THE GLOBE AND MAIL

EQUIUM CAPITAL

Views from a fund manager who boosted his cash holdings just before the meltdown

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Special to The Globe and Mail
Published February 5, 2018

Cameron Hurst doesn't have a crystal ball, but his firm's decision to trim holdings in a few sectors and boost its cash position on the eve of the recent market meltdown seems prescient.

"We aren't happy this has happened, but we are happy with our performance through it," says Mr. Hurst, chief investment officer at Toronto-based Equium Capital Management Inc., which manages about $45-million in assets under management and the Equium Global Tactical Allocation Fund exchange-traded fund (ticker ETAC on the Toronto Stock Exchange). By the end of January, Equium had trimmed its holdings in sectors such as energy and materials, and tucked it away in cash. The firm's benchmark is 60-per-cent equities and 40-per-cent bonds. Right now, it's holding about 14 per cent cash, 22 per cent bonds and 64 per cent equities. That compares with 5 per cent cash, 20 per cent bonds and 75 per cent equities a couple of weeks back. The Globe and Mail spoke with Mr. Hurst about his firm's decision to sell and when it might start buying again.

What's your take on what's happening in the markets?

A lot of people are drawing parallels to late nineties type of behaviour … the [2008-09] financial crisis and the 2000 tech peak. Recently, and I think inappropriately, we would argue, people have been saying this is like the '87 crash. Nothing really lines up that way. Market tops aren't typically made in a week or day. They take time to carve out. You generally have several shots across the bow. … There are a number of indicators you look at, none of which have really flagged. You saw how incredibly strong the start of the year was. A lot of things in the market were very overbought … It went too far too fast, but that doesn't mean it's the end.

What have you been selling lately?

We did some portfolio shifting at the end of January. On Jan. 31, we exited our energy exposure and went to an underweight position on energy [based on our holdings in other funds]. We had a position in the XLE, the Energy Select Sector SPDR ETF, which is the U.S. energy sector ETF. We also trimmed our materials position in late January, but we still have a position in XLB, the Materials Select Sector SPDR Fund. We further reduced our TSX exposure, through the XIC, which is iShares S&P/TSX Capped Composite Index ETF. We had already been significantly underweight Canada but went further as of the end of January. We have been underweight bonds, fearing this interest rate spike, but we shifted half of our U.S. bond exposure – which was already underweight – out of an aggregate bond index into a short-duration index. We sold AGG, the iShares Core U.S. Aggregate Bond ETF. We bought SHY, the iShares 1-3 Year Treasury Bond ETF.

Are you buying during this latest market drop?

No, I think this will take a little time [to play out]. You need to see if this is a bit of pressure letting, or if there is follow-through on the downside. It's way too early to have an assessment of that at this point. Our strategy is to sit back and listen. We put the cash from the equity reduction into ZST, the BMO Ultra Short-Term Bond ETF, so that if we sit here for a month or two with elevated cash, then at least we're earning something. It's essentially a cash equivalent with a 1.5-per-cent yield. At least it earns something for investors.

What do you want to see before you start buying again?

Two boxes have to be checked: The technicals and the fundamentals. For example, energy broke down – the technical break causes our exit. We aren't going to run back into energy. That's how we stay out of harm's way and keep ourselves from getting attached. We look for a positive momentum picture, confirmed by the technicals.

What's an investment you wish you'd bought?

It would have been great to own more tech. We follow our process, which is more conservative. For example, the iShares PHLX Semiconductor ETF would have been a good one [it has increased about 30 per cent over the past 12 months]. We do own FDN, the First Trust Dow Jones Internet Index Fund, which has stocks like Amazon and Netflix [which is up about 33 per cent over the past year] and more in the consumer discretionary space. We own a 4.7-per-cent position in FDN and have total tech exposure of 7.5 per cent across the whole fund.

This interview has been edited and condensed
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