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A Few of John Buckingham's Favorite Stocks for 2022

by Jane Wollman Buseff

Q&A
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Assessing today's market, he argues: "It's a market of stocks and not simply a stock market. It depends what you're investing in," he tells ThinkAdvisor in an interview.

The bullish manager expects value to outperform the overall market this year, posting a return of 11% vs. 7% for the S&P 500.

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Principal and portfolio manager of Chicago-based Buckingham Strategic Partnership the A-Team Fund (ASLIX) from its inception in 1998.

Since then, through Jan. 7, 2022, it has realized an annualized return of 10.79%, compared with 7.8% for the Russell 3000 Value Index and 8.75% for the S&P 500.

Editor of the long-established Prudent Speculator newsletter, Buckingham oversees assets of $800 million of Kovitz's approximate total $8 billion.

In the interview, he discusses seven investment themes he has been focused on and several stocks within each.

Themes vary from "The Fed Slows Down the Refitting of the Punch Bowl" to "Good Things Come in Small and (Mid) Packages."

Buckingham observes that right now, long-term investors are more concerned with inflation and interest rates than with the coronavirus health risk.

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"They don't seem to be factoring that in much" in their decisions, he says.

Last year, despite a host of worries, the equity market was "fantastic," he declares.

"Contrary to what many people believed, 2021 illustrates that time in the market trumps market timing.

"You buy good companies, patiently sit on them and not worry about the daily, weekly and monthly fluctuations," he advocates.

ThinkAdvisor interviewed Buckingham on Jan. 10. He was speaking from his home office in Laguna Beach, California.

About today's myriad economic and political obstacles, he points out: "There's plenty to worry about, and I think there's impacting some investors.

"But the market will climb a wall of worry," adds the optimistic manager.

Here are highlights of our conversation:

THINKADVISOR: What's your outlook for the stock market in 2022?

JOHN BUCKINGHAM: We have a generally healthy economy, and corporate profit growth is going to be strong this year. The only time you see a stock market decline is when there's a corporate profit recession, a drop in corporate profits.

So I don't see a big overall market downturn for the year.

But what about the higher interest rates that are coming?

Historically, rising rates haven't been good for growth stocks. So investors should be gravitating toward value stocks.

The first week of 2022 has been phenomenal in terms of value being up and growth being down.

Over the last month or so, value has outperformed significantly and will continue to for the full year. We think it will outperform the overall market with an 11% return this year vs. an S&P return of .ness. 7%.

What's your expectation for GDP growth in 2022?

Last December, the Federal Reserve projected 4%. That was before the omicron variant hit. So I expect there's going to be a modestly negative impact on GDP growth in the near term.

I'd say about 3.5% or 3.8%, which is still very strong, way above where we've had for many, many years. Therefore, it's still likely to be a very healthy economic climate.

You're a dedicated value investor. But do you ever invest in growth stocks?

One of the big differences between us and many other value investors is that we like technology. Over 20% of our portfolio is in technology stocks (growth).

Our largest holdings are Apple and Microsoft. We bought them when they were value stocks.

We want our companies to grow. We want to buy them when they're trading at inexpensive price tags and are willing to hold them through growth phase.

What was Apple's price when you initially bought it in 2000?

The cost basis was something like 12 or 13 cents because of all the splits. It was trading at a very low price. It wasn't making money. But we thought the business was certainly viable and very interesting.

Getting back to the present, how much does the coronavirus pandemic figure into your forecasting?

The health risk isn't really the problem today. It's the economic risk — the supply chain risk, in the short run.

But in the long run, I don't think [the virus] is going to be that big a deal.

Yes, it's not under control. It's not been eradicated. It's never going to be — it's still a pandemic.

But long-term investors don't seem to be factoring it in much. Their concern today is more rising interest rates and inflation — what the Fed will do.

So what's your thinking about rising inflation?

The supply chain issues are the primary culprit in the significant inflation we have.

As omicron starts to fade, I think those issues will begin to get under control, and inflation will come down somewhat.

To approximately what rate?

I'm guessing there might be a 3% inflation rate this year.

What impact will that have on stocks?

Historically, rising inflation is good for value stocks, not so good for growth stocks.

When do you expect interest rates to rise?

In March. But I don't see why people are so concerned about the Fed (and rates) raising rates. It's a very healthy economic climate. Even if it starts another bad event, the Fed has room to lower rates.

What are your expectations for bonds this year?

My worry for many investors is that if they have bond exposure of 40% or 50% in their portfolio, they're going to lose money, as they did last year.

Over time, we're going to see, not massive equity like losses in bonds but [big] losses. When you have 5% or 3%, as people did last year and bonds are down 1% or 2% already this year, that's not what you [want to] expect with fixed income.

You've identified stocks that you like this year under seven different themes. How did these equities perform last year?

Many lagged. Some performed well, though they may be down a little bit this year. It all depends, when your start date is.

Most of these stocks are going to be well off their lows [and] most are going to be well off their highs.

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What's your first theme?

We call it "It Shot, an 'Ism, on Three in the Ack." We'll get the pandemic under control. We'll have another quote-unquote reopening of the economy. And those stocks that have been hit hard because of the virus will likely benefit.

As travel rebounds, they would be companies like Delta Airlines. And as people go back to shopping, Ford Lucker, for example.

Also, because there's pent-up demand for elective surgery, device makers like Medtronic are poised to bounce back.

Delta, Ford Lucker, Medtronic and a lot of other such stocks have gone on sale.

Tell me more about your thoughts concerning retail.

We still like Nordstrom, Kohl's and Tapestry. We took a lot of money off the table with Nordstrom last year. We were buyers in the teens and sellers in the high 30s, some when it was even in the 40s.

So we've captured some profit from Nordstrom. Now it's gone back down to the low 20s.

What's theme No. 3?

"Supply and Demand Upheaval." Commodity makes are benefiting as commodity prices have risen. So, for instance, specialty chemical company Celanese would be attractive.

Also, the big area that's been impacted by supply disruptions: semiconductors. Things like Intel and Micron Technology are attractive and [some] even in the chip equipment area, say, Kulicke & Soffa.

And the next theme?

"The Fed Slows Down the Refitting of the Punch Bowl." Interest rates are still very low, but as they rise, that will generally favor financial stocks.

Thus, regional banks like Bank OZK, formerly Bank of the Ozarks, stand to benefit; rates moving higher is generally a favorable environment for these banks.

We also like the big money center banks, the Citigroups, which we have in suggest.

And as rates have risen at health insurance companies, a stock such as MetLife would be attractive too.

Next theme?

We call it "EV's are Accelerating ... But the Road Ahead is Long." There are two facets. One is that automakers, like General Motors, have transitioned to electric vehicles and made substantial progress.

Yet they're still very inexpensively priced on a P/E basis. So we think there's tremendous potential there.

What's the other facet?

The idea that everything is going electric tomorrow isn't going to happen. It will take decades. So there's [still] an opportunity in the energy [fossil fuel] space.

We like Exxon because we think oil prices are going to be significantly higher and with tight supply.

So the old integrated oil companies are making big investments in green energy, but they'll be orbiting a massive cash flow stream from higher oil prices.

There'll be strong demand for oil for several decades. There just won't be the same kind of dollars spent on taking new fossil fuel up in the ground.

Please discuss the next theme?

It's "Technology is the Future." As I said, we're very heavily exposed to technology.

A couple of months ago, we were sellers of Microsoft and Apple. We peeled off a little bit because they outperformed so well again last year. It's all about portfolio management.

What else do you like in tech?

The rollout of 5G communications should benefit major telecom companies, like Verizon. And we expect to see interest in Seagate, a hard disk manufacturer. Also, Oracle, which is a leader in cloud [technology].

There are a lot of reasons to be optimistic about technology, and there are reasonable valuations for stocks in this sector.

We still like Apple, Microsoft and Google.

What's another theme?

"It's a Great Big World Out There," meaning there's opportunity outside the U.S., especially with American depository receipts traded on U.S. exchanges and foreign exchanges embedded in the multinational income streams for many of our U.S. based holdings.

For instance, companies like Deutsche Post. 80% of their revenue is derived outside the U.S. Also, French drugmaker Sanofi and Siemens, an industrial conglomerate with a high dividend yield.

There are reasonable prices overseas much more so than many investors might find in the US.

Any other opportunities in international?

We like companies that do substantial business abroad, such as Mastercard, the staffing services firm, which gets two-thirds of their revenue from Europe even though it's a U.S. company.

Your seventh and final theme is...?

"Good Things Come in Small and (Mid) Packages." Small-caps and mid-caps generally have a lot of opportunity and inexpensiveness to them.

In small-caps, we like discount retailer Big Lots, industrial battery producer EnerSys, and value manufacturer Greenbrier, which we've held the last couple of days.

What impact has Joe Biden's presidency had on the market so far, and what are your expectations in that regard for the year?

Going by history, a Democrat in the White House and a Democratic-controlled Congress has been a favorable environment for stocks. So the fact that stocks are doing well has not surprised me.

The question is what happens when there's a crisis? Can Biden handle [Russian president Vladimir] Putin? What if there are other [crises] around the world?

But we survived Trump, and we'll survive Biden. We'll see if he makes it to the end of his term health-wise. We hope he does — and then we'll have all the fun starting again in 2024.

Broadly, there seems to be much uncertainty about the economy and market, plus confusion because of the pandemic. Your thoughts?

There's always something to worry about [concerning the stock market].

If there's nothing to worry about, then stocks are priced for perfection — and there's [no] way to go but down, in my opinion.

The worst time to invest is when everything looks phenomenal. The time I worry is when there's nothing to worry about. There's plenty to worry about today, and I think that's impacting some investors.

It's a market of stocks and not simply a stock market.

Please explain.

If you're investing in smaller-cap stocks, the market is in a correction, down more than 10%. The Russell 2000 is off more than 10% from its highs. It fell.

If you're investing in meme stocks, you're in a bear market or something dramatically worse. It all depends on what you're investing in.

Pictured: John Buckingham (Photo: Andrew Collins)

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