PORTFOLIO MANAGEMENT POWERHOUSES

Some of Canada's leading discretionary money managers discuss how to build wealth in the current investment climate

WHAT DOES fiduciary duty really mean? That's the question currently being asked in the US as the Department of Labor wrangles with the investment industry over proposed legislation to ensure financial advisors work in the best interests of their clients. Opponents of the rule say further red tape will only serve to reduce investment options for the mass market. That argument isn't commonplace among the discretionary portfolio managers featured here. Money managers take their fiduciary responsibility very seriously, and many wonder why similar standards aren't in place across the whole wealth management spectrum.

Canada's PMs play a vital role in the investment space, guiding some of the country's most successful entrepreneurs and professionals in the how, when and why of investing their money. Offering some candid thoughts on how money managers and clients can better align, these top portfolio managers provide a valuable insight into how both sides' best interests can ultimately prosper.

COVER STORY: PORTFOLIO MANAGEMENT POWERHOUSES

FRANÇOIS TÊTU

Vice-president and portfolio manager
RBC DOMINION SECURITIES

Years in the industry: 25
Years as a PM: 8
Industry accreditations: CIM, FSCI
Typical clients: Business owners and executives, professionals, trust funds and foundations

In formulating an investment strategy, there's a lot more choice out there now when it comes to products, particularly in light of the growing popularity of ETFs. This is an advantage for modern-day PMs, but only if they fully understand the myriad investment vehicles available. François Têtu of RBC Dominion Securities explains how this has shifted his selection process in recent years.

"ETFs are more than simple, passive investments – they are key portfolio tools," he says. "Fixed-income offerings have become scarce as bond desks hold lower inventories; this is another area where ETFs have added value."

Another major change for Têtu has been the increased level of competition as more and more advisors elect to become portfolio managers. For those who decide to go that route, there is a lot to consider before making that leap, he says. "Even though the advisor benefits from the operational efficiencies that come from using a discretionary business model, some clients can be anxious at the onset."

When it comes to the nuts and bolts of stock selection, ETFs have become a valuable tool for Têtu, especially when it comes to making contrarian calls.

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"In early 2016 we added the Brazil index (EWZ) as one of our positions," he says. "Brazil was experiencing a difficult political situation, and therefore their currency was pressured downwards."

Brazil is a major commodity exporter, so the devalued real was a boon for exporters and investors who knew where the smart money lay. Têtu divested from Brazil last November, putting the profits he made into the Mexico Index (EWW), which had plunged after the US election. It proved to be a savvy move – since then, Mexican stocks have bounced back strongly.

Closer to home, Têtu decided to take some profits from the US banks and technology firms in his portfolios. He is confident the bull market will continue to gather steam, so he is currently holding a larger cash position until he finds good opportunities using a bottom-up, economic-value-added [EVA] approach.

STEVE NIELSEN

Investment advisor and portfolio manager
MILESTONE ASSET MANAGEMENT (CANACCORD GENUITY WEALTH MANAGEMENT)

Years in the industry: 17
Years as a PM: 10
Industry accreditations: CIM, CFP, FMA
Typical clients: Small business owners, professionals and retirees

Marking a decade as a portfolio manager this year, Steve Nielsen has developed a keen sense for the markets and how best to navigate them. This means always having one eye firmly on the downside. "I approach each year the same way – expecting at least one market correction, so I make tactical asset allocation adjustments based on seasonal or technical patterns that I feel warrant these changes," he says.

That's in the short term, but portfolio managers need to prioritize long-term needs. Along with his co-manager at Milestone Asset Management, Shawn Boos, Nielsen's long-term asset allocation is driven more from a full business cycle perspective and only changes significantly when US recessionary risk rises to a certain level. "We have developed our own gauge for this, called our Milestone Recession Risk Composite," Nielsen says. "This is made up of 10 underlying leading indicators to keep our recessionary risk judgment an objective one."

This proved particularly useful in early 2016 when equity mutual fund outflows were at an extreme level. According to Nielsen, the composite kept him from lowering risk assets, which greatly benefited him over the remainder of the year. Looking at US fundamentals currently, he remains cautiously optimistic. "At this point in time, we believe we are still in a secular bull market that began in 2009 and still has room to go," he says.

In terms of fixed income and alternatives, he subscribes to the methods of the Yale Endowment and its asset allocation. That means using real assets and alternative strategies alongside traditional asset classes.

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When it comes to the changing regulatory environment, Nielsen is fully behind anything that improves standards and provides more information for investors. "We have fully embraced the new CRM2 reporting standards and would have liked to see them come into play long ago," he says. "We still believe that there could be further improvements to both fee disclosure and reporting to clients, and would like to see that openness continue, especially on the fee disclosure side."