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Three stock picks for the post-pandemic recovery from $220-million fund manager Jennifer Radman

BRENDA BOUW

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Portfolio manager Jennifer Radman felt the market start to shift at the end of the second quarter, when many technology stocks stalled.

“The companies were recording record earnings but stocks didn’t respond,” says Ms. Radman, who is also head of investments at Caldwell Investment Management Ltd. in Toronto.

At the same time, she says investors saw the “worst case” for cyclical stocks. “And that’s when that rotation from growth to cyclical started,” she says.

It was also around that time that her team started to pick up a few beaten-down cyclical names in sectors such as steel, auto production, forestry and agriculture.

Few investors wanted to hold those materials stocks in recent months, or even years, “but now that we’ve seen what the worst-case looks like [in recent months], I think people have been a lot more comfortable owning them,” she says.

Some of those stocks have not only bounced back but are in better shape than before the pandemic pounded the market, she adds.

Ms. Radman oversees about $220-million across three funds: the Caldwell North American Fund, the Caldwell U.S. Dividend Advantage Fund and the Caldwell Canadian Value Momentum Fund. The larger of the trio, the Canadian Value Momentum Fund, has returned 3.3 per cent over the past year as of Oct. 31 versus a 2.3 per cent drop in the S&P/TSX Composite Index over the same period.

Her Canadian Value Momentum Fund is also quite nimble, which meant the asset allocation could be quickly adjusted to reflect the changing market environment. For instance, the technology weighting in the fund is now about 7 per cent, down significantly from about 20 per cent in June, while commodities noted above, including some gold, is about 30 per cent today.

Here, Ms. Radman discusses three picks from her U.S. and Canadian funds, including some long- and short-term holdings:

L3Harris Technologies Inc.

LHX-N -2.28% decrease

- Market cap: US$41-billion
- 52-week range: US$142.01 to US$230.99
- One-month return: 17 per cent
- One-year drop: 3 per cent

L3Harris Technologies Inc. is a Florida-based aerospace and defence technology giant formed from the merger last year of L3 Technologies and Harris Corp. The company provides intelligence, surveillance and reconnaissance systems and related services to government and private businesses and is among the largest U.S. defence contractors.

Ms. Radman sees a lot of cost savings and an increase in margins as a result of the merger, as well as a greater ability to win key government contracts. The end of the U.S. presidential election should also provide some certainty in terms of government spending.

"I think they're in very strong end markets in terms of what parts of the defence budget they're targeting," she says of the stock, which her firm bought in April 2020. "So even in a flat environment, they see themselves growing mid-single digits. You put all of this together and there's a pretty good free-cash-flow yield on the name here."

Risks for the stock are a drop in defense spending and competition, she notes.

Interfor Corp.

IFP-T -1.47% decrease

- Market cap: $1.3-billion
- 52-week range: $4.75 to $20.56
- One-month return: 26 per cent
- One-year return: 24 per cent

Ms. Radman picked up shares of Interfor in recent weeks, alongside a few other forestry names including West Fraser Timber Co. Ltd and Norbord Inc. (before West Fraser announced Nov. 19 it plans to buy Norbord in a $4-billion deal and 13.6-per-cent premium to the previous day's closing price).

The purchase is part of her move into more cyclical names, including agriculture giant Nutrien Ltd. and steel producers Stelco Holdings Inc. and Champion Iron Ltd.

With forestry names, Ms. Radman is expecting Canadian lumber producers to benefit from a further boost in U.S. housing construction coming out of the pandemic, driven by low mortgage rates. “It’s more of a housing play than anything specific,” she says.

Risks for the stock are the volatile commodity price environment, which she says is why it’s good for a longer-term investor.

Visa Inc.

V-N -1.03% decrease

- Market cap: US$410-billion
- 52-week range: US$133.93 to $217.65
- One-month return: 10 per cent
- One-year return: 14 per cent

Ms. Radman has owned the credit card company for a few years and has been adding to her position in recent days.

She sees a “huge opportunity” with the acceleration of digital payments as people move away from holding cash amid the pandemic, a trend that’s expected to stick long term.

The stock has also been under pressure with people not travelling due to COVID-19 restrictions, but Ms. Radman expects a rebound when the vaccines are distributed and people start booking vacations into 2021.

“Anytime you can get a high-quality company that hasn’t participated with the broader market rally, I think it’s an interesting proposition,” she says.

Her portfolio also includes rival Mastercard Inc. which has suffered from the same market turbulence and she believes is set to recover in the coming months.

“I think the main driver for both of them will be the recovery in travel,” she says.

(Market returns cited as of Nov. 26)

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