

March 22, 2010

Veteran manager stands by 'steady Eddies'

By Brian Milner

From Monday's Globe and Mail

Leigh Pullen plans to stick resolutely to his tried and tested deep-value strategy, no matter what

Evidence is mounting that the year-long equity rally is faltering, amid deepening worries about everything from the removal of government stimulus in slower economies to interest-rate hikes in faster-growing ones and possible debt defaults in those that are on life support.

Toss in jitters about trade and currency friction with China and nagging doubts that some of the hotter market segments like resources will be able to live up to lofty expectations, and you've got a recipe for a serious correction.

Plenty of pros certainly think so. Despite a parade of better news on the economic front, the big-time speculators are shorting the S&P 500 with abandon. In fact, based on data from the Commodity Futures Trading Commission, their bets against the market now exceed the level reached when those masters of creative accounting, Lehman and AIG, blew up in 2008 and nearly took the global financial system down with them.

As for the big emerging markets, these have generally been stuck in the doldrums or tacking in a southward direction. That's despite decent economic prospects and enormous inflows of institutional cash, which last week climbed to a two-month high. As one perceptive London analyst remarked to Bloomberg, "it's not a good idea to buy super-duper growth when it's already priced for super-duper growth."

India did its part to dampen investor enthusiasm on Friday with an increase in its benchmark borrowing rate, the first since the summer of 2008. Analysts called it a surprise, but they obviously haven't been paying close attention to the country's inflation rate, which has edged into double-digit territory thanks to galloping food prices.

So if the emerging markets have got way ahead of themselves and the developed markets have run about as far as they can on cheap money and other government pump-priming, what is an investor to do?

Well, for one, don't abandon stocks - at least not the better-quality stuff - for the dubious joys of holding interest-free cash or short-term bonds. That's the word from veteran Calgary-based money manager Leigh Pullen, who intends to stick resolutely to his tried and tested deep-value strategy no matter what direction the market happens to take in coming months. Which could very well be up, rather than down.

"The rather optimistic sentiment can be stretched further, as long as we keep feeding it [with cheap stimulus money and improving economic data]. But reality suggests that you should be cautious about those areas of the market that have taken on excessive valuations," says Mr. Pullen, who has weathered all manner of market conditions since entering the business as an analyst in 1970.

One of the themes to look for is "the quality trade," says Mr. Pullen, president and chief investment officer of QV Investors.

The relatively staid defensive stocks he favours - Canadian pipelines, electric utilities, telephone companies, financials and consumer staples - stand to gain from any hiccup in the high-growth segments of the market. If, for example, energy or mineral producers fall short of analysts' current bullish expectations, investors will migrate back to "something with substance."

This would be what he calls the "steady Eddies," with their healthy balance sheets and ability to generate consistent earnings, yet still conserve capital when times are tough.

"There is a lot of expectation built into the marketplace, and people are looking for good-quality companies that are going to generate income. They have been laggards in the market, but they have continued to improve their businesses" and typically their dividends.

Those on his large-cap radar screen include the likes of Canadian Utilities, TransCanada Pipelines, BCE, National Bank of Canada and Astral Media. They have the added advantage of conducting most of their business domestically, limiting their exposure to global trade winds, volatile markets and currency swings.

Mr. Pullen is under no illusion that his defensive strategy would protect against a deep bearish turn. But as long as governments choose political expedience over sound policies and keep pumping air into the balloon, it may stay aloft longer than expected.

"As long as you've got lots of cheap money sloshing around, anything can happen. You can have wonderful GDP statistics. You can have wonderful [consumer] sentiment numbers. You can have wonderful stock markets."

And when the taps are shut off, he intends to be holding stocks that offer the most value and are best positioned to weather the storms.

"The emphasis must be on those corporations that demonstrate prowess day in and day out," he says.

"Regardless of what the big macro picture might be, we are truly trying to emphasize corporate excellence and that's how we invest."

CTVglobemedia Publishing, Inc

Reprinted from Globe and Mail, in the "Taking Stock" section.

© CTVglobemedia Publishing Inc. All Rights Reserved.. All rights reserved. Licensed by IA Clarington Investments for 3 months on March 26, 2010 . You may forward this article or obtain additional permissions at the following iCopyright license record and renewal locator: <http://license.icopyright.net/3.8425-10926>. CTVglobemedia Publishing, Inc and Globe and Mail logos are registered trademarks of CTVglobemedia Publishing, Inc . The iCopyright logo is a registered trademark of iCopyright, Inc.

03/29/10 - 110045-01