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CORRECTED-RPT-'Trump Trade' winners switch into battered retail, biotech shares

(Corrects fund performance in paragraph 19)

By David Randall

Some of the actively managed funds that have performed the best since the Nov. 8 presidential election are switching from "Trump Trade" bets on financial and infrastructure stocks into beaten-down sectors such as retail, apparel or biotech.

The managers say those sectors now have a lot of upside while a rally fueled by expectations Donald Trump's administration will cut taxes and boost infrastructure spending has run its course because of growing doubts the new administration can deliver on those promises any time soon.

"We're taking some money off the table," said Scott Goginsky, a co-portfolio manager of the $24.8 million Biondo Focus Fund. The fund gained 25.6 percent between Election Day and the end of March, according to Morningstar data.

Goginsky's fund, which counts sportswear brand Under Armour Inc among its largest holdings, has been selling shares of large-cap financial companies and buying "brands and companies that still have pricing power when Amazon is taking over everything," he said.

Shares of Under Armour lost 54 percent over the last 12 months in part because of increased competition with Nike for shelf space at retailers.

Most of the portfolio managers that topped post-election performance charts moved into financials and infrastructure stocks before Nov. 8 and did so primarily because they looked cheap, not because they thought Trump would win. In fact, only few predicted the vote's outcome.

With the price-to-earnings ratio of the benchmark S&P 500 near the high end of its historical range, the broad market has baked in deep tax cuts that look less likely after Trump's attempt to pass a new healthcare bill shattered, fund managers say.

As a result, they are paring back their exposure to the stock market as a whole and in some cases raising their cash holdings.

"I'm not a fan of the market at these levels," said Arnold Schneider, portfolio manager of the $48.7 million Schneider Small Cap Value fund. With a 28.2 percent gain since Nov. 8 it is the top-performing actively managed equity fund tracked by Morningstar over that time.

Schneider said only energy stocks and small-cap financial services companies seemed to have some upside after falling 6.2 percent and 5 percent respectively this year.

"I think financial services are the best story in the market," he said, given recent declines coincide with rising interest rates that should help financial firms shore up their margins.

Schneider counts oil and gas services company Weatherford International PLC, crude oil producer Whiting Petroleum Corp, and regional bank Regions Financial Corp among his largest positions.

FADING 'TRUMP TRADE'

It appears that investors at large, not just the top performers, are abandoning the ‘Trump Trade’ stocks.

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Companies in the S&P 500 index with the highest effective tax rates that would gain the most from the promised cuts have given up all of their post-election gains, according to a research note from Goldman Sachs published last week.

While Republican House Speaker Paul Ryan acknowledged last week that Congress and the White House were not "on the same page yet” on a tax package, the administration has tried to assure of its commitment to a business-friendly agenda.

On Tuesday, Trump told a group of chief executives that his administration was reducing regulations and revamping the Wall Street reform law known as Dodd-Frank, which might be eliminated and replaced with "something else."

White House economic adviser Gary Cohn on Friday said taxes remained a top priority and the administration aimed to complete a plan for tax code overhaul this year. He acknowledged, though, it may not be ready until the fall.

One of the top-performing managers believes the "Trump Trade" rally still has legs.

Graham Tanaka, whose $15.1 million Tanaka Growth fund is up 17.8 percent since the election, said he expected Trump to succeed in passing corporate tax cuts. That would push the earnings of the S&P 500 companies up 10 to 15 percent, justifying elevated valuation levels.

Tax cuts should spur more corporate and consumer spending on technology, Tanaka argues, and has been raising Apple Inc and Tesla Inc holdings. Tanaka is also moving more money into shares of underperforming biotech firms, such as ProMetic Life Sciences Inc and Ionis Pharmaceuticals Inc. Ionis shares are down 19 percent for the year after analysts expressed concerns about its drug pipeline.

"We think that this company has been beat up for the wrong reasons and is one of the biggest innovators in the biotech space," Tanaka said.

(Reporting by David Randall; Editing by Jennifer Ablan and Tomasz Janowski)