A $2 billion fund manager says market volatility is here to stay for the long-term. He breaks down his best recommendations for the new normal — including 4 of his favorite stocks.

William Edwards 2 hours ago

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Aptus founder and portfolio manager JD Gardner says heightened volatility isn't going to end after the election.

He told Business Insider his best recommendations for how investors can deal with the new normal.
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With the election approaching, uncertainty lingering around the timing and scale of additional fiscal stimulus, and a potential second wave of COVID-19 threatening the economic recovery, you'd be hard pressed to find anyone on Wall Street who doesn't share the assessment that equity markets are going to be highly volatile in the near-term.

But there exists an assumption that volatility will end once we know the outcome of the election, and once a second round of fiscal stimulus is passed.

JD Gardner, founder and portfolio manager at Aptus Capital Advisors, thinks otherwise.

"I would probably say we're not in that camp of 'well, once the election is over, the dust is going to settle, and we're good to go'. I don't think that's the case," Gardner recently told Business Insider.

"I think once the election's over, there's still a list of other things that are major."

Gardner sees high market volatility, and implied volatility, as here to stay for the foreseeable future for two reasons.

One is the Federal Reserve: its quantitative easing efforts, overall monetary policy, and the heightened role it has played in markets this year. He said markets are in "uncharted territory," and any policy change the Fed makes will likely lead to spikes in volatility.

Gardner also said he's skeptical about the health of the economic recovery and skyrocketing stock valuations since March lows, and said a full recovery could take longer than some expect.

"Are valuations justified? Is there going to be GDP and economic growth like we're hoping? We've seen a nice rebound out of COVID, but for most of us, life is a whole different than it was back in January, and that has everything to do with travel, going out to eat — all of the things we kind of took for granted," Gardner said.

How to prepare your portfolio for heightened long-term volatility

In response to heightened volatility into next year, Gardner laid out how investors can protect and grow their portfolios.

On a more behavioral level, he recommended that investors make a plan and stick to it, refusing to panic even when they experience more volatility than what they're comfortable with.

"The thing that blows a plan or portfolio up is volatility," he said.

"When there's amounts of volatility — in a portfolio that could really be positioned well, if an investor experiences more of a drawdown than what they're comfortable with, then it can be 'let's go to the drawing board and start over.'"

As far as where investors might put their money in the current environment, he recommended staying in equities because of low bond yields. That said, he also recommended investors position themselves long on volatility.

More specifically, Gardner said he looks for quality stocks with justifiable price multiples and a combination of growth percentage and dividend yield percentage of 10 or above. To determine growth percentage, Gardner and his team at Aptus looks at metrics like earnings and profitability.

He pointed to four stocks that he invests in as examples of companies with some combination of growth percentage and dividend yield percentage above 10%.

The first is O'Reilly Automotive (ORLY), an auto parts retailer.

"It's a boring name, but we think it trades at a reasonable valuation relative to peers. We think it's positioned for reasonable growth, and we really like the management team there," Gardner said. "It could continue to benefit from the do-it-yourself online movement."

Second, he highlighted Chemed (CHE), a healthcare firm.

"We think Chemed is an incredible business. It's an all-weather holding for us," he said. "In normalized market cycles we think it can outperform, we think it has downside protection in down markets just because the nature of its business, it has a growing dividend."

He added: "We think this company is extremely undervalued relative to its peers."

Third, Gardner pointed to software firm Alteryx (AYX).

"We're really excited about the background of the new CEO they're pulling in. He came out, updated revenue and guidance well above consensus," he said. "So we like both of those things for short- and medium-term performance. But we think there are huge tailwinds in the data analytics space in general."

Lastly, he pinpointed Intuitive Surgical (ISRG), a healthcare technology company.

"They've seen really good topline growth over the last five years, and we think that that will continue," Gardner said. "Over 70% for recurring revenue, really high growth-debt margin. Those types of margins put them in a position where someone looking for a strategic partnership where they're looking to develop is just going to allow them to grow their footprint through manufacturing and direct distribution opportunities."