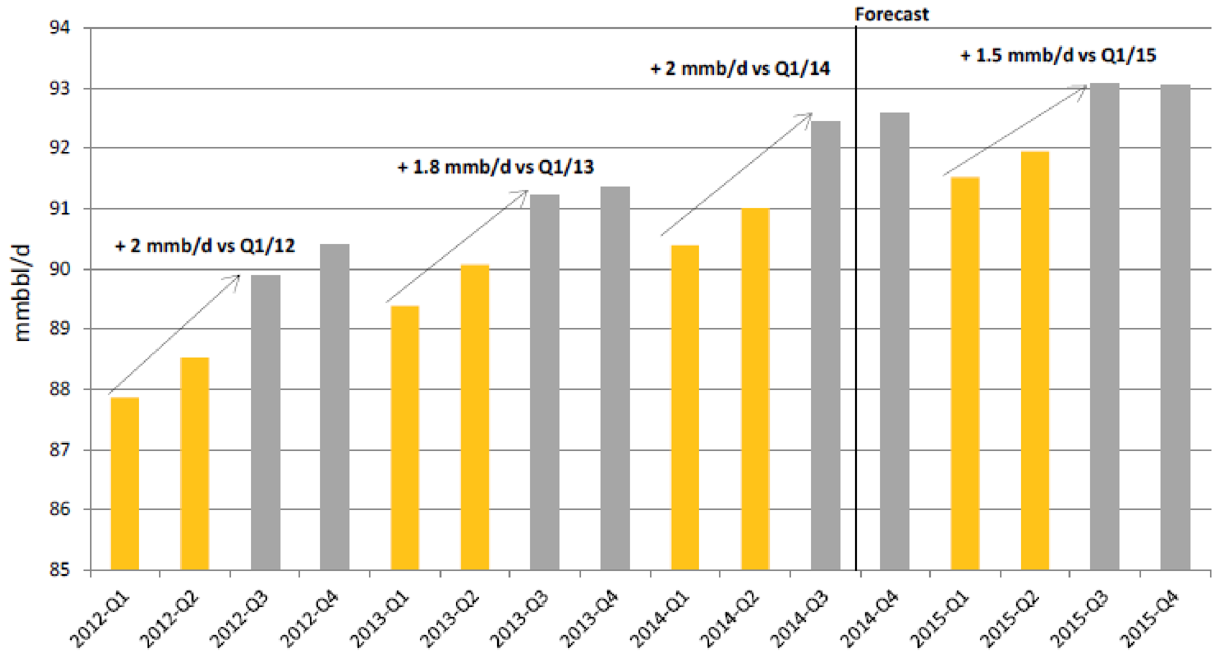
With resource stocks in general down relative to both the general market and defensive stocks, they present an attractive reward-to-risk profile right now.

Much of gold's underperformance has been attributed to the rise in the USD, which was certainly assisted by the Yen Carry Trade (short Yen, long USD.) With Europe's announcement to begin their own QE, the Euro has broken down vs. the Yen which is likely to cause an unwinding of the Carry Trade, leaving gold as one of the few pure volatility and currency hedges. Though currently retrenching after a run over $1,300, gold is jerking awkwardly in the right direction now and possibly following in the footsteps of its reversals after the bear markets of 1976 and 1982. I am adding exposure on dips.

It does seem too early for Oil and Gas since the supply keeps coming as can be seen in the bursting inventories. Q3 is the magic quarter here – driving season (see chart below) and drilling cutbacks take effect – so one need not be in a rush. Q3 starts July 1st, so look for an earlier, counter-intuitive recovery in the oil patch, perhaps around the traditionally weak Spring break-up period.

Vancouver 1-800-663-9499 • Toronto 1-866-615-2225 • Calgary 1-877-604-0044 • UK +44(0) 20 7534 5830

Quarterly Global Oil Demand



Source: Haywood Securities Inc.

Top Picks:

Following the momentum, we must look towards the technology and insurance sectors in addition to a great gold investment in this week's top picks.

Avigilon (AVO:T $22.34) the maker of the best digital surveillance camera systems is breaking out to the up side from an inverted head and shoulders pattern after a rough 2014. The company was dogged last year on management concerns when the CFO resigned just prior to an earnings release. The CEO is admittedly hard driving and difficult, but that is why the company is where they are. Avigilon has a staggering growth rate and stands to benefit from a low CAD. The company is not inexpensive on a P/E basis but is attractive when their steep growth is factored in. Further, they are a potential takeover target in a very attractive sector.

SunLife and Manulife (SLF, MFC:T $41.44, $21.81) are two of my favourite insurers. This sector generates roughly half of their earnings from outside of Canada thereby benefitting from the low CAD. Further, the shine is coming off of the Canadian banks – with challenges in the oil patch and housing concerns – and investment fund flows may now find their way into the insurers as comparable alternatives. Sunlife is the more conservative one with greater historic stability, while Manulife is cheaper and offers international upside potential from recent growth initiatives. Both are trading within a sideways range that can be bought near its support level and held for an eventual breakout.

Rio Alto Mining (RIO:T $3.28) produces 220,000 oz of gold per year from their first mine and expects to ramp-up to 340,000 oz in the next three years. All in sustaining costs are in the sub-$700/oz range and no further equity is required to fund their new Shahuindo open pit mine. With an $880 M market cap, Rio Alto trades around $92 per ounce of resources, which is a compelling valuation for an advanced producer with no further capital requirements. Management is excellent and the deposits have expansion potential. Rio has been screening well of late and I expect it to continue to outperform its peer group.

Please contact me anytime for further information or to discuss any of these recommendations. - R

Cheers,

Randal

Randal van Eijnsbergen
Investment Advisor and Portfolio Manager
HAYWOOD SECURITIES INC.
Direct: 604 697-7429
Cell: 604 616-9598
rvaneijnsbergen@haywood.com