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RETIREMENT

How can you spruce up your returns with this year's RRSP contribution?

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One of the more satisfying things about managing your own nest egg is reviewing your investments each RRSP season and finding you've done well. If U.S. stocks formed part of your core holdings in 2013, you likely did extremely well. The Standard & Poor's 500 stock index rose 29 per cent last year, even more when translated into Canadian dollars. How can you spruce up your returns with this year's RRSP contribution? This is especially challenging on the fixed-income side of your portfolio, where historically low interest rates have resulted in equally low yields. Here are some suggestions – some riskier than others – to complement your core portfolio.

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Enhanced returns aren't necessarily higher returns, money managers say. "It means trying to generate improved risk-adjusted returns," says Mark Bayko, vice-president and portfolio adviser at RBC Wealth Management. This implies steady returns with less volatility.

MICs

To yield-starved, fixed-income investors, mortgage investment corporations offer an alternative because they combine a stable, and high, yield with low risk. Current yields are in the 6.5 per cent to 8.5 per cent range, compared with a skimpy 2.5 per cent for government bonds.

"With mortgage corporations, it's all about consistency in yield, far beyond the typical bond indices," says Craig Machel, vice-president and portfolio manager at Richardson GMP. For his wealthy clients (accredited investors), he recommends Morrison Laurier Mortgage Corp., Harbour Edge Mortgage Investment Corp. and Trez Capital Mortgage Investment Corp., all of which invest in short-term commercial mortgages.

The consistency of their returns comes partly because these MICs do not trade on the stock exchange. The downside of private mortgage pools is that it can take a while to get your money out.

One reason to consider alternative investments is they are often not correlated to other holdings, says Sam Sivarajan, head of investments at Manulife Private Wealth. But they also tend not to be as liquid, he cautions. "They're not like a stock or bond or mutual fund that you can get out of tomorrow if you're pressed for cash."

Retail investors can invest in publicly traded MICs such as Timbercreek Mortgage Investment Corp., say Warren Baldwin and Matthew Ardrey of T.E. Wealth in Toronto. The fund, which trades on the Toronto Stock Exchange, yields about 8.5 per cent. Mr. Baldwin is regional vice-president of T.E. Wealth, Mr. Ardrey, manager, financial planning.

"With MICs, the whole idea is a diversified portfolio of mortgages," Mr. Ardrey says. Despite MICs' allure, they caution against putting more than 10 per cent of your portfolio in them. Says Mr. Baldwin: "They should just be the garnish."

High-yield bonds

Corporate bonds can add a bit of spice to a fixed-income portfolio, but often, juicy yields come with added risk. Even so, diligent money managers sometimes find a security others have overlooked.

Paul Gardner, a partner and portfolio manager at Avenue Investment Management of Toronto, likes a new version of an old debenture that emerged from the ashes of Yellow Media – YPG Financing Inc. 9.25-per-cent senior secured notes due in 2018. The bonds are yielding in the range of 8 per cent. The company has now put itself on a much more solid footing with its recapitalization, Mr. Gardner says. Its new business model also is promising. If something should go wrong, bondholders are first in line to get their money back.

As Mr. Gardner sees it, the biggest risk facing holders of the new debentures is that the company may buy them back, leaving investors with the problem of where to put their money.

Blue-chip small caps

For the stock side of your portfolio, it may be hard to beat last year's stellar performance, money managers caution. Still, you may be able to enhance your returns by adding shares of smaller companies.

Paul Moroz travels the world looking for such companies. Mr. Moroz is deputy chief investment officer and manager of the Mawer Global Small Cap Fund., named the best in its category at the Morningstar Canadian Investments Awards in 2011, 2012 and 2013. Mr. Moroz was recently named Morningstar's foreign equity fund manager of the year.

More than 90 per cent of the companies in his small-cap fund pay dividends and generate strong cash flow. They have a high return on capital, "able and honest management," and a competitive advantage in their field – altogether, "blue-chip small caps." Ideally, they also have "something not priced in that could be big for investors. That is what gives added punch."

Mr. Moroz has just returned from a trip to Thailand, where he found a stock that suits his requirements – Bangkok Aviation Fuel Services PCL. It owns the tanks that hold airline fuel at the airport, the pipes that carry the fuel to the planes and the business of filling up the planes. The company also gives investors a lower-risk way of participating in increased travel by wealthy Chinese and Russians to Thailand.

Mr. Machel of Richardson GMP says his favourite picks are two agile, well-run funds, the CAMbay Select Class, a micro-cap fund managed by Polar Securities Inc. that is up 33.1 per cent since inception in 2012, and Turtle Creek Equity Fund, a mid-cap fund that boasts a compound annual return of 27 per cent since inception in 1998. (It is designed for high-net-worth investors.) Both funds have low correlations to their underlying benchmarks, Mr. Machel says.

"With CAMbay and Turtle Creek, it's all about equity outperformance by way of agile management and high-quality company selection."

Last year's losers

When searching for stocks to perk up your portfolio in the months ahead, you naturally look first at last year's outperformers. "It's easy to get caught up in the excitement over a good year," says Mark Bayko, vice-president and portfolio adviser at RBC Wealth Management. You may do better looking at stocks that were kicked lower instead.

Ross Healy, chairman and founder of research firm Strategic Analysis Corp. and a portfolio manager at MacNicol & Associates Asset Management Inc., likes beaten-up gold stocks and BlackBerry Ltd.

"Gold stocks fit that bill perfectly," Mr. Healy says. He expects the price of bullion to rebound and favours two battered companies: Iamgold Corp. and Kinross Gold Corp. Golds can be volatile, he warns, "but you can tuck them away and not look at them every day – unless you enjoy ulcers."

IAMGOLD and Kinross Gold per cent performance over one year

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IAMGOLD IMG-T			Kinross Gold K-T		
4.09	+0.090	+2.25%	5.12	+0.060	+1.19%

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