Live with Paul Musson

Investing in the long term and the Mackenzie Ivy Team

On April 16, Mackenzie held a webinar discussing investing in the long term and the Ivy Team funds with **Paul Musson** (Senior Vice President, Portfolio Manager and Head of Mackenzie Ivy Team).

Conference call highlights

Macroeconomic updates

- Before the crisis, the central banks had created a problematic situation by promoting debt-funded growth that drove asset prices too high. Prices were distorted and, in our view, certain global companies were in the position of not making enough operating profit to pay their debt.
- The housing market was also over-inflated. This brought a redistribution of wealth, not a creation of wealth. Inflated stocks and housing are comparable to a big poker game. There is a certain amount of money in the game, but no wealth creation as such, just winners and losers.
- This was where we were at when the COVID-19 crisis hit. The economy will be bad this quarter and probably the next one. However, we will come out of this, but it is uncertain as to how long the slump will last.
- Policy makers have brought in a lot of stimulus for small businesses, which was the right thing to do, especially when you're telling businesses to close for an indefinite period of time.
- However, central banks have also been providing stimulus to support bonds and asset prices, which is akin to interfering with capitalism. There will be a fallout from this once the dust settles.
- There is too much debt outstanding and much of it can't and won't be paid back. Therefore, just like all governments and kingdoms in the past, we believe policymakers have and will resort to printing money to inflate away the debt by devaluing the savings of the populace.
- The US dollar has the advantage of being a world reserve currency and it may be the reason why it holds its value vs. other currencies despite the Fed printing so much of it.
- For the first time since I've been at Ivy, we have taken a small position in gold. We hold a small weight in physical gold not as a prediction, but as a hedge against central banks continuing their efforts to inflate their way out of this mess and in so doing, devaluing their currencies. If this happened, it's not that we would expect the value of gold to go up, the value of cash may go down and thus gold might go up in US dollar terms.
- Canada's exposure to natural resources has weakened the Canadian dollar against the US dollar. It's low now (around $0.71) and could go lower, over time purchasing power parity does tend to act as a tether for the exchange rate and we wouldn't be surprised to see the Canadian dollar eventually start moving back to that level which is currently around the $0.83 level.

Ivy Team updates

- Ivy has been building its team for many years. Our goal is to provide clients with growth over time. If we're successful and investors believe we can continue to do that, then they can plan better knowing how much to save each year to have a certain amount of money by a certain age.
- Recent performance has been considerably better than peers. Since the market peak of February 19, 2020, the Mackenzie Ivy Foreign Equity Fund – Series F performed better than 99% of its peers. It achieved a return of -8.0% compared to the Morningstar Global Equity category, which saw a return of -18.5%.
- The Mackenzie Ivy Foreign Equity Fund – Series F has also performed well in the long term, outperforming 72% of its peers over the last 10 years.
- We do this by investing in companies that reinvest in their business to help ensure that their competitive advantage is sustainable. These companies are then able to continue to offer great customer value propositions and do so with a strong balance sheets. They will likely survive and then thrive when the economy bounces back. We also avoid companies that invest in their share price and focus on the short-term and instead look for companies that invest in their business and focus on the long-term performance.

- We had built our cash to 32% before the crisis, which is hard to do in a bull market, but we see it as necessary insurance. That allowed us to spend on some companies that we had been watching for a long time. We bought some great companies in Europe, the US and Far East at bargain prices. Cash is now down to 15%.
- We have been working for years building a list of companies that we have researched extensively and met with so that we were ready to buy them when the time was right.
- This capital has been allocated to a variety of industries and include companies whose shares dropped even though their business hasn't been affected much by the virus, for example consumer staple companies in Japan.
- Our portfolio turnover is usually slow, but in the last two months we added more names to the portfolio than we sometimes add in a 10-year period. Turnover will continue to be elevated as long as volatility remains, because volatility provides opportunities.
- If some of our stocks become overvalued, we replace them with undervalued stocks.
- We have also learned from mistakes from the last crash, when we didn't rotate stocks that had done well. Now, we have started a slow rotation of companies that didn't go down much. You will see the portfolio change slowly over the coming months.
- Even if the market were to drop another 50%, we believe we will still get you to your goals in the long term.

Check out the webinar

Watch our archived webinar on our website here to learn more about what's going on in the economy and markets.