THE GLOBE AND MAIL

GLOBE INVESTOR

INVESTOR INTELLIGENCE

To counter stocks-and-bonds complacency, try other asset classes

Expect less from financial markets, participants say at panel discussion. Instead, investors urged to consider non-traditional assets such as private equity in companies, private debt and real estate debt

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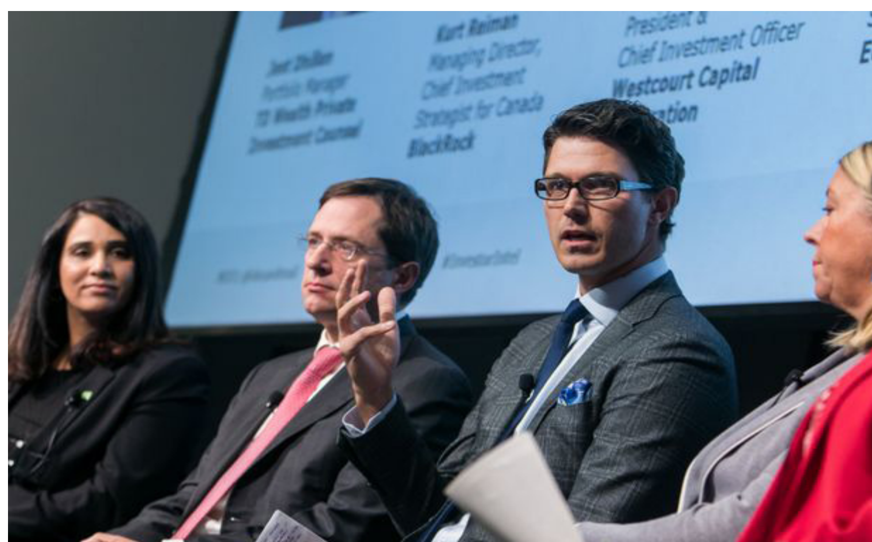
PUBLISHED NOVEMBER 20, 2018

For investors in Canada, non-traditional investments could increasingly become traditional.

While stocks and bonds will remain the core of an untold number of Canadian portfolios, strategists say that stagnant economic growth, fears about global debt and the jittery effects those continue to have on the stock and bond markets make other kinds of investments all the more attractive. This was the glaring take-home theme from a panel discussion at The Globe and Mail's Toronto office recently on how to approach current market conditions.

Robert Janson, president and chief investment officer of Westcourt Capital, is among those Bay Street strategists questioning the orthodox mindset of relying on stocks and bonds and the typical skittishness toward non-traditional assets, such as buying private equity in companies, private debt and real estate debt.



Third from left, Robert Janson, president and chief investment officer of Westcourt Capital, speaks about where markets are headed and how investors should respond at the Investor Intelligence event at The Globe and Mail on Nov. 14.

"There are so many other things out there that can be put into one's portfolio," Mr. Janson said, whether the investor is a beginner or a seasoned veteran, an individual or an institution. "I'm not sure why, in this country, everyone is so focused on stocks and bonds. There are more arrows that can be placed in your quiver."

Individual investors can even take a cue from the most mammoth of institutional investment funds, he said. "CPPIB [the Canadian Pension Plan Investment Board] is the biggest alternative investor in the world. And yet, you can go into their annual report and recognize, 'What is their exposure to the TSX [the Toronto Stock Exchange]?' It's minimal."

He added: "Why can't you replicate in your own portfolio a little bit of what CPPIB is doing? I mean, you can't go and buy a toll road in New Zealand. But again, you can have a philosophy that's adapted from some of the biggest investors in the world."

Of course the problem, beyond finding an advisor interested in such out-of-the-box thinking, is the degree of risk involved.

"You have to be careful, because the average person might not understand the risks," said Jeet Dhillon, portfolio manager at TD Wealth Private Investment Counsel. "The way to look at it is, you have a core portfolio of your good-quality stocks and good-quality bonds, but then you have a satellite approach." This would include other, alternative assets adding diversity to a portfolio otherwise full of stocks and bonds.

All of this may seem outside the scope of an individual investor, but the consensus on the panel was that investors at least should ask their advisors about other asset classes – not just remain complacent about stocks and bonds. It also means being open to a more proactive approach, including other asset classes, because global economic growth and the markets aren't expected to improve as much as they have in the past.

"What's worked for us in the last three or four decades, going forward, it is a different landscape. And you do need to look beyond the traditional asset classes, and also look beyond Canada," Ms. Dhillon said.

Although the logic is sound, it runs counter to the stay-the-course mentality typically espoused by countless investment advisors. The panel indicated that traditional thinking isn't enough.

Kurt Reiman, managing director and chief investment strategist for Canada at BlackRock, noted that another alternative can be found in emerging-market countries, which are compelling again, particularly for investors who find themselves overexposed to North American stocks without enough diversity globally to ride out the downturn whenever it inevitably comes.

Yet, when he suggests investing in emerging markets "a lot of people will look at me and say, 'Not for me,' " he said. But emerging-market investments are providing returns rivalling those from developed economies, but are priced at dramatic discounts of about 40 per cent, he said. "That seems to me to be interesting," he added, despite the risk.

On the defensive side, cash – which would otherwise be used to ride out a market downturn – could be put instead into government bonds, which can help investors compensate for inflation. "What it does is that it gets you out of cash. It doesn't solve all your problems for how you're going to save for retirement, or pay for a second home or who knows [what]," Mr. Reiman said.

And some defensiveness is needed, he said. "I think, over the long term, as we've been talking about, expect less from financial market returns. Why? Because the underlying growth rates will be slower, because the debt burden is there." And because of this sluggishness, what will ultimately die away is the notion of passive investing, such as relying on exchange-traded funds [ETF] and other indexed funds, he argued. "The idea that everything should be in an ETF, because they're cheap, is false," he said.

In short, a rethinking toward investing is happening among some on Bay Street. "Where I see the risk is in people being complacent," added Dorothy-Anna Orser, portfolio manager and senior investment advisor at Echelon Wealth Partners. It was the point that got the rest of the panel nodding in agreement. It means not simply following old rules, but questioning the orthodoxy.