Why this investor goes where the ideas are

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Tim McElvaine THE GLOBE AND MAIL

One of the hardest parts of investing is sticking to your plan, even when it's out of favour with what other investors are doing, says money manager Tim McElvaine.

For Mr. McElvaine, that means sticking to his "deep value" stock-picking philosophy, even when growth and momentum stocks are taking centre stage.

"If I'm doing the cha-cha when everyone else is doing the waltz, I can look pretty stupid. But if I'm comfortable with my dance steps, I'm going to stick to them," says Mr.

McElvaine, founder, president and portfolio manager at McElvaine Investment Management Ltd. in Victoria.

Mr. McElvaine has been dancing with the stars lately: His flagship McElvaine Value Fund was up 8.1 per cent so far this year, as of Aug. 31, compared with a drop of 7.2 per cent for the S&P/TSX Composite Index. The fund has also seen an annualized return of 17.8 per cent over the past three years, as of Aug. 31, compared with an annualized return of 8.8 per cent for the S&P/TSX Composite Index for the same period. All results are net of fees and based on total returns.

Some of his top holdings in the fund today include Maxim Power Corp. MXG-T -9.56% decrease, Knight Therapeutics Inc. GUD-T +0.75% increase, Bausch + Lomb Corp. BLCO-T +4.47% increase and PrairieSky Royalty Ltd PSK-T +4.83% increase. About 18 per cent of the fund is currently sitting cash, slightly higher than the average of the low-to-mid-teens, which he says is for both protection and to keep the fund poised for buying opportunities.

“I’m the Chicken Little of the investing world, so I always have some cash on hand,” he says. “There’s stuff to do now, but we’re going slowly. Investing isn’t a sprint. We’re starting to pick up stocks when it makes sense for us.”

The Globe recently spoke with Mr. McElvaine about what he’s been buying and selling:

Describe your investing style:

I would fall into what people call the ‘deep value’ side. One thing I look for is companies where sellers don’t care about the stock price. It happens more than you think; maybe investors are scared, maybe the area’s unpopular, maybe there’s a constraint with the company. Examples include tax-loss selling or a spin-off. Investors often don’t think, ‘Am I getting the best price possible when I sell?’ They just want to sell. I want to pay less for a company than I think it’s worth long term. I also look for companies with a competitive advantage in their industry. I don’t invest based on certain sectors. I go where the ideas are.

What have you been buying recently?

Some of the larger companies we’ve bought recently include Warner Bros. Discovery Inc. WBD-Q +4.17% increase and Bausch + Lomb. The Warner Bros. purchase is an example where sellers didn’t care about the price. Discovery acquired AT&T’s WarnerMedia unit in May for stock. AT&T then distributed the shares to its shareholders. Many shareholders weren’t interested in owning the shares, so they sold them. It was a spin-out after a takeover. The stock went from about US$30 to US$11. We bought it for around $15. We see a lot of potential in its film library, which includes franchises such as Batman and Harry Potter. The portfolio also includes Discovery Channel, Warner Bros. Entertainment and streaming services Discovery+ and HBO Max.

Bausch + Lomb has been a bit of a basket case. People are worried about additional shares coming on the market. I see it as a good company with a huge tailwind in the business, which includes everything from eye care to contact lenses to pharmaceuticals. We started buying it in June at $14. We believe the stock is worth a lot more than where it's trading today.

What have you been selling?

We recently exited our position in Tourmaline Oil Corp. TOU-T +4.60% increase at around $80. [The stock is currently trading at about $68]. Tourmaline is a great company, but we don't have a competitive advantage anymore at current prices. When we were buying it at around $13 three years ago, people didn't like natural gas; they weren't interested in Tourmaline. Today, everyone seems to have a view on natural gas and is interested in the company. We saw other things that we could do with the money.

What's one stock you wish you bought or didn't sell?

Apple Inc. AAPL-Q +3.40% increase We sold it about 20 years ago, after owning it for a couple of years. It was cheap when we got involved and it just wasn't our thing anymore. We haven't owned it since. I guess that was a mistake, but oh well.

What investing advice do you give family and friends?

I'll be talking my own book here, but I believe in active management. I tell them to invest using four or five active managers whose approach makes sense to them and, most importantly, who are doing what they say they'll do. Keep an eye on them, check-in. And don't put too much money with one manager; diversify just as you would your portfolio. It's good for your portfolio performance as well as your emotional stamina when markets are volatile as they are today.

This interview has been edited and condensed.

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