THE GLOBE AND MAIL

Why this $620-million fund manager is reducing risk in his Canadian equity portfolio while loading up on U.S. value stocks

BRENDA BOUW
SPECIAL TO THE GLOBE AND MAIL

Ryan Lewenza, senior vice president and portfolio manager at Turner Investments says they've been telling clients to expect a "good year, not a great year."

Portfolio manager Ryan Lewenza plays it straight with his clients around what to expect this year. “We’ve been telling clients we’re expecting a good year, not a great year,” says Mr. Lewenza, senior vice-president and portfolio manager at Turner Investments, citing volatility from trade wars and rising interest rates amid an aging bull market as weighing on overall markets.

While he's expecting a rally in equity markets in the fourth quarter and believes we're in a longer-term secular bull market, Mr. Lewenza also believes the risks are higher today than they were in the past six to nine months.

In 2017, his firm's return for its clients was 9.5 per cent after fees of about 1 per cent, compared to 9 per cent (including dividends) for the S&P/TSX Composite Index. His firm's return year-to-date is about 3 per cent compared with a flat performance for the S&P/TSX Composite Index. Mr. Lewenza is expecting a return for his clients of about 5 per cent to 6 per cent for 2018.

The Globe and Mail recently spoke with Mr. Lewenza, who manages about $620-million in assets, about what he’s been buying and selling.

DESCRIBE YOUR INVESTING STYLE.

We don’t take big risks. We target a 6- to 7-per-cent annualized rate of return, net of fees, over a full business cycle. How we deliver that is through a balance of 60 per cent equities and 40 per cent fixed-income, which is our recommended portfolio allocation, and through diversification. We diversify through broad-based, low-cost ETFs and we are global investors with roughly a third in Canada, a third in the U.S. and a third internationally.

WHAT CONCERNS ARE YOU HEARING FROM INVESTORS TODAY?

[U.S. President Donald] Trump is obviously front and centre. He's part of so many conversations. Some are very concerned about what he does with [the North America free-trade agreement]. The other concern is the length of the bull market, which is bringing out constant doomsayers. Everyone is afraid of another 2008 recession. It's so strong in peoples' memory. The reality is that happens once or twice in a century. People are also concerned about the significant increase in global debt.

WHAT'S YOUR TAKE ON WHEN THE NEXT RECESSION WILL BE?

If I had to pick a date, I would say around 2020: Clearly, things are positive in the economy, but now we have rising rates and a potential yield curve inversion [a bellwether for an economic recession] by summer of next year, based on the outlook for U.S. Federal Reserve rate hikes. That said, I'm a strong believer that we're in a secular bull cycle … which started in 2013, which based on history, has at least 10 years to go. Even if we have a cyclical downturn in 2020, I still think the next decade looks pretty good.

WHAT'S YOUR FORECAST FOR THE MARKET IN THE SHORT-TERM?

We are still very bullish, but the risks are higher today than they were in the last six-to-nine months. The risks include the outcome of the midterm elections in the U.S. If the Democrats take the House and Senate … it increases the odds of an impeachment [of Mr. Trump]. We are also concerned about the outcome of the [Robert] Mueller investigation. Politics could be coming into play over the next six months. It's the uncertainty – and markets hate uncertainty. [If there's an impeachment process] it could lead to a correction in the market of about 10 per cent if we go back to what happened with [former U.S. president Richard] Nixon.

WHAT HAVE YOU BEEN BUYING LATELY?

We are starting to buy large U.S. value stocks. We think this is an interesting trade. We recently added the Vanguard Value ETF [ticker VTV]. Our thesis is that, over the long haul, value tends to outperform growth. However, over the last decade, growth has crushed it. As a result, growth stocks [based on the S&P 500 Growth Index] are very expensive, now trading at about 26 times price-earnings ratio, versus value stocks [S&P 500 Value Index] at about 16 times. There's value in value.

We want to reduce risk in Canadian equities space now in case NAFTA goes sideways. If [Mr.] Trump imposes a 25-per-cent tariff on cars … it could be a huge hit to our economy. To reduce risk, we've gone into low-volatility ETFs. We added BMO Low Volatility Canadian Equity ETF [ticker ZLB] in the first quarter, which we think would hold up better. We are also buying Invesco [Powershares] Canadian Dividend ETF [ticker PDC], for high-quality dividend exposure. We've also been adding to our fixed-income a little bit, as another way to reduce risk.

WHAT HAVE YOU BEEN SELLING?

We have been trimming our Canadian REIT [real estate investment trust] exposure. The iShares S&P TSX Capped REIT Index Fund [ticker XRE] has rallied [about 7 per cent] so far this year. We've been taking those proceeds and adding to Europe and picking away at emerging markets.

WHAT'S ONE EQUITY YOU WISH YOU BOUGHT?

We stayed away from the marijuana sector. I kick myself a little bit for not buying a small weight in the Horizons Marijuana Life Sciences Index ETF [ticker HMMJ]. It's not really our cup of tea, but how can you not regret buying that?

This interview has been edited and condensed.

https://www.theglobeandmail.com/investing/markets/inside-the-market/article-turner-investments-portfolio-manager-plays-it-safe-despite-bullish/