How Canadian fund managers are reacting to the coronavirus selloff - and what they're buying and selling

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The global spread of the coronavirus is hammering global markets, leaving investors to wonder if they should sell stocks, or if it's time to buy at cheaper prices. The Globe and Mail spoke with a handful of Canadian portfolio managers about their take on the recent market volatility and how they're investing through it all.

Lesley Marks, chief investment strategist at BMO Private Wealth (Canada), says the impact of the virus is unknown "and therefore most of the market reaction can be attributed to the fears associated with the outbreak rather than a measurable impact of the outbreak itself."

She believes the Chinese government's rapid containment measures, combined with "significant stimulus", should help prevent a longer-term economic slowdown in the country, "but again the timing and magnitude is unforecastable at this time," particularly as the risks have expanded to include other major global economies.

While travel, consumer and luxury stocks have been most impacted, the selloff has been broad-based. Ms. Marks says high-multiple stocks, including some in the technology sector, have also experienced a bigger correction than the overall market given their high valuations. She notes the S&P/TSX Composite Index hasn't suffered as much as benchmark indexes in other nations, because of strengthening gold shares. Gold has rallied by about 10 per cent since the start of 2020, due largely to its safe-haven status. "All of the recent trends (lower equities, cyclical commodities and higher gold and bond prices), could reverse quickly once the perception forms that the spread of the virus has peaked or has been curtailed," she says.

Her team hasn't made any adjustments to allocations in client portfolios amid the recent market selloff. "At this time, we believe it is still too early to understand the full economic impact of this coronavirus and whether this is a transient trend or something more sustained."

Anish Chopra, managing director at Portfolio Management Corp., says the recent market sell-off is creating opportunities for "patient investors" like him. "Volatile markets allow us to purchase high-quality businesses at reasonable valuations because in general market downturns, the share prices of almost all companies fall," he says. "Panic selling doesn't discriminate – pretty much all stocks go down in price."

Mr. Chopra says it's an opportunity as well since stock market valuations had increased "and there were fewer opportunities to invest in the companies that have the qualities we like. This recent sell-off has started to make valuations more reasonable and has increased the opportunity."

His advice to investors with a long-term horizon is to stay calm. "This period of higher volatility will pass. There will be economic consequences of the coronavirus in the near-term, but if we look out over the long-term, economic activity and global stock markets should recover."

Christine Poole, chief executive and managing director at GlobeInvest Capital Management, says she has been taking advantage of the sell-off to buy large-cap, financially strong companies in attractive secular growth industries.

“High valuations had kept us on the sidelines,” she says. Some of the companies she’s been buying this week include Canadian-based technology services company CGI Inc., Visa Inc., Walt Disney Co., United Technologies Corp. and Abbott Laboratories.

“We remain focused on the longer-term fundamentals of the economy and the stocks we invest in for our clients,” she says, believing the U.S. and global economy will continue to grow this year, “albeit at a somewhat sluggish pace in the 2-per-cent range.”

She says the coronavirus will “undoubtedly be disruptive and have a negative short-term economic impact,” but believes the virus “should eventually be contained and go away," based on past health crises. "We expect governments and central banks to provide continued fiscal and monetary stimulus, respectively as necessary.”

Craig Jerusalim, senior portfolio manager at CIBC Asset Management, believes the coronavirus will likely become a footnote in history in a few quarters from now, “unable to dislodge North America’s longest economic expansion in history.”

And while some investors are taking profits, particularly in high-growth areas such as technology, “we believe it is most prudent to stay fully invested in high-quality, growing companies that we are comfortable holding through market cycles and have confidence will emerge from temporary disruptions stronger and better positioned relative to peers.”

He’s also looking for opportunities to add to core positions that he believes are oversold, such as Air Canada. “We feel like the stock is already incorporating too severe a scenario than what the fundamental realities that are likely to unfold suggest,” he says. “Although short-term prices can deviate further from the fundamentals, the company is in a much stronger position to weather the downturn relative to where they were during the SARS crises and all other periods of economic contraction.”

Mr. Jerusalim is also looking to trim positions in sectors that may be impacted over the long term. “Instead of using only the defensive sectors as a source of cash to fund the opportunistic purchases, we are looking to where temporary disruptions may become a more permanent fixture such as in autos and select energy investments that are facing longer-term structural headwinds.”

Jennifer Radman, vice-president and senior portfolio manager at Caldwell Investment Management Ltd., says she's holding a little more than 20-per-cent cash in her Canadian equity portfolio, after exiting some positions over the last two days.

“We have also been rotating from areas of relative weakness to areas of relative strength,” she says. “In our U.S. strategies, we’ve benefited from some positive company-specific catalysts in names like TJX Cos. [Inc.], Middleby [Corp.] and Keysight Technologies [Inc.]. We have some cash to deploy but haven’t put that to work yet.”

She recommends investors talk to their investment adviser about holding cash for near-term needs. “Nobody knows the path of markets in the short term and so a key factor for a successful investment experience is time,” she says. “For those investors that will need cash in the next 12 to 24 months, we’ve been taking that out of the market so that we’re not forced to exit positions at an inopportune time.”

Daniel Goodman, CEO at GFI Investment Counsel Ltd., believes it’s “prudent” to buy stocks when markets drop, as his firm has been doing in the past few days. “It doesn’t mean that we believe the market will go up in the short term,” he says, “but it does mean that over the fullness of time, buying quality businesses will always remain the best option for long-term savings.”

For instance, his firm has bought more shares of Microsoft Corp., a company he believes will not suffer much from the impact of the coronavirus. “Microsoft clients will continue to use and purchase office products and web services,” he says, while monthly subscriptions will likely keep growing. (Microsoft said late Wednesday it doesn't expect to meet the quarterly revenue guidance it previously provided for its business segment that includes Windows.)

His firm is also adding more to its holdings in Apple Inc., "knowing full well that expected earnings over the next couple of quarters will be impacted." The company has reopened more than half of the 42 stores in China it temporarily closed amid the virus outbreak. "Years from now, we believe with a strong degree of conviction that Apple's business value will be higher."

He's also advising clients to stay invested "and ignore the brain's natural mechanism to react emotionally to market volatility." He suggests reading the poem "If," by Rudyard Kipling. "Then if they still want to alter their portfolio, reread the poem."

Michele Robitaille, managing director at Guardian Capital LP, expects the market to remain volatile as it trades on the news headlines and fear around the coronavirus. However, at this point, she believes the impact on the global economy will be relatively short-lived, based on studies of several past epidemics.

"That said, I do think that earnings and outlook downgrades from companies – which have started to accelerate – will also play a role in market volatility and downside."

The latest market downturn hasn't caused her to re-position her portfolio. "We continue to focus on high-quality companies that pay sustainable and growing dividends – companies that generate significant levels of free cash flow and have the ability to sustain and grow that cash flow through various economic environments. We will take advantage of market pullbacks to selectively step into defensive, high-quality names at attractive valuations.

She recently added Fairfax Financial Holdings Ltd. to the portfolio based on the strength of its insurance platform. "It is defensive by nature, has an attractive valuation and has potential further upside from the embedded value of its investment portfolio," she says.

Kathrin Forrest, portfolio manager at Sun Life Global Investments, says they're keeping a long-term investing focus for clients, maintaining a broadly diversified portfolio while looking for "measured opportunities to seek returns and preserve capital."

Ms. Forrest says they trimmed some of their high-quality bond holdings earlier this week, "essentially taking profits following the strong rally we've seen in interest rates since mid-January."

Simultaneously, her team has added a bit to both cash and equities. "For cash, yield has become more attractive relative to bonds, and we like the flexibility it provides to respond to shorter-term opportunities," she says. "For equities, while we expect fundamental economic data to be quite weak over the coming weeks, the recent correction has meaningfully reduced valuations."

Right now, they prefer the U.S. over other geographies and are holding off on developed equity markets overseas, which "may be challenged over the near term, given less robust economic fundamentals going into the current environment and less flexibility in terms of economic policy tools. We also continue to bias away from lower-quality, higher-yielding segments of the fixed income market."

Robert Sneddon, president and chief portfolio manager at CastleMoore Inc., says he's looking for "pro-cyclical areas" to invest in, such as rail and truck transportation, base metals, energy, industrials, financials and consumer discretionary.

"Because we start and end with technical analysis in our investment process, with seasonal and fundamental analysis in the middle, we are sanguine, at times, about what our analysis says," he says. "We just need to allocate capital to what's working whether its certain sectors, indexes, or fixed income."

He expects inflation to start rising once the coronavirus fears subside, and “has concerns for equity markets” again later this year.

David Barr, president and a portfolio manager at Vancouver-based PenderFund Capital Management Ltd., says his firm has been deploying cash on hand for this kind of market drop. The firm was holding more than 9-per cent cash in its Pender Small Cap Opportunities Fund and about 7 per cent in the Pender Value Fund, when the recent sell-off began.

“When greed is dominating markets the probability of volatility picking up increases and gives you buying opportunities,” he says. “So, when these market jitters start to happen, we actively start to deploy capital.”

One example is Quorum Information Systems "This is a potential buying opportunity for us because we believe that the car dealers using QIS software to run their businesses to increase sales and service are unlikely to stop using their software provider because the market corrected," he says.

Mr. Barr says many small caps haven't been as hard in the recent sell-off.

“Stocks that have a smaller shareholder base who understand the business, as well as a management team who own the company do not generally sell-off as dramatically as in other parts of the market,” he says. “Investors hold it for the fundamentals, not for the market exposure.”