COVER STORY: OUTSTANDING TEAMS

THE WOLF ON BAY STREET CANACCORD GENUITY

Toronto, ON
Established: 2001
Number of employees: 4
Target clients: Professionals and entrepreneurs, no minimum asset level
AUM: $150 million

Wolfgang Klein's The Wolf on Bay Street team was established in 2001 – predating the similarly named movie by some 11 years. While the protagonist in that particular tale famously played fast and loose with his clients' money, that's certainly not an investment strategy Klein would subscribe to – rather, he preaches caution when it comes to the current market, specifically in fixed income.

"We continue to be very underweight in bonds," he says. "The markets, the central banks, the leaders – they want people to take on risk and get money into the system to prop up asset prices. That's why they have negative yields and low interest rates."

Government and corporate bonds continue to attract investment, however, even in this environment. It's confounding to many experts, especially considering the implications a rate hike could have.

"When you have negative yield, it becomes a safety trade," Klein says. "I would encourage anyone to not buy those bonds because they are probably the most risky of all. The safe trade has become a very risky trade, in my opinion, because if interest rates go up 1%, the 10-year bond will correct by about 10%. We saw that with the bund in Germany last year."

Back on this side of the Atlantic, Canadian equity markets have performed well this year, but as Klein points out, this is being driven by firms that had such a dire 2015, the only way to go was up.

"We had a strong 2015, as we were heavily weighted towards the American market – low double-digit returns," he says. "We made a big shift this year and repatriated a lot of money back to Canada. It has been a challenging year, in that the weaker-performing names from 2015 have driven the TSX up."

In contrast, the names many investors often gravitate to in times of market uncertainty haven't exactly thrived. "It's been energy, basic materials, junior golds – basically all the high-beta, lower-quality names that have rallied hard this year," Klein says. "The Canadian banks, insurers and consumer staples haven't really done that well, so if you didn't have those high-beta names this year, you didn't perform."

WP: What areas have you favoured with your portfolios this year?

Wolfgang Klein: Our portfolios are North American-centric, but with slightly more US exposure than Canada. We run three separate portfolios – conservative, balanced and growth. In all of those, we have good positions in the US market, be it healthcare, technology, industrials, financials. The US financials are a much better value than the Canadian financials. If you are worried about rising interest rates, then add US financials to your portfolio.

WP: How about internationally – do you have exposure to emerging markets?

WK: Canada is an emerging market. We are so reliant on commodities that we move in a very similar direction to emerging markets. If China performs well, then Canada performs well. Canada is not a diverse economy; it is a bifurcated economy, with banks and financials on one side, and oil and commodities on the other.