How to Bet Against Cathie Wood in 2022

Description

Investment manager Cathie Wood became a household name last year, as her fund's performance exploded upward. Wood's bets on disruptive technology and innovative growth stocks helped her pull billions of dollars in investor capital. By 2021, her small investment firm was one of the largest asset managers in North America.

This year, the story has turned. Growth and tech stocks have been steadily losing value. Some of her flagship fund's largest holdings have lost 50-70% of their market value. The growth stock boom is over, which means investors are probably rotating into the alternative: value stocks.

Here's why investors could continue rotating into value stocks for the rest of the year and the exchange-traded fund that could serve as a potential anti-tech bet.

Rotation into value stocks

Value stocks are the polar opposite of growth stocks. Companies operating in boring industries with little to no growth, high cash flows, low multiples, and low debt are usually in this basket. This could include railway operators, miners, energy companies, manufacturing firms, and banks — the antithesis of the Cathie Wood innovation portfolio.

You may recognize this as Warren Buffett's strategy. Buffett has always focused on value stocks while avoiding technology and growth companies. This made his performance suffer in 2020. But over the past year, **Berkshire Hathaway** stock has outperformed Cathie Wood's **ARK Innovation Fund** by a wide margin. It's a clear signal that 2021 was the year of value stocks.

Will this trend continue? There's some reason to believe it might. Growth stocks have had a rough start to 2022. Investors expect high inflation and rising interest rates this year. That makes unprofitable and volatile companies less attractive. It also makes stable, undervalued companies more attractive. In other words, value stocks could keep outperforming in 2022.

Value ETF

Fortunately, there are plenty of value stocks in Canada. In fact, our stock market is dominated by energy, mining, and financial companies. **iShares Canadian Value Index ETF** (TSX:XCV) serves as a convenient proxy for this investment theme.

XCV focuses on large and mid-sized Canadian companies that are undervalued based on traditional metrics. Think low debt, low price-to-earnings multiples, and high dividend yields. Top holdings include several major banks, **TC Energy**, and **Nutrien**.

Over the course of 2021, this ETF delivered a 34.1% total return. That was better than the **TSX 60 Index**, which only delivered 24% over the same period.

XCV also outperformed Cathie Wood's flagship fund. ARK Innovation Fund delivered -24% in 2021. The margin of difference is 58%!

Bottom line

Cathie Wood's predictions may come to pass over the long term. Driverless cars, telemedicine, and FinTech could generate immense wealth for shareholders within this decade. However, in the near term, these tech and growth stocks look overvalued. Investors may want to consider some exposure to value stocks that are more stable and less "innovative."

iShares Canadian Value Index ETF is the perfect proxy for this theme. The ETF has outperformed the rest of the stock market and Wood's flagship funds by a wide margin. This trend could continue in 2022. Keep an eye on it.

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