Why this value-hunting money manager is buying more Canadian banks and U.S. health care stocks

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Michelle Head Kim of Lorne Steinberg Wealth Management.

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Value investor Michelle Head Kim believes now is an ideal time to buy beaten-down stocks that investors would want to hold for the long term.

"Only certain sectors of the market have really moved ahead, like technology, while businesses in others, like financials and health care, are being ignored. So, it's a good opportunity to find companies that are being overlooked and have great value," says Ms. Head Kim, vice-president and portfolio manager at Toronto-based Lorne Steinberg Wealth Management Inc., which oversees more than $800-million in assets.

For instance, her firm has added Canadian banks to its Canadian Dividend Growth Fund, which has returned 5 per cent year-to-date. The fund, which is also light on energy at about 5 per cent of its weighting, has returned 3.3 per cent over the past 12 months and had an annualized three-year return of 13.8 per cent.

The firm has also been adding health care and consumer staples names to its Global High Value Equity Fund, which returned 12.4 per cent year-to-date, 14.3 per cent over the past 12 months and had a three-year annualized return of 7.5 per cent. The performance is as of July 31 and before fees, which vary depending on a client's assets.

The Globe spoke with Ms. Head Kim recently about what she's been buying and selling and the hot tech stock she was finally able to snap up last year:

Describe your investing style:

We describe our style as 'fundamental value.' It means that we look to own financially strong companies with an intrinsic value greater than the share price. In other words, they're out of favour for some reason or perhaps not noticed by the market. We stay away from companies with excessive debt. Fundamental value means sometimes we can't buy the companies we want because the share prices have galloped ahead. Sometimes we have to wait a bit. We never buy just for the sake of buying.

We do all of our own research and look for strong Canadian and global businesses that meet our disciplined criteria from both a qualitative and quantitative standpoint. We're not trying to hit it out of the ballpark. We aim to generate reasonable returns in a well-diversified portfolio with less risk and less volatility than the markets.

What's your take on the current market environment?

The economy is still expanding despite rising interest rates, and corporate profits have held up rather well. There may be one or two more rate increases yet to come in North America. Still, valuations have adjusted to the new reality, while consumer spending is proving surprisingly resilient. The economy could slow down as the full impact of higher rates kicks in, but if there is a recession, we believe it will be mild.

What have you been buying in recent months?

We've been adding to our position in the Big Five Canadian banks, which are down 20 to 30 per cent from their peaks in early 2022. The banks have strong, sustainable and rising dividends over time. We see it as a compelling opportunity to own these businesses at a discount. The beauty of the banks is that they're not all the same. For example, Bank of Nova Scotia has minimal revenue exposure to the U.S., while Toronto-Dominion Bank and Royal Bank of Canada have significant exposure. So, it's good to diversify the banks to protect yourself to get around the risk.

In the U.S., we've been adding to some health care and consumer stocks. One example is Johnson & Johnson JNJ-N, a new buy this year. The company operates in three divisions: pharmaceuticals, medical devices and consumer health. It has leading consumer brands such as Tylenol and Neutrogena and leading positions in several medical technology markets, such as knee and hip replacements and advanced wound care. More than 70 per cent of the company's sales come from products that command No. 1 or 2 global market share positions.

A name we own and have been adding to is CVS Health Corp. CVS-N, one of the largest integrated pharmacy services providers in the U.S. The cool thing about CVS that people don't know about is its pharmacy benefits division, which puts it in a position to reduce health care costs by focusing on pharmacies and clinics instead of just doctors and hospitals.

What have you been selling?

We sold our shares in Sanofi SA at the end of last year. It's a Paris-based multinational pharmaceutical and health care company. Its portfolio became less balanced due largely to the success of its top-selling allergy drug, Dupixent. We did well owning the company but saw better opportunities elsewhere.

Name one stock you wish you bought or didn't sell, and why?

Amazon.com Inc. AMZN-Q. It's a stock we felt we'd missed for years because it was simply too expensive as the valuation continued to climb. Then, last year, it fell about 50 per cent from its peak, and we were finally able to step in and add it to the portfolio for the first time, and at a great price. We own it now but wish we had bought it much sooner.

What advice do you have for new investors?

Investing needs to be done well, with focus, discipline and follow-up. That said, it doesn't need to be complicated. Many people talk about alternative investments, but I don't think you need to do that. I think a portfolio with a good Canadian fund and a global fund focused on U.S. stocks will help you build wealth beautifully over time. Then, as you build wealth, you can move into other things.

This interview has been edited and condensed.

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