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On the January 28th FidelityConnects webcast, portfolio manager Dan Dupont talks about opportunities in the market, and how doing your due diligence is key in this still uncertain market.

Dan Dupont has been busy. In the fourth quarter of last year, the long-time portfolio manager of both the Fidelity Canadian Large Cap Fund and the Fidelity NorthStar® deployed $1.2 billion into undervalued assets. With markets taking a big hit over the last three months of 2018 – the S&P/TSX Composite Index fell by over 10% in Q4 – Dan found himself awash in cheap stocks.

The new positions Dan took are a good example of his philosophy – "aggressive patience" – at work, always looking for stock ideas, being patient on price and deploying capital quickly whenever and wherever the right opportunities arise.

In this edition, Dan shares his latest outlook and reiterates that his portfolios are scrupulously built from the bottom up to navigate these uncertain and opportunistic times. Here are three main takeaways from the webcast. For a full replay of the webcast, watch the Finding opportunities; mitigating volatility.

Opportunities exist, but pick your spots

With markets still down from where they were last summer, there are a number of attractive b[illegible] changes in the last six months which is [illegible] cheaper and we were able to buy some very interesting op[illegible]s," he says.

For instance, he's keen on North American asset managers. While the industry is more cyclical, some companies have become so cheap that they're too hard to pass up. "One of the industries that might surprise people that I've added is U.S. asset management companies. Some of those have popped up in the last few months in the holdings of Fidelity Canadian Large Cap Fund," says Dan.

Investors may be tempted to scoop up some of these undervalued names with the hopes of riding them higher as the market turns in the short-term - but not Dan. He wants to build a solid portfolio that will grow in value over the next two to five years. To do that, Dan must pick his spots, because there are still plenty of overvalued companies out there.

He's also bullish on European stocks, even with so much Brexit-related uncertainty. "The U.K. is a specific example of [an area] with very attractive valuations," he says. "But there are a lot of opportunities in Europe across the board."

Dan is less excited about life insurance operations, where a company's fortunes tend to hinge on the direction of interest rates, and oil and gas stocks, which are too expensive for him. He's also avoiding materials and while he has been attracted to healthcare stocks in the past, "Nothing screams out to me as being cheap," he says.

Earnings will slow in 2019

Many financial experts, including Dan, expect corporate earnings to slow in 2019, after growing by about 25%, on average, in the first half of last year[1]. He's already seeing some companies report weaker numbers and with trade wars continuing, recession fears rising and synchronized global growth potentially coming to an end, businesses could run into some problems with their bottom lines.

Because of that, investors and advisors should be careful about using forward earnings to value companies, he says. "Sometimes they can be a little off or a lot off when the economy is uncertain like it is right now," he says. "You must be really defensive in your analysis of a company's earnings for the next one to three years."

Lower profits aren't necessarily a problem if you're buying companies with predictable earnings, he says, which is what Dan does no matter what the economic outlook is. "When I'm in doubt I tend not to invest," he says. "But I try to position my funds so that we don't get hurt by anything that is unpredictable or unforeseen."

Be ready to act

Many people are worried about a possible recession, but Dan is not overly concerned and doesn't take a position either way on whether one will occur. His defensive approach to stock picking makes him "ready for anything," he says. "We don't need to reposition the portfolio."

If a recession does materialize, he says, he'll deploy more cash into newly undervalued operations. However, buying or selling into a falling market can be tricky – if you cut a position down to zero and it rises again, then you've lost out, he says. The key is to be objective. "Take your ego out of it and analyze the situation very, very objectively," he says.

He does as much due diligence as he can on a company before he buys it, including listening to conference calls, meeting with management teams and crunching the numbers. He then sets a price target. If the company falls to that level, he'll start buying. It takes an incredible amount of patience, but when the market corrects, as it did in Q4, his job gets a lot more exciting.

"You spend months and months getting ready to deploy cash at a particular price and you see all these great companies that you think will never get to that price," he says. "But then to [illegible] fun. We can deploy a billion dollars or two within minutes if the opportunities are attractive enough."

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[1] The source of all factual information and data on markets, unless otherwise indicated, is Fidelity Investments.