Mark Schmehl: Ride out the downturn by buying stocks that will soar

It's never fun when markets fall, but one portfolio manager is still finding good growth companies to own.

Despite the recent volatility, Fidelity Investments portfolio manager Mark Schmehl is excited about the current environment and feels more comfortable today than when the markets were going straight up. "I was the most uncomfortable I've ever been," says Mark, speaking on a recent FidelityConnects webcast. "The markets were just rocketing up every day."

For Mark, the key to managing a decline is to hang on to good companies with strong growth prospects. "While everyone's panicking, I'm looking for opportunities that will rise when things turn," he says. He's been through periods of heightened volatility before and some of his stocks that have sold off still have robust fundamentals that are expected to continue to be strong for many years. He's investing in the best opportunities that will grow over 12 to 24 months and is not worried about a short-term selloff. During times of volatility the market often sells everything but Mark is not panicking and is excited about adding to positions that have declined with the volatility.

Mark runs Fidelity Canadian Growth Company Fund, Fidelity Global Innovators Class and Fidelity Special Situations Fund. As markets have come down, Mark is seeing more opportunities in the left tail where the unloved/broken stocks reside. Mark has not held many stocks in this left tail for the past few years as everything was going up in the market, but he is now seeing more opportunities to invest. He currently likes homebuilders as he thinks the industry has a lot of upside and valuations are attractive. "It's never been this cheap," he says. "Housing is starting to slow in the U.S. and stocks have been annihilated because everyone remembers 2008. But if you look at a 30-year chart you pretty much never lost money buying it at this valuation."

Mark does not believe that the U.S. economy is going into a recession. "Investors are rotating out of growth stocks, which have soared over the last few years, and moving into value companies. That's a good thing because if a recession loomed, people would be dumping all their stocks regardless of style." He thinks U.S. GDP will only expand by about 2% next year, down from the 3.5% growth it experienced in the third quarter, in part because interest rates will continue to rise.

Still good opportunities in tech

While U.S. homebuilders are high on his list of things to buy, he's still finding opportunities in technology, though not in the names that the average investor might suspect.

For instance, he doesn't own any Facebook or Google, which are down big since the beginning of October, and both could continue to struggle. "Facebook is under pressure for a lot of different reasons, which are all pretty clear and pretty difficult to change," he says. "Google's got a lot of issues on the regulation front."

As investors are selling out of these stocks and other FAANGs, including Amazon, Netflix and Apple, Mark is buying in – to other businesses that have also been tossed aside during the tech-selloff. He's also bullish on cloud computing, which is transforming many business models.

A feature article based on the webcast of November 19, 2018

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Investors will need to be patient over the next while as markets continue to jump around. As someone who invests in his own funds, Mark knows how difficult that can be. However, people need to keep things in perspective as he does not see a recession on the horizon.

During every Fidelity Connects webcast, advisors can pose questions to our guests. Here are two that Mark Schmehl was asked to answer.

How does the U.S.-China trade dispute affect the way you look at the investing world?
It's obviously important that the world's largest economies are in conflict, and it affects certain businesses more than others, but it doesn't change technology investing because the trends in technology are global. Cloud is for real. Mobile is for real. AI is for real and they are all pervasive around the world.

You invest in innovative companies, so what are your views on the cannabis industry?
It's like any commodity, they're growing a plant and they sell the plant. Different strains have different impacts on people, but it's basically competing head-on with alcohol, and it still competes with all the illegal substances. People have extrapolated this as a giant market when, in reality, I don't think it's going to be nearly as big as they expect. It just feels as if market expectations had run away with the stocks.

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Endnotes
All index and stock market data from Bloomberg, as at November 19, 2018.

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