THE GLOBE AND MAIL

How this $925-million fund manager has been beating the market and what he's buying and selling right now

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Some portfolio managers talk about getting more defensive when markets are volatile and threats of recession loom, as is the case today. In that context, Daniel Goodman, chief executive at GFI Investment Counsel Ltd., believes he's already in a good place.

"We like to think of ourselves as defensive through the ownership of high-quality businesses and the avoidance of low-quality businesses," says Mr. Goodman, whose Toronto-based firm oversees about $925-million in assets under management.

GFI invests in about 15 to 20 stocks at one time, exclusively in North America, with a 50-50 split between the United States and Canada. He describes high-quality businesses as the type that "allocate their shareholder capital well and will take advantage of some sort of blip in the marketplace to either buy back stock, or possibly acquire a competitor." Some of GFI's key holdings today include Brookfield Asset Management Inc., Visa Inc., Apple Inc. and Restaurants Brands International Inc., the parent of Tim Hortons.

GFI's all-equity portfolio returned 29.2 per cent year-to-date, as of Aug. 31. That compares with a return of 15.1 per cent for the S&P 500 and a 17.1-per-cent return for the S&P/TSX Composite Index over the same period, the company says. All returns include reinvested dividends. The same portfolio has seen a compound annual growth rate of 18.1 per cent over the past five years, as of Aug. 31. The firm's returns are after fees that range between 0.6 per cent for portfolios over $20-million and 1.35 per cent for those under $2-million.

The Globe and Mail recently spoke to Mr. Goodman about his investing style and stocks he's been buying and selling.

Describe your investing style.

The best term would be value investors, but it doesn't mean we don't look for growth businesses or growing companies. Price is what you pay and value is what you get. We focus more on the quality of a business. We have a qualitative checklist we put all of our business investments through. We ask ourselves, do customers benefit? There is no sector domination in terms of how we think. Generally, our checklist leads us to businesses that have some pricing power.

Why are you focused on North American investments?

We really only want to invest where the rule of law is strong and where we know our rights as shareholders are protected. There are other places in the world where we can achieve that, but we also like to stay in our circle of competence. The reason why we have a fairly high degree of U.S.-based businesses is because the Canadian marketplace is pretty narrow.

What concerns are you hearing from investors today?

Some of our clients are concerned the markets have run too far, too fast. They're also concerned with the impeachment talk in the U.S., political instability and the inverted yield curve – topics they hear about in the media day in and day out. A lot of clients are concerned about generating yield, especially retired investors living off of their portfolio. We caution them not to chase yields. There are instruments out there that show a very high yield, but the quality of that investment usually is suspect.

What have you been buying lately?

We are in the process of buying Microsoft Corp. We've owned it before in the past, but it's a new position for client portfolios. It's a wonderful business. It has a long runway for growth, very high margins and it's an incredibly sticky business. I don't see a lot of businesses migrating away from [Microsoft's] cloud web-based services or their software. They have a pretty high cash position and no net debt.

What have you been selling?

Our turnover is quite low. Earlier this year, in the first quarter, we sold BlackRock Inc., one of the world's largest ETF providers. We weren't seeing the operating leverage that we would expect from an asset management firm. It's really predicated on the fact that ETF fees are going down significantly and the large [assets under management] they have is in the extra low-cost ETFs. They haven't really been able to grow the other aspects of the business. We found greener pastures elsewhere.

Name a stock you wish you bought (or wish you didn't sell so soon)?

Ferrari NV is a stock we wish we bought. It's a high-end brand that has built a following. It only produces a limited supply of new release automobiles. In many cases, [the cars] trade after-market at a higher price. It's a wonderful business, I think it will remain a great investment for many years to come. We've never owned it.

A stock we wish we didn't sell was McDonald's Corp., which we sold in the third quarter of 2014. They had shown weaker same-store sales growth and we weren't sure the fast-food industry would continue to dominate. There were newer upstarts that seemed to be grabbing share of wallet, but it has proven to be a wonderful business longer term. We underestimated the resilience of that business.

This interview has been edited and condensed.

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