

VOLATILITY

Reverting to type

Forstrong Global president and CIO **Tyler Mordy** outlines what increased market volatility could mean for investors

THE GROWTH of exchange-traded funds over the past decade has been one of the biggest investment stories of the post-financial crisis era. Global ETF assets now stand at US\$4.7 trillion, and Canada accounts for \$151 billion of that total.

Investors here were slow to embrace ETFs at first, but that's no longer the case, and the market has seen an abundance new products from a host of different providers in recent years. The majority of Canada's main asset managers now have a presence in the ETF space because that's what consumers expect of them.

Since its foundation in 2001, Forstrong Global Asset Management has made ETFs the backbone of its business. When the company was founded, ETFs were a niche part of the Canadian market, but that certainly isn't the case today. Tyler Mordy, president and CIO of Forstrong Global, explains how his firm's approach has proven advantageous over the years.

"We realized quickly that ETFs would change the nature of the portfolio management industry and the architecture of decision-making processes," he says. "ETFs have colonized the world's asset classes, so the

toolset for money managers is much larger and more sophisticated."

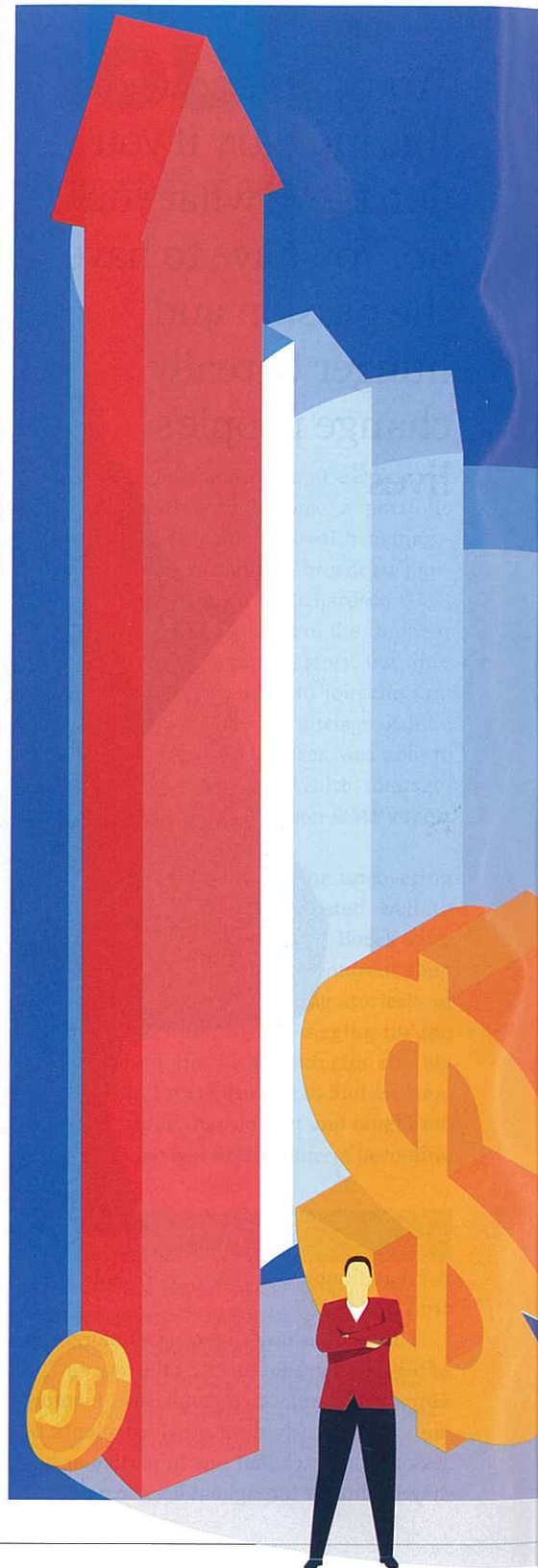
As the ETF market has evolved, so too has the role of financial advisors and portfolio managers. There are higher expectations for the profession these days, which is central to Forstrong Global's business proposition.

"It has empowered portfolio managers to make global decisions, rather than relying solely on traditional stock selection to add value," Mordy says. "Instead of classic bottom-up stock picking, we can now effectively pick asset classes around the world for outperformance and risk management."

Operating globally balanced portfolios is one of Forstrong's major selling points. Global exposure should be a priority for investors, Mordy believes, but for a long time that wasn't the case.

"The research is conclusive – Canadian investors have a strong home bias," he says. "The issue with Canada's stock market is that it is over-concentrated with banks and energy. The fact that the majority of Canadian investors have an almost exclusively Canadian portfolio is giving up the 'free lunch' of finance, which is diversification."

The rise of the internet has led to a height-





ened awareness of what's going on around the world, and that's pushing investors toward global diversification. Canada makes up a small percentage of worldwide assets, and as markets become more interconnected, international developments have much more of an impact here.

Forstrong's global macro investment philosophy is designed to address that, and as markets begin to experience more volatility, active management will really start to prove its worth.

"After a lengthy sabbatical, volatility has returned to the world financial markets," Mordy says. "This is normal; what isn't normal are years like 2017 where the US

believes sentiment has somewhat normalized over the past year.

"What we see now is what Keynes artfully referred to as 'animal spirits returning,'" he says. "It's remarkable that it took 10 years to get that way, but it is a feature of a post-financial crisis period. You look back at the history of financial crises, and one of the common properties is that consumers and corporations take a long time to up their risk-taking."

Looking at the investment horizon, Mordy is largely positive, although there are some factors that could potentially hinder prosperity.

"Trade wars and shifting super trends make the world a more risky place," he says.



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Tyler Mordy, Forstrong Global Asset Management

stock market's maximum peak-to-trough decline was just 3%."

By contrast, this year has reverted to more historical norms, with a number of dips so far already. Increased volatility isn't necessarily a negative, however, and offers portfolio managers a chance to find good investments.

"Our firm tracks several factors called super trends," Mordy says. "It's a three- to five-year outlook of the big macro trends impacting financial markets. We now have several super trends shifting – US household incomes are finally rising, and importantly, fiscal stimulus levers have been engaged."

In Mordy's view, the prolonged hangover from the financial crisis caused investors to be overly risk-averse. While headwinds remain both in Canada and globally, he

"But economic growth is unlikely to weaken in the year ahead, given massive US fiscal stimulus and a steady retreat from austerity in Europe."

Europe's emergence from a decade-long slump means Forstrong is currently overweight on the continent. In Mordy's view, regions outside of North America have massive potential for growth.

"The biggest investment opportunity right now is the narrowing of the performance gap that has opened up between America and the rest of the world in the post-crisis period," he says. "The rest of the world has been a little late to the recovery party, but broad fundamentals remain excellent in most emerging markets, notably in Asia, and are primed for multi-year outperformance." **WF**