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CANADA TIP SHEET: IceCap Asset Management's Dicker Hunkers Down

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TORONTO (Dow Jones)--To really understand recent market volatility, Keith Dicker believes you need to take a step back. Way back.

"When we look at the world, what we think a lot of managers are missing, and the public doesn't understand, is that we are still in the middle of a secular bear market," says Dicker, president and chief investment officer at IceCap Asset Management of Halifax, Nova Scotia.

That bear market, he says, began in January 2000, and is likely to continue for some time. Viewed through a historic lens, there have been four secular bear markets since trading on stock exchanges began, each lasting between eight and 16 years. Although this bear market has had some significant peaks and valleys, it is nowhere near the end, he says.

Dicker believes there are six conditions that must exist before the markets will turn. Money has to be cheap, which it is, and easily available, which it isn't. Existing bad debts need to be written off. There must be a large, pent-up demand for goods and services.

Stocks have to be cheap--and while valuations have fallen, Dicker says the price-to-earnings ratio needs to be in the single digits, which implies a further decline from current levels. Investors and the public have to be "extremely pessimistic" about the stock market and the economy, and major investors must have large cash holdings. Dicker notes that while many large companies have significant cash holdings, institutional investors do not. And the changing moods of investors have led to the market's recent wild swings.

Until those six bases are in place, Dicker--who primarily manages funds for high net-worth individuals--is playing it safe. His portfolio is 15% in cash, mainly money-market funds, and 20% in gold through the Claymore Gold Bullion ETF (CGL.T, CGBLF). The remainder is divided equally between equities and bonds, also through a variety of exchange-traded funds.

Dicker says his clients' portfolios have gained 5% to 7% over the past year.

Dicker, who launched IceCap last year, spent the previous 10 years as a senior portfolio manager and head of global equities at a bank in Bermuda, and thus has numerous international clients.

For Canadian-domiciled investors, he holds the Horizons BetaPro S&P/TSX 60 Index ETF (HXT.T), which he chose for its substantial liquidity and low management fee of seven basis points. Clients also are invested in the BMO Emerging Markets Equity Index ETF (ZEM.T), or other global funds that have little exposure to the U.S., which he believes will have extremely weak growth for some time.

"We are focused on preserving capital," Dicker says, noting the portfolio has produced small but positive returns for his client. He believes equity markets could have further downside, depending on what U.S. Federal Reserve President Ben Bernanke says at Jackson Hole later this week. He also says that when the bottom is reached, "there will be amazing investment opportunities."

For now, however, Dicker believes "the global macroeconomic landscape today is totally overwhelming any bottom-up stockpicking story." In such an environment, buy-and-hold strategies no longer work, he says, nor does the traditional "buy-on-dips" technique of the more-active manager.

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