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A fund manager's grudging case for buying stocks

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Fund manager Christine Hughes has turned into a "reluctant bull" now that central banks are printing money to jump start their struggling economies.

Best known for running the $2.3-billion AGF Canadian Balanced Fund for a decade before leaving AGF Management Ltd. in 2010, Ms. Hughes had been notably cautious about stock markets since the financial crisis. But she has now raised the stock portion of her Northwest Macro Canadian Asset Allocation fund to nearly 90 per cent from 10 per cent in July.

She has filled nearly a quarter of the balanced fund with beaten-up precious metals stocks – half of them shares in silver producers – on the theory that gold and silver will benefit as investors seek a refuge from the inflation that may result from recent central bank actions, such as the announcement of yet another round of quantitative easing by the U.S. Federal Reserve.

She's buying despite her firm belief that the world is still headed toward another financial crisis.

"[Central bank policy is] not a panacea, and crises will return because the globe is awash in debt," warns Ms. Hughes, president of OtterWood Capital Management Inc. "They should fix the problems instead of of papering over the debt crisis … I don't like it [money printing], but you can't fight it as an investment manager."

Silver and gold prices rallied in recent weeks after the European and U.S. central banks announced open-ended bond-buying programs to spur growth, and keep interest rates low. In addition, the Bank of Japan ramped up its asset-purchase program last month by $126-billion (U.S.).

The co-ordinated moves by many of the world's biggest central banks raise the potential for inflation down the road and are "very bullish" for precious metals, especially silver, as well as for other commodities, said Ms. Hughes, who runs $400-million in fund assets for NEI Investments.

However, while safety-seeking investors have bid up the prices of silver and gold as they seek hedges against possible inflation, the shares of precious metals miners have lagged behind, creating a potential investing opportunity.

"We prefer the equities over the bullion, and we prefer silver equities over gold equities," she said.

The price of silver could climb to about $90 an ounce next year from its current $34-level while gold, which is hovering in the $1,770-an-ounce range, could reach $2,500 although there could be corrections along the way, she suggested.

The manager is also a fan of energy stocks, and owns shares in companies such as Baytex Energy Corp., Canadian Natural Resources Ltd. and Suncor Energy Inc. “The stocks have underperformed the commodity so we prefer the shares as well,” she added.

Ms. Hughes is more upbeat about the resource-heavy Canadian market, up 3.5 per cent so far this year, than the U.S. market, which has surged 14.9 per cent. “We’ll catch up, and outperform the S&P 500 until the end of the year,” she predicted. “The Canadian market could do 15 per cent for the year.”

In the U.S. market, she owns technology stocks such as Google Inc. and Qualcomm Inc., and is playing a rebound in the housing market through home builders such as Lennar Corp. and KB Home. The Fed’s new round of stimulus will focus on buying mortgage-backed securities, which will keep mortgage rates low, she said. “It’s like a wind at the [housing] sector’s back.”

She also picked up shares in European banks such as BNP Paribas, Société Générale and Commerzbank. She says her outlook turned bullish after the “game changing moment” this summer when European Central Bank president Mario Draghi pledged to do whatever it takes to preserve the euro, and Germany backed him.

To her, the announcement signalled more money printing was on the way – a move that should boost stocks in the short term even if creates bigger problems to come.

“I am bullish on equities now, but it too will end because the overall theme is de-leveraging,” she said, referring to the need for governments to reduce their debt loads.

“If you study history, it can takes 20 years for sovereign debt crises to work their way through. …When I say there are crises in our future, Japan [which has a debt-to-GDP ratio of more than 200 per cent] is an obvious one to me.”

Silver Wheaton Corp.
This company, which generates revenue from the sale of silver produced by other firms, is a royalty play so there is “no mining risk there,” said Christine Hughes. “It’s definitely a call on the commodity.”
Endeavour Silver Corp.
The mid-tier producer is focused on Mexico, which is a “prolific area” for mining silver, Ms. Hughes said. “We like it also because it has high quality assets, and is a pure silver mining play.”
Google Inc.
The search-engine giant will benefit from firms willing to pay a premium for data it collects on Internet users, she said. Its stock has broken out of the $600-a-share (U.S.) trading range, where it was stuck from 2009 to 2011.

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