How this portfolio manager saw double-digit returns

Ed Sollbach uses a mix of dividend-paying larger-cap stocks and undervalued smaller-cap names to diversify his portfolio

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THE MOVER

Money manager Ed Sollbach isn't buying big bank stocks to balance his portfolio or betting on the hottest artificial intelligence play for growth.

Instead, the portfolio manager at Spartan Fund Management Inc. in Toronto puts together a mix of high-yielding large and medium-cap equities and lesser-known micro and small-cap securities he believes are set to rebound.

Mr. Sollbach refers to it as a "core and more" strategy for the $65-million Spartan Fund Management MM Fund he oversees. He says the strategy has enabled the fund to generate double-digit compounded annualized returns since its inception in 2015.

The fund's F class has returned 11.7 per cent over the past 12 months. Its three-year annualized return is 11.1 per cent and its five-year annualized return is 14.6 per cent. The performance data is based on total returns and is net of fees as of Nov. 24. Over all, Spartan manages about $1.6-billion in assets.

The Globe and Mail spoke with Mr. Sollbach recently about what he has been buying and selling and a big tech stock he wishes he hadn't sold.

Talk more about your "core and more" approach.

The 'core' side includes long-term holdings. The main thing we look for is yield, mostly through high dividend-paying Canadian equities. We currently have an average overall yield of about 3.5 per cent. The 'more' side of the portfolio includes smaller-cap names that are more speculative and volatile but have a higher potential for capital gains.

What is the current core and more mix?

The baseline is 50-50, but right now, we're at about 71 per cent core and 29 per cent more, which is based on our conservative approach and focus on yield since the U.S. Federal Reserve Board started raising interest rates last year. It was the reverse at the end of 2020. The core part of the portfolio was 29 per cent and more was 71 per cent. Fortunately, we became more defensive well ahead of the bear market that began in early 2022.

What's your broader market outlook?

We think the U.S. economy will continue to slow as the effect of interest rate hikes ripples through. Many companies are in good shape but will be impacted by refinancing debt at higher rates. Higher rates are also a hurdle for new investments, so capital spending will likely slow. We also believe higher rates are here to stay. We're taking advantage of that by increasing our fixed-income exposure in the portfolio to about 11 per cent today.

Canada is a little worse off on the consumer side, given that we have shorter-term mortgages compared to the U.S. So, households will likely feel the impact of higher rates sooner. That said, we're bullish on energy in Canada. It's an area that has been underinvested and is still necessary. We expect oil prices to remain in the range of US$80 to US$100 a barrel in the near term. Energy stocks are cheap, and we like how many companies in the sector are being managed. They're about increasing dividends and doing share buybacks.

What have you been buying?

One stock we've been buying is Converge Technology Solutions Corp. It's a consolidator in the information technology space. It has a lot of government and business contracts. The stock was trading at $12 a couple of years ago and then dropped significantly. We started looking at it again this summer. We saw it was growing and felt the company was misunderstood. It also pays a dividend, which is rare in the technology sector, especially in small-cap land. We started buying the company in the summer at around $3 and $3.50 and again in the fall when it fell to about $2.50. It's now trading at around $4. It's an example of a core stock because it is profitable, growing, and pays a dividend.

Another stock we've been buying is Source Energy Services Ltd., which provides fracking sand to the energy industry, mainly in Western Canada. The company has started to make a profit again this year after aggressively paying down its debt. It has also benefited from higher prices for its services. We started buying the stock around $3 last fall. It's currently trading at around $7. It's an example of a more stock.

What have you been selling?

We trimmed our position in Hammond Power Solutions Inc., which makes products for the electrical and electronic industries. It's a stock we owned for about four years and decided to take some profits in the summer. It's still a big position in the fund. I like the company a lot as it's benefiting from the electrification of the economy to reduce emissions. It's another example of a core stock. A stock we sold outright this summer was Neo Performance Materials Inc. We like the stock because of its long-term growth characteristics and dividend yield. However, profitability has declined because of falling prices for rare earths and neo magnets, so we sold our position. It's a more stock for us, even though it pays a dividend, because its profitability is very volatile.

Name one stock you wish you didn't sell.

Apple Inc. We sold it a couple of years ago. It saw a big bump during the pandemic with so many people working from home, so we thought sales would slow after that. Our thesis was correct. Sales growth has slowed, but the stock keeps increasing. So, that's one we wish we would have stuck with.

What's your advice for new investors?

Investing is a learning game – it's important to learn as much as you can. And start slowly. If you have an investment idea, buy a few shares and see how it goes before taking a full position. Also, be diversified. Investors make mistakes, so being diversified is important so you can recover more easily from those mistakes. And try to learn from your mistakes to avoid making them again.

This interview has been edited and condensed.