One step at a time

Bargain shopping on a whim can be hazardous. Remember the time you bought those tie-dyed green pants just before it started to rain? David Taylor has been keeping investors in the $1.7-billion Dynamic Value Fund of Canada dry and warm. As of June 30, he had carefully sniffed out enough quality, cheap stocks to post a five-year average annual return of 8.8%, versus 1.3% for the fund's rivals. Taylor told **Andrew Bell** how he saves a buck or two.

I've done it by building unique portfolios that don't look like everybody else's. Buying good, cheap companies. Going outside of Canada, hedging currencies. Always trying to improve things. My clients aren't buying a stale portfolio that doesn't change.

At the end of the day, it's finding oddball companies that have been under-loved. And there has to be some catalyst. I learn everything there is to learn, take big positions and hope for the best.

Being into the golds very early helped quite a bit. Names like Eldorado Gold and Osisko Mining have been absolute home runs. Right now, I'm buying natural gas. Everybody hated it, so I've been selling my oils and gathering natural gas.

HudBay Minerals dropped from $26 to about $2.90 over that deal with Lundin Mining. I became the largest shareholder. HudBay had more than $5 in cash per share and no debt. [The company was trading at $12.70 in late June.]

The biggest move I ever made was in March, 2009. That was being fully invested when everybody was hiding under their desks. It was a once-in-a-lifetime event. Another one of the best moves I've made was getting out of energy stocks when oil was at $140 (U.S.) and switching into gold.

I've had a ton of disappointments, too. When you think you've figured it all out, you're humbled. I look at oil prices going from $39 (U.S.) in 2009 to $85 (U.S.) this year and I look at a company like Nexen Inc. that has basically made me no money. It always comes up on your screen as being cheap, but if management isn't willing to surface the value, then it isn't going anywhere.

Manulife Financial has been a huge disappointment. A cheap stock will always stay cheap unless there's a reason for it to be revalued. You look at Manulife's performance versus the banks and you want to go out on the windowsill.

I lagged the market in early 2010 because the banks did very well, and I try to build a fund that doesn't look like the index. If you were underweight in banks and overweight in golds, you got killed, but we've been making up for it.

It's hard to add value on the banks. If clients want them, they can buy an ETF or an index fund. They hire me to buy stuff they've never heard of or that they're too scared to buy.

Everything I do in my life is about value. Value doesn't necessarily mean cheap. I'd rather have a $200 meal that's great than crap for $20.

I have a framed sign on my desk. It says: "Look to the market for opportunities, not for direction." When the market is down, 99% of retail investors and money managers think things are bad. When it's up, they think things are good. But on almost any day when the market's getting killed, I'm out there buying.

Photograph by Liam Sharp