WEALTH

March 6, 2015

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

February Monthly Returns:			CAD		0.8	1.6%	Cdn 30-yr	1.92	4.35%
TSX Comp	15,234	3.8%	Gold	$	1,212	-5.5%	US 30-yr	2.59	15.6%
S&P 500	2,106	5.5%	Oil	$	49.28	3.4%	VIX	13.76	-36.6%

Personal Wealth Management

Phishing Season! Be aware of fraudulent communications.

Occasionally, taxpayers may receive, either by telephone, mail, or email, a communication that claims to be from the Canada Revenue Agency (CRA) but is **NOT**. In all these cases, the communication requests personal information, such as a social insurance, credit card, bank account, and passport numbers, from the taxpayer. These fraudulent communications are also referred to as scams or phishing.

Invariably, the communication argues that this personal information is needed so that the taxpayer can **receive a refund or benefit payment**. Another common scam refers the person to a Web site resembling the CRA's Web site where the person is asked to **verify their identity by entering personal information**. Taxpayers should not respond to such fraudulent communications.

To better equip taxpayers to identify those communications that do not come from the CRA, the following general guidelines are provided.

The CRA does **not** do the following:

- The CRA will not request personal information of any kind from a taxpayer by **email**.
- The CRA will not divulge taxpayer information to another person unless formal authorization is provided by the taxpayer.
- The CRA will not leave any personal information on an answering machine.

When in doubt, ask yourself the following:

- Am I expecting additional money from the CRA?
- Does this sound too good to be true?
- Is the requester asking for information I would not include with my tax return?
- Is the requester asking for information I know the CRA already has on file for me?
- How did the requester get my email address?
- Am I confident I know who is asking for the information?

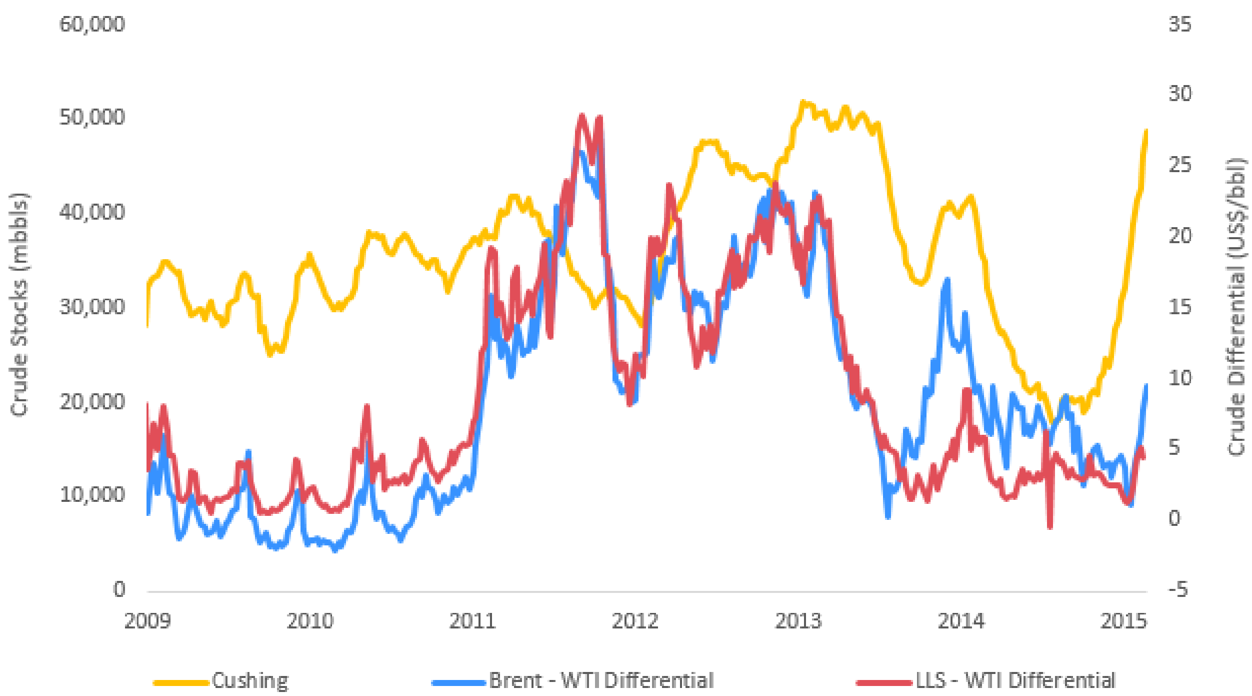
Markets

A couple of notable positive reports on Europe's recovery point to initial success from their recently begun Quantitative Easing program. This in the face of the Ukraine and Greece (and less-mentioned economic warning signs in Spain.)

The near-zero interest rates in **Europe** appear to be working: we have seen a marked positive turn-around in the Citigroup Economic Surprise Index, lending to businesses is increasing as is money supply. QE should support these trends if not accelerate them. There are some excellent ways to have exposure to a Eurorecovery (FHB, Vertex…)

A few notable generalists see **gold** bottoming here – though with some resistance at $1,300 – as the last time oil prices dove in the 1980s was very favourable for gold and gold equities.

Meanwhile, many see another final downside test for **oil,** which we may have seen as WTI again fell below $50 last week. If you wonder why there is now a $10 difference between Brent and WTI – look at the yellow line below, which illustrates crude oil stocks at Cushing, Oklahoma – where WTI is priced!:



Source: Haywood Securities Inc.

As the Emerging markets also join the global currency war – and benefit from lower energy costs – their associated increase in demand for **base metals** should support or drive prices.

Top Picks:

AGT Food and Ingredients (AGT:T $27.32, $640M mkt. cap) long a successful international trader and marketer of pulses (lentils, peas, beans etc…) is experiencing sustained growth from their legacy business as well as good traction from their relatively new, higher margin ingredients business.

AGT buys pulses and processes them at one of their 34 production facilities in Canada, U.S., Turkey, Australia, China and South Africa. They then market their products sorted, cleaned and packaged and further refine some to final ingredients including flours, fibres and proteins. A growing appetite for non-animal proteins, especially from the booming emerging markets like India, make this an exciting niche.

Not only is AGT one of the most compelling growth stories in Canadian agriculture, but it is also one of the few public concerns in a mostly private industry. This lack of alternatives has further stoked demand for AGT stock, and, with only 23M shares outstanding, should justify a higher P/E than its current 14X.

AGT is increasing capacity in late 2016 and adding a third facility in 2018. A recent financing at $28 has given them adequate funding for their expansion initiatives. Joint ventures with Ingredion and Cargill are expected to further maximize facility utilization resulting in increased volumes and margins. Either could also be potential acquirers of a desirable asset like AGT. Analysts on the Street have targets in the $31 to $35 range based on 9-10 X 2015/16 EV/EBITDA forecasts. AGT pays a 2% dividend and has seen strong growth in both revenues and earnings. Technically, the stock has formed a perfect cup-and-handle formation with multiple attempts to break out to the upside. I am recommending AGT to investors seeking mid-cap growth exposure from the food and agriculture sector. (Chart source Market Q.)

Parex Resources (PXT:T $8.07, $1.1B mkt cap) produces 26,500 barrels of oil per day (boepd) out of Colombia. They have extensive properties and drill targets that should provide them with growth for years to come. By producing out of Colombia, Parex receives Brent Oil pricing – currently 18% higher than WTI – and has benefitted from a recent reduction in the already modest national royalties. They have a net working interest of roughly 1 million acres in the country. Parex has no debt which affords them excellent flexibility and capability when it comes to drilling new targets. President Wayne Foo and his top-notch team have streamlined the company's operations to produce significant positive cash flow even at current prices. Parex currently trades around 4.5 X 2015E cash flow and 0.7X NAV – both relatively undervalued.

The bottom line is that Parex's share price has suffered in-kind from the oil price crash, but the company has been less affected by it due to their strong balance sheet and oil pricing. High inventories at Cushing in Oklahoma bode ill for WTI in the near term and make Brent exposure more desirable. Parex fell from $15.50 to $6.00 from last summer to Christmas and is currently at an attractive entry point after recently posting a bounce up to $9.24. Haywood analyst, Darrell Bishop currently has a $13 target on the shares and he is not the only one on the Street who is very bullish.

I view Parex as one of the best-in-class international producers with pure Brent oil exposure. Investors in North American producers may be disappointed in the magnitude of an eventual recovery due simply to local oversupply. For those seeking strategic exposure to an oil bounce – as we expect later this year – consider an investment or switch into Parex. See chart below (source: Market Q.)

Previous Top Picks:

February 2015: Avigilon, Sun Life, Manulife, Rio Alto Mining.

Last But Not Least:

As alluded to in previous newsletters, I have been rolling out new investment recommendations sourced from algorithms that scour the markets for attractive attributes such as price momentum, earnings growth, stability, resilience etc… I am calling these *Data Driven* recommendations and I refresh my list of them at least weekly. With stringent money management techniques these ideas have a history of outperformance and I am happy to be implementing them in fee-based accounts for primarily Canadian large-cap equity exposure with what I consider to be a considerable advantage. Keep your eyes peeled for more information to follow or contact me anytime to discuss.

All the best. Cheers,

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