Steal These 3 Stock Ideas From This Billion-Dollar Mutual Fund

Description

Here at The Motley Fool, we generally eschew mutual funds. There's one simple reason: They continue to underperform against the market.

There's one main reason for this underperformance — fees. If I ran a mutual fund that had a 2% management fee and the index returned 9%, I'd have to get a return of 11% just to keep even after fees. That's a huge hurdle to clear, especially for a fund with billions of dollars under management. When a fund is limited to the largest stocks in the market because of its size, it essentially becomes the market itself. Those two factors combined make underperformance an almost sure thing.

But just because it's a bad idea to invest in mutual funds doesn't mean investors can't benefit from the wisdom of the people who manage large amounts of money. One of the easiest ways for the average investor to do this is to watch *Market Call* on Business News Network. It's an hour-long program that gives investors the chance to phone in and pose questions to some of Canada's smartest fund managers.

On Friday, Michelle Robitaille from Guardian Capital was on the show. She, along with other co-managers, manages the BMO Monthly Dividend Fund, which has almost $2 billion under management. Here are three stocks that are on her radar screen, and should be on yours too.

1. ARC Resources

In Canada's oil patch, it seems like companies with oil sands exposure get all the attention, leaving a handful of high-quality energy companies that a lot of investors ignore. **ARC Resources** (TSX: ARX) is one of those names.

ARC is nicely growing its production. The company's most recent results showed production increasing 11% in the quarter, thanks to its Parkland/Tower and Ante Creek areas. That, combined with substantially higher oil and natural gas prices, paints a bullish picture for ARC's shares.

The company's management team is also one of the best in the business. Reserves are healthy, and were replaced at more than a two-to-one ratio compared to production in 2013. ARC is one of the lowest-cost operators in the sector. It also has a rock-solid balance sheet with minimal debt, and its 3.7% dividend is easily covered by operating cash flow.

Investors bullish on natural gas will want to take a look at ARC. Most of the company's production growth comes from natural gas, and the company recently acquired a 20-MMcf processing facility in Alberta's Montney region.

2. Manulife Financial

In the post-recession world of low interest rates and tepid growth, shares in **Manulife Financial** (TSX: MFC)(NYSE: MFC) were among the worst-performing on the TSX. To its credit, the company has done a terrific job getting through those difficult times, and is poised to be a good investment in the medium to long term.

The company raised capital relentlessly, and is now at the point where it's perhaps the best-financed insurance company in Canada. Investors can look forward to either a dividend increase or the company's growth via acquisition. The company trades at a price-to-earnings ratio of just 11.5, and a price-to-book ratio of less than 1.5. It's the cheapest financial stock in Canada by those two measures.

The company is also growing its wealth management business nicely, and continues to develop operations in Asia, which rivals Canada as the company's largest market. This growth, combined with its 2.6% dividend, makes Manulife an attractive investment.

3. Labrador Iron Ore Royalty Corporation

Want exposure to a metal that's a vital ingredient to steel, but don't want to take all the risk in operating a mine and extracting the stuff out of the ground? That's where **Labrador Iron Ore Royalty** (TSX: LIF) comes in.

The company owns 15% of the **Iron Ore Company**, a joint venture between it, **Rio Tinto**, and **Mitsubishi Corporation**. As part of its ownership stake, it gets a 7% royalty on every ton of iron ore pulled out of the ground. These industry leaders aren't about to walk away from this project after just a bit of weakness.

Besides, the underlying mining company is expanding operations, which should lead to a 20% increase in production. That, combined with the sell-off in the Canadian dollar, should prove to be positive developments for the company. Look for some short-term uncertainty in the dividend, but this company should yield around 5% once these temporary problems blow over.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:ARX (ARC Resources Ltd.)
3. TSX:LIF (Labrador Iron Ore Royalty Corporation)
4. TSX:MFC (Manulife Financial Corporation)

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