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Fund Manager: Buy these 3 stocks to diversify your portfolio

Individual investors should own foreign stocks for diversification, says Causeway fund manager Ellen Lee.

DAN WEIL · OCTOBER 26, 2023

If you're a value investor, you might want to consider foreign stocks, which are trading at far lower valuations than their U.S. brethren.

One way to do this: Have a look at Causeway Global Value Fund (**CGVVX**) - Get Free Report, which earns Morningstar's top rating of gold.

The fund has returned an annualized 23.44% over the past 12 months, 12.21% over the past two years and 5.95% over the past five years, according to Morningstar.

Those returns compare with 8.53%, 8.69% and 6.22% for the Morningstar Global Value Index during those periods.

We spoke to Ellen Lee, co-manager of the fund, about its approach to global investing and about a few of its stock picks.

She thinks it's important for individual investors to own foreign stocks to provide diversification. She also says they're now trading at attractive valuations.

Here's what Lee had to say.

Ellen Lee, co-manager of Causeway Global Value Fund.
Causeway Capital Management

TheStreet.com: *What's your investment philosophy?*

Lee: We are value investors looking bottom-up at fundamentals. We seek mispriced stocks, where the market doesn't give the company credit for what it's doing.

TheStreet.com: *How do you choose your stocks?*

Lee: We have quantitative screens for attractively valued companies that are generating good returns and cash flows. When an event or earnings cause a stock to fall, we look at whether the changes are structural or temporary. If we believe they're temporary, we take a long-term view and invest in our idea.

TheStreet.com: *What industries and countries do you find most appealing now?*

Lee: We're bottom-up investors without regard to industry and geography. That said, we are seeing some industry cycles. For example, chemical companies have recently gone through a destocking period. That makes the market wary about demand. It's an area where we've found good ideas.

Also, interest rates have gone up immensely in the U.K. because of inflation. People are worried about recession. We think some U.K. banks are trading at a massive discount, with valuations around global-financial-crisis levels.

TheStreet.com: *Are there any other themes you're looking at?*

Lee: Obesity drugs. There's a lot of talk about how this will impact what people eat and drink. We're looking at the impact on food consumption globally. It's too early for conclusions, but it's on our radar.

TheStreet.com: *It is important for individual investors to own foreign stocks?*

Lee: Absolutely, for portfolio diversification. You get exposure to the global economy. You never know which country will be in favor, but you can absorb different events.

In most of the last 10 to 15 years, U.S. stocks outperformed. One thing that was consistent during that period was very low interest rates. But the last 18 months has brought a new rate regime.

Also, looking throughout history, sometimes the U.S. has outperformed, and sometimes foreign stocks have outperformed. Foreign valuations now are much lower. There are reasons to believe the U.S. should have a premium, but it's now way above historical ranges. There will definitely be some mean reversion.

U.S. companies do business abroad. [So theoretically you don't need to invest in foreign stocks], but the real opportunity is the valuation gap.

Street.com: *Can you discuss three of your favorite stocks?*

Lee: Sure.

Kering
(**PPRUY**)

It's the French luxury goods company that owns Gucci. They have gone through personnel changes, including the CEO of Gucci. For the last few years, Gucci has underperformed peer brands.

Kering has traded below 15 times earnings. But long-term trends favor luxury, and this is a bargain opportunity. The company's brands are great assets. They can't be replaced by robots. Gucci attracts good creative people. The company has a good balance sheet, which you want if you're uncertain about the economy.

Danone
(**DANOY**)

This is the French maker of Dannon yogurt. It also owns Evian water. For a food company with good brands, it has traded at a significant discount to its peers for a long time. Yogurt and water haven't performed like leaders, capital allocation was poor, and Danone's CEO left in the middle of the pandemic.

But the whole management and all of the board members have changed. Corporate governance has gotten better and so has financial performance. The credibility of management has gone up. Danone is now acting like a real leader.

Citizens Financial Group
(**CFG**) - Get Free Report

This regional bank is primarily focused on the Northeast. It's a scary time for banks. After the failure of Silicon Valley Bank, there was a lot of concern about the asset-liability mismatch at regional banks. There was a lot of selling of their stocks.

Citizens now trades at 85% of tangible book value, despite its ability to generate returns above its cost of capital. Even assuming major credit losses, the valuation looks very good. It has one of the best capital positions among regional banks. When there is concern about the economy, banks are usually the first to go. But as value investors, we're attracted to carnage.

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