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FUNDS AND ETFS

Five fund picks for a market downturn



Satish Rai of TD Canadian Bond Fund

By Helen Burnett-Nichols
 Globe Investor Magazine Online, Oct. 27, 2008

October has proven to be a disastrous month for investors. So far this month, the S&P/TSX composite index and the Dow Jones industrial average have each fallen about 22 per cent. Many are also forecasting a gloomy economic outlook for Canada. In its recent quarterly outlook, Toronto-Dominion Bank noted that "the Canadian economy is unambiguously weak and the slowing economic activity has had some impact on inflation, which has pushed the output gap further into excess supply."

So when it comes to mutual funds, which ones may have the characteristics to do well in a downturn?

Dave Paterson, an independent fund analyst with Paterson & Associates in Toronto says that many of his picks tend to be more value-based, favouring funds that tend to be

less volatile than their peer group over all, and deliver a comparable level of return. Here are Mr. Paterson's top five picks of funds with low volatility that can do best in downturns.

TD Canadian Bond Fund.

Mr. Paterson says that the fund is one he would recommend in good markets or bad. "Fixed income...in a lot of cases it's something that tends to get overlooked," he says. Pointing to the "solid management team" of Satish Rai and Geoff Wilson, Mr. Paterson adds that the fund has a monthly standard deviation of 0.91 per cent calculated using the most recent 60 months of return data, compared with 0.9 per cent for the DEX Universe Bond Index. Standard deviation—a measure of risk—shows how much a fund's returns vary around its average, according to Morningstar.

TD Canadian Bond also tends to overweight corporate bonds, allowing for typically better than category-type returns, says Mr. Paterson. "Despite going out a little bit further on the risk curve, you really don't see a substantially higher level of volatility with the fund," he adds. The fund has a five-year average annual return of 3.9 per cent as of Sept. 30.

GGOF Monthly Dividend Fund.

Mr. Paterson also likes the recently reopened GGOF Monthly Dividend Fund, run by John Priestman, Kevin Hall and Michelle Robitaille. "With respect to its level of volatility, it is about half the level of volatility of the broader index, and it's about a third less than other dividend and income type funds," he says. The fund's monthly standard deviation is 1.87 per cent, compared with monthly standard deviation of 3.69 per cent for the S&P/TSX Composite Total Return Index. However, he says that the fund may lag in an up market.

"Because it is predominantly investing in preferred-type shares...it's going to be dull, it's going to be boring, you'll do fairly well over the long term," he says. This may not be for those who are looking for pure equities, but for investors looking for a conservative equity-like fund, Mr. Paterson says the fund would be a good one to hold. The fund has a five-year average annual return of 5 per cent as of Sept. 30. "At the level of volatility that you're taking on, pretty consistent," he says.

BMO Dividend Fund.

For a more traditional equity-type product, Mr. Paterson says he likes many of the dividend funds. "They tend to have a much lower level of volatility than the overall market," he says.

His pick is BMO Dividend, run by Mike Stanley of Jones Heward. Mr. Paterson points to the process in place and the fairly concentrated portfolio. Monthly standard deviation for the fund is 2.77 per cent. "The overall level of volatility in that portfolio is pretty low relative to the peer group, and performance has been decent," he adds. Its five-year annual average return is 9.44 per cent.

Mutual Beacon Fund.

Mr. Paterson says this fund, which is classified as global equity, is usually in the top 10 of his U.S. equity category. The fund, sponsored by Franklin Templeton Investments and run by Michael Emblar, has low volatility, is fairly well diversified, and has great downside protection without sacrificing a lot on the upside, he says. "It's a bit of a deep value approach, so they're looking for well managed companies trading at or well below what the manager feels their intrinsic value is," he adds. The Mutual Beacon has a monthly standard deviation of 2.76 per cent, compared with the S&P 500's at 3.1 per cent. Its five-year average performance as of Sept. 30 is 0.94 per cent.

Mutual Discovery Fund.

Mr. Paterson says he likes this fund, which has a more global mandate. "Whereas the Mutual Beacon is about 60-65 per cent U.S., Mutual [Discovery] will have a more global mandate, managed using the same basic type of process and philosophy as the Mutual Beacon," he says. The fund, managed by Anne Gudefin and Charles M. Lahr has low volatility, is typically at or near the top of Mr. Paterson's global equity category and relative to its peer group and benchmark, he adds, without sacrificing a lot of upside. He adds that both this fund and the Mutual Beacon are very strong in virtually any market, which comes down more to the managers' approach. The fund has a monthly standard deviation of 2.46 per

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cent, compared to 3.1 per cent for the Morgan Stanley World Index. Its five-year average annual return is 6.82 per cent as of Sept. 30.

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INVESTOR POLL

For the average middle-aged investor, the best weighting for bonds in his or her portfolio is:

- 80%
- 60%
- 40%
- 20%
- less than 5%