



PORTFOLIO STRATEGY

Rob Carrick's ideas for managing your investments
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It's a good time to get a piece of the American Pie

Recession worries aside, it's a pretty good time to put money in the U.S. stock market.

Part of the attraction is a simple cross-border shopping rationale. With our dollar worth more than American bucks, U.S. stocks are on sale. But there's also a longer-term benefit in that buying U.S. shares today puts you in a position to benefit when - not if, when - the Canadian dollar starts to eventually lose ground. Just as a rising dollar has massacred the value of U.S. stocks held in Canadian accounts, a falling dollar would add value.

So what do you buy in the U.S. market right now? In this edition of the Portfolio Strategy column, we look at the stocks that U.S. equity fund managers like right now, some analyst favourites, some top picks of an investing newsletter and the most popular exchange-traded funds.

If you decide to follow up on any of these ideas with some research of your own, be sure to consider the U.S. economic outlook. The risk of a sharp economic downturn is such that no less a source than The Economist magazine last week declared that "the United States may well be heading for recession."

Blame the U.S. consumer. The Economist said a troubled housing market will make it tougher for them to borrow to finance their spending at a time when lenders are getting choosier about who borrows their money and, at the same time, oil prices are boosting home heating costs. "The result is likely to be America's first consumer-led downturn in close to two decades."



LUCAS JACKSON/REUTERS NEWS AGENCY

The investor's cross-border shopping list

THE 10 MOST POPULAR U.S. STOCKS WITH MUTUAL FUND MANAGERS

These stocks are the most widely held in U.S. equity funds

Name	Ticker	YTD Return (\$US)
Microsoft	MSFT	14.6
Exxon Mobil	XOM	13.6
Bank of America	BAC	-21.1
Chevron	CVX	16.6
General Electric	GE	-0.1
Everest Re Group	RE	-0.9
American Intl Group	AIG	-28.4
JPMorgan Chase	JPM	-15.8
DaVita	DVA	1.5
Procter & Gamble	PG	12.4

STOCKS THE WALL STREET FORECASTER NEWSLETTER LIKES

These stocks have recently been rated "best buy"

Name	Ticker	YTD Return (\$US)
Bank of America	BAC	-21.1
Yum Brands	YUM	26.6
Wal-Mart	WMT	-2.9
Wells Fargo	WFC	-15.9
3M	MMM	5.4
IBM	IBM	4.2
Chevron	CVX	16.6
Quaker Chemical	KWR	-1.1
Beckman Coulter	BEC	16.5
Cedar Fair	FUN	-13.6

THE STANDARD & POOR'S TOP 10 PORTFOLIO

These stocks have been judged by S&P analysts to be in a good position for gains in the 12 months ahead

Name	Ticker	YTD Return (\$US)
Manitowoc	MTW	29
Procter & Gamble	PG	12.4
CVS Caremark	CVS	32.1
Hologic	HOLX	33.6
McDonald's	MCD	29.3
Abercrombie & Fitch	ANF	7.4
Laboratory Corp. of America	LH	-6.7
Carlisle Cos.	CSL	-6.2
Jacobs Engineering	JEC	85.1
Covance	CVD	39.2

EXCHANGE-TRADED FUNDS THAT ARE POPULAR WITH INVESTORS

These are among the most heavily traded ETFs that cover the broad U.S. stock market

Name	Ticker	YTD Return (\$US)
Spiders	SPY	0
iShares Russell 2000	IWM	-5.8
Diamonds	DIA	2.7
MidCap SPDR	MDY	2.2
Vanguard Total Stock Market	VTI	0.2

TRISH McALASTER/THE GLOBE AND MAIL » SOURCE: GLOBEFUND

The currency argument in favour of buying American was explained nicely in the November issue of the Global Spin newsletter published by the

money managers at Hahn Investment Stewards. They say the U.S. dollar could fall a little further, but a bottom is near.

From a currency standpoint, then, now is a good time to buy American. "From our perch in Canada, the next few months likely present the lowest-risk buying opportunity of U.S. dollars in at least half a century," the Hahn newsletter concludes.

Now comes the question of what to buy. Here are four different sources of ideas.

1. U.S. stocks that mutual fund managers like.

Thanks to Globefund.com analyst Tilly Cheung, we have a list of the stocks that were most popular with managers of U.S. equity funds as of the end of last month. The Top 10 list is almost exclusively made up of widely known multinational companies such as Microsoft, Exxon Mobil and General Electric. The only lesser-known names on the list are DaVita, a provider of dialysis services for people with kidney problems, and Everest Re Group, an insurance company.

The list of the most popular funds with U.S. equity fund managers shows that financial stocks are not being avoided as a result of the continuing problems emanating from the subprime mortgage market. Globefund data show Citigroup has dropped off the Top 10 list in recent months, but Bank of America and American International Group remain and both JPMorgan and Everest Re have been added.

Bank of America is worth a close look because its dividend yield reached an exceptionally high 6 per cent this week as investors reacted to news of a \$3-billion (U.S.) writedown related to investments in a kind of asset-backed security based on mortgages. Bank of America still gets a consensus "buy" rating from

brokerage analysts, according to Globeinvestor.com.

2. U.S. stocks that Standard & Poor's likes.

S&P is the world's largest producer of independent equity research, which means the firm is unlike big brokerage houses in that it doesn't provide advisory services to the same firms for which it provides ratings. S&P works on a five-star rating system where five stars tells you a stock is a strong buy and that it's expected to beat its benchmark by a wide margin over the next 12 months.

Stocks for which S&P has recently reiterated five-star ratings include FedEx, AT&T, Stanley Works and Oracle. Four- and five-star stocks with strong quality ratings from S&P include Johnson & Johnson and Automatic Data Processing. One other five-star S&P stock: Bank of America.

S&P's Top 10 Portfolio, comprising four- and five-star stocks that are believed to be well positioned for the year ahead, includes such widely known names as Procter & Gamble, McDonald's, Abercrombie & Fitch and CVS Caremark, a major U.S. drugstore chain.

3. U.S. stocks the Wall Street Stock Forecaster newsletter likes.

This newsletter is produced by Patrick McKeough, who for years has been dispensing solid, middle-of-the-road investing advice through his Successful Investor family of publications. Wall Street Stock Forecaster maintains three portfolios to help investors build their portfolios, one designed for aggressive growth, one for conservative growth and one for income. The three portfolios have been updated over the past three months and 15 of them were rated "best buy."

Bank of America received this top rating in October, before it announced writedowns on its exposure to subprime real estate. Other recent "best buy" stocks include another bank, Wells Fargo, as well as Wal-Mart, 3M, IBM, Chevron and Yum Brands, a global player in fast food.

The stock highlighted in the November issue is Boeing, which has a strong balance sheet and more than 700 orders for its new 787 Dreamliner aircraft.

Mr. McKeough said in his November issue that stock prices could fluctuate wildly over the next few months between the peak prices of July and the lows of August. Eventually, he sees share prices stabilizing and then rising by 10 to 20 per cent by mid-2009.

4. Exchange-traded funds that are popular with investors.

There are a couple of ETFs listed on the Toronto Stock Exchange that cover the U.S. market, but they won't do the job here because they offer currency hedging and thus would be unaffected by a falling Canadian dollar. Instead, let's look to the dozens of ETFs listed on the New York and American stock exchanges that offer broad coverage of U.S. stocks. (ETFs are index funds that trade like stocks.)

One way to narrow the list of choices is to look at the most widely traded broad-market ETFs. You can do this on Globeinvestor.com by using the Stock Filter to create a list of ETF traded on any particular exchange and then ranking them by daily trading volume. On a day-to-day basis, there isn't much variation in which broad-market ETFs get traded the most.

The hands-down winner in terms of popularity is the SPDR S&P 500 ETF, or Spider, which tracks the S&P 500 and has a management expense ratio of 0.1 per cent. Other heavily traded broad-market ETFs include the iShares Russell 2000 Index Fund, which tracks an index of small-sized stocks and has an MER of 0.2 per cent; Diamonds, which track the Dow Jones industrial average and have an MER of 0.18 per cent; and the MidCap SPDRs, which tracks medium-sized stocks and have an MER of 0.25 per cent. The absolute cheapest-to-own U.S. market ETF is the Vanguard Total Stock Market ETF, with an MER of 0.07 per cent.

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