THE GLOBE AND MAIL

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A market that even a skeptic can like

By ROB CARRICK

Vito Maida, one of Canada's most picky money managers, has been on a buying spree in the U.S. market

One of Canada's pickiest and most careful money managers has been on a buying spree lately.

Early in July, Vito Maida had the maximum 25-per-cent cash he's permitted to hold in running the Horizons North American Value ETF. Today, while many individual investors are paralyzed with indecision about where to put their money, he's fully invested.

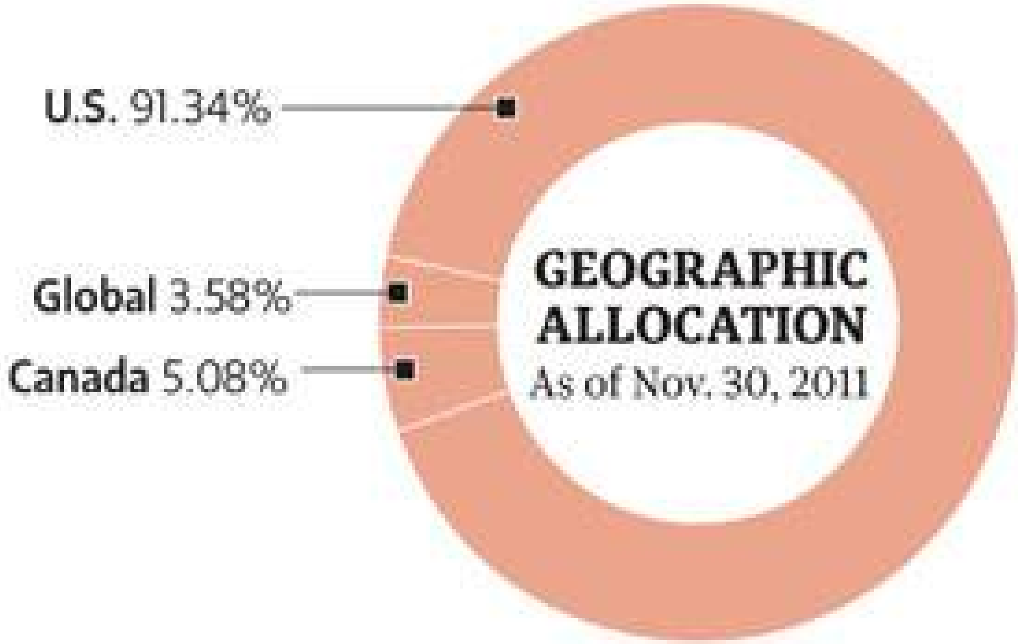
"I would say that this is the first time in a long time that we've been able to construct a portfolio of high-quality companies at very attractive valuations," Mr. Maida said. Translation for non-hardcore investors: There are some good companies available right now at attractively low prices.

But what about the down side, cautious investors will say. Few money managers are more mindful of the risk in the stock market than Mr. Maida, who runs money through a firm called Patient Capital Management Inc. "That's the basis of our investment philosophy," he said. "We always look at how much we can lose before anything else."

Nervous investors, give some thought to Mr. Maida's market view as we head into a new year. In the portfolio he runs for clients of Patient Capital clients, Mr. Maida has made 7.7 per cent a year since he began in March 31, 2000, compared with 4.1 per cent for the S&P/TSX composite and a loss of 3.5 per cent for the S&P 500 in Canadian dollars (those are before-fee returns). The composite index has done better than Mr. Maida in seven of the past 11 years, sometimes dramatically better. And yet, his long-term results are higher because he has consistently avoided the kind of stock market crashes that have fractured investor confidence.

Mr. Maida is an investment industry veteran who has worked for the Trimark family of mutual funds as well as Hamblin Watsa Investment Counsel and the Ontario Municipal Employees Retirement System (OMERS). He's a value investor, which means he looks for companies that are trading below their true value. Bargains are so few in the Canadian market right now that he has all of one TSX-listed stock in the Horizons North American Value ETF. It's Encana, the natural gas giant that went into late 2011 with a year-to-date loss of about one-third.

The rest of the portfolio is in U.S. stocks because, even after a year in which the Dow Jones industrial average and S&P 500 both outperformed the Canadian market, that's where the bargains are. Note: The Horizons North American Value ETF is one of only a small group of exchange-traded funds that uses a stock-picking manager rather than a passive index-tracking approach.



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Mr. Maida uses the financial services sector as an example of how there are better bargains south of the border. "In Canada, because banks have done well and have ridden out the financial crisis extremely well, the valuations have held up ... relative to the U.S. financials," Mr. Maida said. Technology is another sector where he has done a lot of buying. The largest position in the Horizons North American Value ETF is Cisco Systems, and Intel Corp. and Linear Technology are also in the top 10.

Cisco hit $82 (U.S.) back in early 2000 and had an astronomically high price-earnings ratio of around 100. "Our average cost is in the teens and the valuation we purchased it at was under 10 times earnings," Mr. Maida said.

Cisco shares were down about 10 per cent for the year through late December, which represents just the kind of results investors dread after the stock market ups and downs of the past year. You're supposed to buy low, but what if the stock market takes what you've just bought even lower?

Mr. Maida doesn't much care what happens in the short-term after he buys a stock such as Cisco. "Our approach is that we're buying these things over a three- to five-year timeframe, and over that timeframe is where we look at the potential for loss," he said. "Anything that happens in between is market volatility, and that's irrelevant to us."

There may be decent bargains in the U.S. market right now, but Canadian investors have good reason to be cautious about buying American after a decade in which U.S. equity mutual funds lost an average 2.1 per cent annually. That dismal record is partly a result of the effects of a rising Canadian dollar (it reduces the value of U.S.-dollar assets) and partly because of the fact that the U.S. market was just plain struggling.

Today, looking at the broad U.S. and Canadian markets, Mr. Maida doesn't see either as a massive bargain. But in terms of offering select opportunities to buy low-priced stocks, he likes the U.S. option. "At this point, the U.S. market offers the potential for better returns long term than the Canadian market does."

He holds that view even after a year in which the Canadian stock market got a lot cheaper over all as a result of slowing global demand for the resource products that drive about half our market. Economic forecasts call for more of the same in 2012, which suggests commodity stocks may at some point hit bargain territory. But they're not there yet, in Mr. Maida's eyes.

"It's getting to the point where the valuations are leading us to start getting prepared in case they do reach our prices. They're not close, but they're not outrageously high."

Curious how a safety-conscious value investor such as Mr. Maida approaches resource stocks? By focusing on low-cost producers with strong balance sheets and substantial operating assets (no speculative exploration companies).

The start of a new year and the close proximity of registered retirement savings plan season means a lot of people will be thinking hard about their investment approach. They'll be stuck between two unappealing realities – an outlook for stocks that's as uncertain as ever, and dismal returns of 1 to 2 per cent on safe investments, such as bonds, term deposits and high interest savings accounts.

Meanwhile, one of Canada's most picky and careful money managers has been on a buying spree in the U.S. market. If you're of a mind to increase your exposure to stocks in 2012, you now have an idea of where to start looking.

Cross-border investing

Veteran money manager Vito Maida has been a heavy buyer of U.S. stocks in the past several months. Here are the top 10 holdings in the Horizons North American Value ETF, which he runs for Horizons ETF Management. Note: This is an actively managed ETF run by a stock-picking manager, not the more traditional index-tracking ETF.

Stock	Ticker	Weighting % (Nov. 30)
Cisco Systems Inc.	CSCO-Q	6.22
Wellpoint Inc.	WLP-N	5.98
US Bancorp	USB-N	5.96
Abbot Laboratories	ABT-N	5.82
Pfizer Inc.	PFE-N	5.72

Intel Corp.	INTC-Q	5.51
Linear Technology Corp.	LLTC-Q	5.25
Encana Corp.	ECA-T	5.11
Speedway Motorsports	TRK-N	5.05
Kohl's Corp.	KSS-N	5.05
Total for top equity holdings		48.81
Cash & equivalents		0.44

Fund Details

Assets: $10.8-million

MER: 1%

YTD return (to Dec. 22): 0.5%

Dividend yield: 4.8%

Availability: As an ETF, this fund can be purchased through any brokerage firm under the ticker symbol HAV.

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