Why this money manager is betting on Mexico, energy and shorter-duration bonds

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David MacNicol of MacNicol & Associates Asset Management.

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Money manager David MacNicol is thankful he didn't own bonds last year during one of the worst routs on record for the asset class. But he believes now is a good time to get back into them and is purchasing specialized bonds as part of his broader portfolio, which also includes public equities and private assets.

"The average investor was really nailed last year with these balanced [stock-and-bond] portfolios, finally proving that they don't work," says Mr. MacNicol, founder and president of Toronto-based MacNicol & Associates Asset Management Inc., which oversees almost $1-billion in assets.

For more than a decade, Mr. MacNicol and his team have been putting their investor clients in a wider range of assets that also includes alternatives such as private real estate, private equity and hedge funds. The firm has also been holding a lot of cash over the past year, trying to protect investors from the fallout of the rapidly rising interest-rate environment.

His typical client portfolio in 2022 included 52 per cent equities, 29 per cent alternatives and 19 per cent cash. The portfolio was down 7 per cent for the year ended Dec. 31, 2022, and produced a compound annualized return of 11.5 per cent during the past five years. The performance is based on total returns and is net of fees.

The firm is set to deploy most of its cash, in part through the launch of a new alternative debt fund, while also increasing the equities portion to about 55 to 60 per cent.

"No one likes seeing cash sitting there except when they can understand that we're in trying times, like we were last year," he says. "But now it's sort of like, 'What have you done for me lately?' That's just human nature."

The Globe spoke with Mr. MacNicol recently about his investing strategy and what he's been buying and selling:

Describe your investing style:

We're a blend between value and growth. I started my career as a value manager, but if you're pigeonholed to value only, it's difficult to get your clients decent returns. Coming into the end of last year, we were starting to add more value to the portfolios, but now growth seems to be taking over again, so we do both. Our 'secret

sauce' is our alternative asset program, which includes investments worldwide. One area of focus for us right now is the southeastern U.S., and we're also in the U.K.

What sectors do you like and avoid?

We've stayed away from technology stocks throughout this last cycle. The valuations have been too high. We get any technology or growth exposure we need on the private side in our alternative platform. We also like gold and precious metals, including some of the physical commodities, but mostly the large producing companies. We also like energy. All of those commodities helped us be more defensive in the markets last year.

What's your take on the current market environment?

Inflation has not been beaten yet and will continue to be a problem. Inflation isn't just interest-rate driven as it has been in the past, it's more of a labour issue today – something that we haven't really seen since the 1970s. Still, because of the market downturn in 2022, we're optimistic that equities will go on a bit of a run from here.

Tell us more about your bond strategy:

In the past, we owned government bonds, corporate bonds, and some preferred shares. That's when interest rates were on the decline. Now, we're probably going to stay away from those three buckets and go to more shorter-duration bonds that can reset in 30 to 120 days. These aren't floating bonds but more short-term lenders that have strong disciplines built in that should work in a rising-rate environment.

What have you been buying into lately?

Our newest buy, in the past few weeks, has been iShares MSCI Mexico ETF EWW-A (/investing/markets/stocks/EWW-A/) +0.43% ▲ . We like the geography; obviously, the proximity to the U.S. for manufacturing and its relatively less expensive labour market. It's becoming less expensive than the Chinese market. Mexico's demographics are also strong with a younger, relatively educated labour

force. There are risks, including currency and government regulations. If we really like Mexico, we might start getting into individual stocks there in the future.

In energy, we bought two big names last year, Exxon Mobil Corp. XOM-N (/investing/markets/stocks/XOM-N/) +0.38% ▲ and Valero Energy Corp. VLO-N (/investing/markets/stocks/VLO-N/) -1.12% ▼ . We've also been adding to those for new clients. You have to be big now [in energy] because raising capital is very difficult with the greening of society. Valero is an especially interesting one – it's a huge refiner and one of the largest in diesel manufacturing. Diesel has been in short supply now for several months, and Valero will be able to take advantage of that supply-demand inefficiency. Exxon is a major integrated player that refines, distributes and sells energy at a retail level.

What have you been selling or trimming?

Fortis Inc. FTS-T (/investing/markets/stocks/FTS-T/) -0.85% ▼ is a name we sold in late January. It started looking weak compared to the rest of the utilities sector. We replaced it with Capital Power Corp. CPX-T (/investing/markets/stocks/CPX-T/) -1.18% ▼ . We also sold Algoma Steel Group Inc. ASTL-T (/investing/markets/stocks/ASTL-T/) +0.36% ▲ late last year as part of a tax-loss selling strategy. Algoma Steel has been a disappointment.

Name a stock you wished you bought or didn't sell.

We were fortunate to get into Shopify Inc. SHOP-T (/investing/markets/stocks/SHOP-T/) -0.18% ▼ when it was still private, around 2010. We owned it until the initial public offering in 2015. It went up 14 times during that private period. When it went public, we decided that we had made enough on that company and rolled the earnings into other private companies. Had we done nothing and let it sit publicly for another year, we would have had a few more doubles out of it. That said, it would've become so oversized in our client portfolios that we would have been forced to sell it. However, if we continued to own

it we would have been part of the sell-off last year, so we are glad not to have been involved in that.

What investing advice do you give friends and family when they ask?

Don't just buy one or two names you see or read in the headlines. It's difficult to achieve longer-term growth with that kind of mosaic approach. Instead, have a portfolio-theory approach to your investments and get some help from a professional.

This interview has been edited and condensed.

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