

the mover

Why this money manager is bullish on Canadian stocks despite Trump's tariff threats

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Stephen Takacsy, chief executive officer and chief investment officer at Montreal-based Lester Asset Management. The Globe and Mail

It isn't home bias that has money manager Stephen Takacsy bullish on Canadian stocks and bonds, but rather a hunt for value and an optimistic view of the country's longer-term economic growth.

"Canada has been underinvested in and overlooked," says Mr. Takacsy, chief executive officer and chief investment officer at Montreal-based Lester Asset Management Inc., which oversees around \$360-million in assets.

"Low inflation, lower interest rates and a low Canadian dollar are all very positive for stocks and bonds," he says, adding that U.S. and global indexes have been driven higher by technology and AI-related stocks while other sectors have lagged.

“In Canada, gold stocks, financials, energy and Shopify have largely driven the [Toronto Stock Exchange], so there’s plenty of good value in other areas of the market, which are also trading at a large discount to U.S. peers,” he says.

And while the threat of U.S. tariffs is a concern, Mr. Takacsy says the fervent “Buy Canada” movement and a potential easing of interprovincial trade barriers could benefit several areas of the economy.

In fixed income, he notes there are still securities yielding well above inflation, which has dropped below 2 per cent. He highlights his firm’s focus on corporate bonds and other higher-yielding securities such as preferred shares.

His firm’s Canadian Equity Fund returned 20.9 per cent last year and has seen a five-year annualized return of 7.5 per cent. Its annualized return since inception 18 years ago is 9.9 per cent.

His Canadian Fixed Income Fund returned 11.4 per cent last year and has seen a five-year annualized return of 4.3 per cent. Its annualized return since inception 16 years ago is 6.2 per cent

The performance is based on total returns, gross of fees (which he says vary depending on account size), as of Dec. 31, 2024.

The Globe spoke with Mr. Takacsy about three stocks he likes for 2025 and one he recently sold:

Name three stocks you own today and why.

Pollard Banknote Ltd. PBL-T +1.39% increase, the world’s second-largest supplier of instant lottery tickets, is a stock we’ve owned since 2020 and have occasionally trimmed when it got pricey. An example is 2021, when the stock shot up past \$60 after the company’s technology partner, NeoGames SA N/A, went public. We sold most of our shares in the \$50 range. We felt the valuation had become ridiculously high. We’re buy-and-hold investors, but we’re also value-conscious. Pollard’s shares fell in 2022 as input costs rose and in 2024 because the company now occasionally competes for state iLottery contracts with NeoGames.

Pollard Banknote Ltd 25.84 -8.76 (-25.32%) SOURCE: BARCHART

However, Pollard has renewed its contracts with higher prices, developed a more advanced digital platform and has started winning contracts on its own. We purchased more shares recently in the mid-\$20 range. Its valuation has never been cheaper at less than 15 times forward earnings, and we expect a record year for sales and profits.

Savaria Corp. SIS-T -0.44% decrease, which makes accessibility products such as stairlifts and home elevators, is a stock we bought more than a decade ago starting at around \$5 a share and trimmed occasionally when we felt the valuation was too high. We often buy more on weakness, including earlier this month when it fell to around \$17 during the market panic around tariffs.

Savaria Corp 18.03 +1.28 (7.64%) SOURCE: BARCHART

Savaria has been punished unfairly by the threat of tariffs because most of its products are U.S. Food and Drug Administration-approved, which would normally be exempt from tariffs. Seniors and people with mobility issues would likely be very upset if prices for items such as wheelchair lifts rose. In a worst-case scenario, Savaria could shift production to the U.S., where it manufactures ceiling lifts and mattresses for long-term care facilities. Savaria is well on its way to meeting its \$1-billion sales and 20-per cent EBITDA [earnings before interest, taxes, depreciation and amortization] margin targets in 2025.

Stella Jones Inc. SJ-T +0.09% increase, North America’s leading manufacturer of utility poles and railway ties, is a stock we’ve owned on and off since 2009. We first bought it at around \$5 a share. We’ve made some tremendous returns on this stock, including after selling our shares in mid-June last year in the mid-\$80 range. We thought the valuation was getting a little stretched. We’ve started buying shares again recently at around \$70.

Stella Jones Inc 68.69-13.20 (-16.12%) SOURCE: BARCHART

The stock dropped in November after the company announced a slowdown in its faster-growing utility poles segment. Sales are still expected to grow by more than 6 per cent annually from utility companies replacing aging poles and expanding their electric grids. The California wildfires will likely also create additional demand.

Stella Jones is now trading around 11 times forward earnings, which is a bargain for a stable business with healthy 17-per-cent EBITDA margins and strong free cash flow with which the company buys back shares regularly. It hasn't been this cheap since we first bought it about 15 years ago, and it's a much better company today.

Name a stock you sold recently.

We recently sold Canadian Western Bank CWB-T -1.08% decrease after owning it for eight months, for a return of almost 40 per cent. We bought the stock for \$41.67 a share in June after the company announced it was being acquired by National Bank of Canada NA-T -0.07% decrease.

Canadian Western was trading at a huge discount to the share exchange ratio offered by National Bank, which saw its stock drop sharply on the news. We were confident regulators wouldn't oppose the transaction, so there was a huge upside from the discount going to zero upon the deal closing and National Bank's shares rebounding. We sold Canadian Western for \$57.67 just before the deal closed on Feb. 3 to raise cash to buy bargains from U.S. tariff panic selling.

Canadian Western Bank 56.63 +28.53 (101.53%) National Bank of Canada 126.48 +24.17 (23.62%) SOURCE: BARCHART

This interview has been edited and condensed.

<https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-why-this-money-manager-is-bullish-on-canadian-stocks-despite-trumps/>

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