Investing prof George Athanassakos puts 50% of portfolio in cash and finds only one stock worth buying

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George Athanassakos believes the U.S. Federal Reserve's near-term monetary policy moves won't appease investors. THE GLOBE AND MAIL

Finance professor George Athanassakos has some bad news for investors waiting to buy beaten-down stocks.

"Buying the dips will no longer work," said Dr. Athanassakos, who holds the Ben Graham Chair in Value Investing at Western University's Ivey Business School.

Unlike previous downturns, he believes the U.S. Federal Reserve's near-term monetary policy moves won't appease investors, given the combination of runaway inflation and ballooning debt that has made economies and financial markets overly sensitive to interest rate increases.

"The Fed may abandon the inflation mandate to support the financial system, as it has done in the past," he said, which "may lead to financial markets and the economy falling too quickly to bail out."

The outlook is particularly unfavourable for growth stocks, which he believes will be hurt the most by the deglobalization trend and rising inflation. The current market environment underscores his belief in value investing and picking stocks "with the right process and temperament."

Dr. Athanassakos recently shared some insights with The Globe and Mail about his investing style and what he's been buying and selling lately:

Describe value investing from your perspective.
Value investing has evolved over time, even though the core principles are the same.

There is the Ben Graham style of value investing and the Warren Buffett style of value investing. Followers of Mr. Graham are opportunistic. These investors buy and sell based on stock price versus intrinsic value. Buffett-style investors are quality investors, buying good companies with sustainable franchises for the long run. They are more buy-and-hold investors.

Mr. Graham's investing style can be more profitable in the long run, but one needs to be following the stock every minute, as its value can change dramatically from one day to the next. Mr. Buffett's type of investing may not be as profitable, but you sleep better at night.

The key difference between the two styles is that, with Mr. Graham, investors look for obscure and undesirable stocks, mostly small caps with a small analyst following, disappointing performance and low price-to-earnings (PE) ratios, among others. Followers of Mr. Buffett look for companies that have barriers to entry, franchise and sustainability, even if they have higher market cap and PE.

I am mostly a Buffett-style investor even though, from time to time, I dip into Mr. Graham's ways of picking stocks.

What's in your portfolio today?
I currently have about 50-per-cent cash and 50-per-cent equities. I often hold a lot of cash but have more than usual right now after selling some positions in the past year. About 70 per cent of my equities are Canadian-based, 23 per cent in the U.S. and the rest in emerging markets.

I don't own bonds and wouldn't today because I think the world of low interest rates is over. The next 30 years will have higher interest rates and inflation, which is bad for traditional nominal bonds that make fixed payments.

What have you been buying recently?
I have not been buying much. Instead, I'm holding on to good-quality stocks that I already own and expecting them to weather the economic vicissitudes and possible slowdown – and be able to pass on to customers increasing costs, including wage increases, and maintain their margins and profitability.

The only stock I added recently was General Electric, to test my theory and put my money where my mouth is during my lectures. I have been critical of GE management over the years. They made the company too complex for anyone to be able to understand and manage, going into areas where the company had no dominance. Poor asset allocation has hurt GE over the years.

Now, I think the company is changing. It brought in an outsider CEO for the first time, Larry Culp, who is simplifying the company. On Nov. 9, 2021, GE announced a three-way breakup of the company: GE Healthcare; GE Renewable Energy, GE Power and GE Digital; and GE Aviation. These are areas where GE dominates the product line (that determines fixed costs), and this is what I have always believed GE must focus on. The markets don't seem to believe that this will benefit the company (the stock has lost about a third of its value since November). But let's wait and see how this test of my theory goes long term.

What have you been selling?
I sold several stocks last year. An example includes Cargojet, which I bought in the middle of 2020. The stock did well amid the pandemic, but I sold it in December, 2020, after the stock's significant appreciation and getting cold feet about inflation and the economic outlook. The latest sale was Stella Jones, which I owned for several years. I sold it last summer because the company has been changing its product mix more toward residential lumber, which is a higher-risk segment than its traditional products such as utility poles and railway ties.

What's the best investment move you've made?
Buying several stocks during the market turmoil in 2008 and 2020. In 2008 it was long-term investments in railways such as Canadian Pacific and infrastructure companies like Toromont. In 2020 it was more opportunistic investments in companies that would benefit from the pandemic, such as pet insurance provider Trupanion and bicycle maker Dorel, both of which I have since sold. This type of opportunistic investing is not a strategy I would repeat today. The era of low inflation, low interest rates and globalization has changed forever, in my view, and this will not be good for overvalued markets such as real estate, technology and bonds.

This interview has been edited and condensed.