Why this $18-billion investment firm is adding more defensive stocks and trimming growth names

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Murray Leith of Odlum Brown.
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Investors should temper their return expectations in this era of higher inflation, but there's still good money to be made in select stocks and industries, says Murray Leith, director of investment research at Odlum Brown Ltd.

"I think it will be a lot tougher to see double-digit equity returns in this market environment. High single-digit returns are the new reality," says Mr. Leith, also executive vice president at the Vancouver-based investment dealer, which oversees about $18-billion in client assets.

Odlum Brown has shifted focus away from U.S. growth stocks, which he says did "very well" for clients in the decade leading up to the last year, to more defensive stocks in sectors such as consumer staples, health care and utilities.

"With the risk of a recession on the horizon, we're putting more emphasis on less cyclical businesses and those that pay good dividends," he says. "Just because the economy is slowing down doesn't mean you can't make money in the stock market."

Odlum Brown's all-equity model portfolio, which includes about 40 to 45 large North American stocks, is up 4 per cent year-to-date and has seen an annual average increase of 13.8 per cent since inception in December 1994. The performance is based on total returns as of June 9 before fees, which vary based on a client's total invested assets.

The Globe and Mail spoke with Mr. Leith recently about what he's been buying and selling and a hot technology stock that got away.

Describe your investing style.

We're patient, long-term investors. We think like business owners and actively encourage our equity analysts to invest alongside our clients in the high-quality businesses we favour. The price we pay for a business matters as much as its underlying quality, and we fear losing money in the long run much more than we worry about missing the excitement in the short term. We struggle to keep up in fast-rising markets but typically lose less in tough environments. That provides more capital to grow and compound during the good times. It's not sexy, but it's what yields better results over time.

What's your take on the current market environment?

I think the economy will continue to slow down. There are reasons to believe inflation might be stickier than some people hope. There's a housing shortage, labour markets are still very tight, and the world has underinvested in key commodities like oil and gas and the metals needed in the energy transition. That could make it a challenge for authorities to get inflation down to that 2-per-cent target anytime soon.

What have you been buying or adding?

One stock we've added to is CAE Inc., the world's largest manufacturer of pilot simulators. As travel returns to normal after the pandemic, flying has increased, and many pilots need to be trained. So, we think this stock has a nice growth runway.

We also added to our position in Brookfield Renewable Corp. in February. Brookfield is a great business operator, and renewables are a good space to be in, given the ongoing energy transition. We've liked the story for a long time but only liked the price once it got cheaper during the recent market correction.

We also recently bought Rogers Communications Inc. after the share price fell following the deal to buy Shaw Communications Inc. in April. Rogers has some great assets. It has taken on some debt from the deal, but we see it as a solid business and believe its debt will come down. Competition has heated up in the space, but it's still a cozy oligopoly. We think the stock valuation is quite attractive relative to the other players in the space.

What have you been selling or trimming?

Our portfolio turnover is relatively low. That said, we have modestly reduced our exposure to pricier growth stocks like Apple Inc. and Microsoft Corp.. We also took some profits on Tourmaline Oil Corp. last fall because the stock had performed so well, and we wanted to scale back our exposure to oil and gas. We still have decent exposure to traditional energy because we see it as an important hedge in a portfolio. We also trimmed a bit of Intact Financial Corp. on price appreciation because the stock had outperformed. We still own all of these stocks mentioned.

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

Nvidia Corp. is a stock we owned years ago during the dot-com bubble and bust. We tripled our money on it back then. It was on our radar again a year ago when the stock dropped after a run-up. We liked the company but were holding out for a cheaper price. That didn't happen, of course. Nvidia recently released blockbuster results and forecasts, and the stock hit an all-time high. That hurts.

What's your advice for new investors?

Buy good companies and treat them like you would your home. People would be a lot wealthier if they did that. Most people don't panic-sell their homes in tough times; they hold on to them through thick and thin. It's easy to trade in and out of stocks, and we try to counsel people to take a long view with their investments.

This interview has been edited and condensed.

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