

## Nine Canadian fund managers offer their top picks and portfolio advice for 2024

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This past year brought welcome relief to money managers who had endured a distinctly awful 2022, when nearly every investment under the sun got burned.

While 2023 was choppy overall, stocks and bonds have mounted a powerful year-end rally. Victory signs are emerging in the fight against inflation, even as major developed economies avoid descending into a deep downturn.

This was not what many had envisioned for 2023. A recession had seemed almost inescapable owing to one of the fastest central bank tightening cycles in history, with the inverted yield curve – when short-term bonds offer bigger yields than longer-term ones – sending a clear and ominous warning. With this as the backdrop heading into the year, many money managers were advocating for defensive positioning in things like sturdy dividend stocks and recession-resistant consumer staples.

Yet, what transpired was a year of magnificent returns from the high-growth and pricey U.S. tech giants, and by year-end, even riskier small-caps were shining. Bonds gyrated through the year, but were in a clear upswing by the end, bolstered by their capital gains potential as central bankers provided strong hints interest rate cuts were nearing. Balanced portfolios that consist of both equities and fixed income, much maligned just 12 months ago after a year in which nothing worked, are finding admirers again.

The S&P 500, including dividends, has returned nearly 25 per cent this year. That's more than double the 11-per-cent total returns from the S&P/TSX Composite Index, which is tech-light but full of defensive dividend payers.

A year ago, nine Canadian fund managers bravely [broke out their 2023 crystal balls for us](#). We thought we'd check back in to see how their recommendations fared – and what their best advice and top picks are for the year ahead.

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**Stephen Takacsy, CEO and chief investment officer, Lester Asset Management**

Last year's pick: Short-term high-yield corporate bonds. Using the BMO Short Corporate Bond ETF as a proxy, YTD total return is 6.2 per cent.

Stock picks were:

Pollard Banknote, up 69.5 per cent YTD;

Logistec, up 55.8 per cent YTD;

Richelieu Hardware, up 21.5 per cent YTD;

Cargojet, up 1.7 per cent YTD

With inflation rates now within central banks' target range of 2 per cent to 3 per cent and the global economy and job market softening, they are done hiking interest rates. This is bullish for fixed-income securities that are trading at historically high yields to maturity and also for certain stocks such as non-cyclical and defensive high-dividend yielding stocks. Also, small and mid-cap stocks have declined to valuations not seen since the 2008 Great Financial Crisis and are bargains compared with large and mega-cap stocks. This has not gone unnoticed by private equity funds that have been paying large premiums to acquire smaller publicly traded Canadian companies lately. We think 2024 will be a good year for balanced portfolios comprised of high-yielding fixed-income securities and a combination of defensive dividend stocks and small and mid-cap stocks.

Top pick for 2024: For conservative investors, my top pick is to invest in an actively managed portfolio of high-yielding fixed-income securities comprised of corporate bonds, hybrid debt and preferred shares that are currently providing attractive annualized returns of 6 per cent to 8 per cent on a total return basis, with very low risk. For more upside, there are many undervalued small and mid-cap stocks to choose from since this asset class has been decimated by institutional outflows and retail fund redemptions. Examples include agricultural equipment maker Ag Growth International, which is benefiting from global demand to upgrade farm infrastructure; funeral services operator Park Lawn, which is riding the tailwinds of an aging population; MDF Commerce, a North American leader in digitizing government-procurement systems; and intelligent transportation solutions pioneer Quarterhill, which will realize higher margins from its large backlog of electronic tolling and enforcement contracts.

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