The Ultimate Investment for Those Who Are Down on Stocks

Description

The state of IPOs in Canada is so dire these days that even mainstream publications such as *Maclean's* are covering the steady demise of the public company in this country. Recently, I highlighted the fact a mere $550,000 was raised through IPOs in the second quarter of 2016. It's got to be some kind of record, and it underscores why investors of every kind could be down on stocks.

Jason Kirby's August 2 article for *Maclean's* revealed that if you include ETFs, closed-end funds, and special-purpose acquisition companies (SPACs) in the number of TSX listings at the end of the first quarter of 2016, these so-called Frankenstocks would account for 42% of the total.

If the trend continues there's a real possibility that at some point in the near future there will be more ETFs and SPACs than actual stocks. When that day comes to pass, it's going to be awfully hard to remain enthusiastic about Canadian equities.

But forget the state of IPOs and stocks for a moment and consider why investors might want to make an investment in TSX-listed SPACs—it's got nothing to do with valuations or potential growth opportunities and everything to do with historical precedent south of the border in the U.S.

How so, you ask?

Well, back in 2007 hedge funds and portfolio managers invested heavily in SPACs in order to park money at a time of uncertainty in the equity markets. The bet was simple: if the SPAC completes an acquisition within the 18-month qualifying transaction period, there was a reasonable possibility the $10 IPO share price would move higher between the announcement of the deal and its closing.

If the deal didn't close, investors got their money back with interest. Today, with investors pumping $11.7 trillion into negative-yield bonds, there's never been a better time to invest in SPACs.

Five Canadian SPACs raised a total of more than $1 billion in investment capital in 2015. They're on fire; more are likely to follow.

The big ones from the class of 2015 include **Alignvest Acquisition Corp.** (TSX:AQX.A), **Dundee Acquisition LTD Class A**

(TSX:DAQ.A), **Infor Acquisition Corp.** (TSX:IAC.A), **Gibraltar Growth Corp Class A** (TSX:GBG.A), and **Acosta Enterprises Inc.** (TSX:AEF.A).

Of the five, Infor Acquisition Corp is the first across the finish line, announcing July 25 that it was going to merge with **ECN Capital**, the commercial finance business being spun out from **Element Financial Corp.** (TSX:EFN). The deal is expected to close in October.

If you're down on equities, especially stocks, history suggests SPACs are a great place to park your money.

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