



Why this \$6-billion money manager remains fully invested despite recession threats

BRENDA BOUW

GLOBE ADVISOR

PUBLISHED JULY 7, 2023, FOR SUBSCRIBERS

In a market in which many investors anticipate a long, drawn-out recession, money manager Craig Jerusalem is a bit of an outlier.

The senior portfolio manager at CIBC Asset Management in Toronto isn't holding a huge chunk of cash on the sidelines, waiting for a pullback. Instead, he remains almost fully invested, believing owning high-quality stocks long term is more important than trying to time the market.

"If you're too bearish, you might miss out on a secular growth story," says Mr. Jerusalem, who manages about \$6-billion in assets across two strategies: Canadian growth at a reasonable price (GARP) and Canadian dividend growth.

"I'm a little bit of an optimist, but sometimes pessimists sound smart and optimists make money over the long term," he says.

The strategy has kept his investors out of the red amid the recent market volatility. Mr. Jerusalem says his GARP strategies have returned about 7 per cent over the past year and seen an average compound return of 16 per cent over the past three years. His dividend strategies are up about 4 per cent over the past year and have seen an average compound return of 14 per cent over the past three years. The performance is as of June 30 and gross of fees.

The Globe and Mail spoke with Mr. Jerusalem recently about what he's been buying and selling and his advice for new investors.

Describe your investing style.

We seek out high-quality, market-leading companies with sustainable competitive advantages that can outgrow peers through the market cycle – and we try not to overpay for that growth. High-quality GARP investing is not unique. However, the depth and experience of our research team and our scale advantage allow us to model the key risks and drivers for all the stocks in our universe. This long-term outlook helps us to be early in identifying compounding growth candidates as well as gain the confidence to take advantage of short-term volatility.

What's your take on the current market environment?

While it's easy to build the bear base given elevated interest rates, expensive valuations and overall global macro volatility, I have a slightly nuanced take on markets right now. While U.S. equity markets are somewhat elevated, the main reason for that is the top 10 mega-cap stocks that have performed so well. The remaining 490 stocks in the S&P 500 are more reasonably priced, while the overall S&P/TSX Composite Index is priced very attractively relative to its history and our outlook.

I see three distinct tiers of consumers who make up the bulk of the North American economy right now. The top tier is doing very well; they're still sitting on excess savings accumulated through the pandemic, and the stocks and houses they own are still well above 2019 levels. So, they're feeling good and are keeping airports and restaurants jam-packed. These are the people who are spending most of the money. The bottom tier has worked through its excess savings; however, they're fully employed and benefiting from rising wages, so they're doing relatively well. It's just the middle tier suffering from higher interest rates, rents and overall inflation. They don't have the offsetting rise in savings, investments or wages.

The wide dispersion in these tiers is sending mixed signals. So, as long as inflation continues to come down at its current pace and interest rates don't rise too much further, we can navigate through the next little while without the long recession many anticipate.

What have you been buying or adding in recent months?

We've been adding to many of our small-cap positions that have suffered from a lack of interest lately, despite strong or improving fundamentals. One example is specialty insurer Trisura Group Ltd., which is seeing tremendous growth on both sides of the border. The company did run into a bit of trouble recently with a writedown, but we saw that as an opportunity to add to our position.

Another stock we've been adding to is StorageVault Canada Inc., a Canadian leader in self-storage. It has a high-quality management team and access to capital to continue to make acquisitions. We think it will continue to outgrow its market.

Park Lawn Corp., the funeral services company, is another stock we've been adding to. Some of its peers have run into problems that have pulled down their valuations, but we think this company is well positioned, given its stronger balance sheets and steady growth in Canada and the U.S.

What have you been selling or trimming in recent months?

We've lowered our overall exposure to the telecommunications sector. The historically strong oligopoly in Canada has shown signs of deterioration as Quebecor Inc. moves to become a national player with its acquisition of Freedom Mobile Inc. Also, the regulatory environment remains confrontational while debt levels and capital expenditures remain elevated.

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

While I have made many mistakes as an investor and missed out on companies with explosive growth, I don't have any regrets regarding past decisions. The reason for this arrogant comment is that we're not opposed to buying great companies that continue to make new highs even if we sell at lower prices. It's not uncommon for market leaders to consistently trade at new highs, especially when their fundamentals are improving. Our ongoing buy or sell decisions are always based on our current information and our long-term forward conviction.

What's your advice for new investors?

Emotions like fear and greed drive so much volatility, which makes short-term trading more like gambling than investing. The focus on long-term drivers and growth potential allows the beauty of compounding to work its magic. So, I advise new investors to buy great companies they would feel comfortable holding for at least the next decade. This helps weed out some of the more speculative, overhyped story stocks and focus on the long-term quality compounders.

This interview has been edited and condensed.

<https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-why-this-6-billion-money-manager-remains-fully-invested-despite/>

© Copyright 2020 The Globe and Mail Inc. All Rights Reserved.globeandmail.com and The Globe and Mail are divisions of The Globe and Mail Inc., The Globe and Mail Centre 351 King Street East, Suite 1600 Toronto, ON M5A 0N19 Phillip Crawley, Publisher

This document is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this document should consult with their advisor. Certain information contained in this document constitute "forward-looking" statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or achievements to be materially different than the results, performance or achievements expressed or implied in the forward-looking statements.