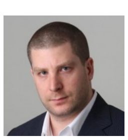
# Why this portfolio manager isn't a big believer in U.S. tech giants like Facebook and Amazon

*Despite their strong performances in 2015, portfolio manager David MacNicol is not big believer in Facebook, Amazon, Netflix and Google's stocks, and valuation is the primary reason*



Michelle Siu for National Post



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It's been a tough stretch for value stocks through much of the past decade, with investors clamouring for the next great growth story.

Back in the late-1990s, a similar trend drove investors to the "Four Horsemen" of tech — Dell, Cisco, Intel and Microsoft. The next generation has the market flocking to what has been dubbed "FANG Investing" — focusing on Facebook, Amazon, Netflix and Google (now Alphabet).

price to pay for those who didn't heed the warning of value investing.

The president and portfolio manager at Toronto-based MacNicol & Associates Asset Management, which has approximately $200 million in assets under management, as well as another $200 million in assets under advisory, noted that sentiment has started to turn against these growth-oriented U.S. tech giants. Facebook is the only name of the four that is up so far in 2016.

"The same thing happened leading into the technology bubble, and there was a price to pay for those who didn't heed the warning of value investing," MacNicol said.

He's finding value in a variety of places, including a particular segment of the commodity market: precious metals.

While MacNicol has avoided the energy sector for more than two years, he's been a fan of gold since 2002.

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The past few years haven't been good for bullion, but in addition to its attributes as a hedge against currency devaluation, it also protects investors against inflation.

While many are focused on how deflation is holding back the global economy, MacNicol noted that there are several obvious pockets of inflation investors should be aware of, adding that official government numbers appear under-reported.

The manager cited historical figures that show it used to cost $1.50 of debt in order to create $1.00 of GDP. Now, he noted it costs $3.50 to do the same thing.

MacNicol sees negative interest rates in places like Japan, Sweden, Denmark and Switzerland as a driver of gold prices, while recent pressure on the U.S. dollar has demonstrated another source of strength for the precious metal.

"If there is some kind of crisis in the future, we think gold will be the beneficiary," he said, predicting gold will climb above US$2,000 per ounce in 2016.

currently trading.

With chief executive Robert McEwan taking no salary or cash bonuses, and his only compensation coming from a 25 per cent equity ownership, MacNicol said McEwan is "perfectly aligned with shareholders."

The company has three mines, plus another one coming on shortly, and operates in regions (Argentina, Mexico, the U.S.) that MacNicol is comfortable with.

"It has great production growth, has decreased its all-in cash costs significantly, and has cash position of almost $40 million, so it is well positioned," he said. "I think you're going to see the larger miners try to buy their way in, rather than drill, so this could be a potential takeout … but it would have to be at the right price."

Another recent addition to client portfolios that also reflects MacNicol's cautious stance – due in part to the market's negative moves in the past six months for somewhat unknown reasons – is Fairfax Financial Holdings Ltd. (FFH/TSX).

"We're not as concerned as we were leading into the credit crisis, but we're cognizant that there is trouble on the horizon," he said.

MacNicol considers Fairfax shares 30 per cent undervalued, but also sees the stock as a form of portfolio protection given chairman and chief executive Prem Watsa's hedged equity positions.

"He's much more of a risk manager than Warren Buffett has ever been," MacNicol said. "Buffett has always been a big believer of buy and hold, and when markets get incredibly undervalued, that's when he buys more. Watsa has done the same thing, and he's also overlaid a risk management system that should be the envy of the market."

MacNicol has also been a buyer of Buffett's Berkshire Hathaway Inc. (BRK.B/NYSE) after selling it previously when it hit his valuation targets.

He sees upside of more than 20 per cent in the stock based on his fair value estimates, noting that a large percentage of its investments are in private companies.

"We think private companies are going to withstand the tougher global growth environment we find ourselves in right now," MacNicol

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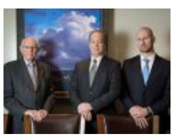

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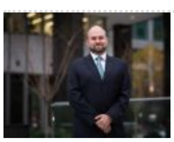

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