Business Insider

Garvin Jabusch's ESG-focused fund has spiked 81% in the last year alone. He describes his stock-picking process — and details 5 tips to help young investors find long-term gains.

Will Daniel 7/28/21

Garvin Jabusch co-manages the Shelton Green Alpha fund, which was one of the best-performing mutual funds of 2020.

- **The Shelton Green Alpha fund has outperformed the S&P 500 since its inception.**
- **Fund manager Garvin Jabusch says the success is a result of his forward-looking, ESG-focused approach.**
- **Jabusch details his stock-picking strategy and tips for young investors below.**

The Shelton Green Alpha Fund has managed to outpace the S&P 500 by an average of 6.4% each year since its inception almost a decade ago.

The ESG-focused mutual fund continued to enjoy success over the past year as well, jumping some 81% during the pandemic thanks to the performance of holdings like Moderna and Tesla.

The fund's manager, Garvin Jabusch, said the fund's recent success has been the result of a dedication to finding companies offering viable solutions to the biggest problems facing society in the 21st century.

"Our portfolios are entirely composed of things that we think are going to solve the big risks of the climate crisis, resource degradation, and the big fear of disease burden," Jabusch said in a recent interview with Insider.

The portfolio manager went on to explain how one of the main things that separates his fund from others in the industry is the method he uses for assessing portfolio risk.

Historically, one of the common ways fund managers evaluate the risk in their equity portfolios is to measure their correlation to a benchmark index like the S&P 500.

But Jabusch argues that a high correlation to an index that holds "50 fossil fuel companies" isn't something he's looking for.

"I get told all the time, 'your tracking error is really high, we think that's too risky,'" Jabusch said. "And my response is well, we're managing the risk of the climate crisis, so we think for a long-term investor, we're actually far, far less risky."

Jabusch argued that the best way to beat the S&P 500 index was to avoid attempting to correlate with the index, and instead position his fund to profit from long-term macro risks like climate change and the growing threat of infectious diseases.

The Shelton Green Alpha Fund manager said he has a "go anywhere" attitude when it comes to stock picking. From small-cap biotech firms to large-cap electric vehicle companies, Jabusch is willing to look under every and any rock to find stocks he believes will outperform due to macro trends.

The fund manager also described the importance of finding firms with strong intellectual property (IP) protections, providing his mid-2019 Moderna pick as an example. For the record, Moderna has seen returns of over 300% in the last year alone.

Jabusch said he bought the stock because he saw it had MRNA IP rights that would be extremely valuable even if the firm failed in its goals and was forced to simply sell the IP.

While Moderna certainly outperformed over the past few years, Jabusch emphasized that this isn't always the case when investing in riskier clinical-stage biotechs, and recommended investors seek geographic and industry diversification to manage risk.

When asked what advice he would give young investors to help them get started building wealth in the markets, Jabusch referred to a recent conversation he had with his niece.

Below, Insider detailed Jabusch's advice for his own family and other young investors looking to pick stocks and find long-term success.

1) Do your research and go beyond marketing copy

Jabusch's first tip for his niece and other young investors was to take the time to do substantial research before picking stocks, ETFs, or mutual funds to invest in.

He emphasized how much public information there is available to Gen Z, and said they should be taking advantage by going beyond marketing copy to look at SEC filings for individual stocks or fund holdings for mutual funds and ETFs.

"Look at how much time you spend researching which phone you want for $1000, you need to spend at least the equivalent amount of time researching where you're going to spend $5000 on your 401k contribution," Jabusch said.

The fund manager emphasized that there is no shortcut to investing, and young investors need to have the patience to do the proper research before making investment decisions.

2) Stick with a long-term return horizon and diversify

Jabusch's second piece of advice was to focus on a long-term return horizon for investments, and to diversify both geographically and by industry to reduce risk.

He argued younger investors should mostly avoid riskier meme stocks and cryptocurrencies, and opt for ETFs or mutual funds unless they plan on using a small percentage of their overall portfolio to simply speculate.

The portfolio manager also recommended young investors stay invested in the markets even in periods of turbulence, using pullbacks to add to high-conviction holdings. Multiple studies, including the one shown below from Putnam Investments, have illustrated that investors who miss the market's best days see far weaker returns than those who remain invested, Jabusch emphasized.

A study from Putnam investment detailing stock market returns. Putnam Investments

3) Find companies that solve big societal problems

For his third tip, Jabusch recommended young investors look for companies that are attempting to solve big societal problems in areas like clean energy, climate change, healthcare, and more.

"Something that has the ability to make the economy or even make civilization collapse, these are the areas that people are just going to be pouring money into to prevent that from happening, so they present the best long-term investment opportunity," Jabusch said.

Jabush takes this approach with his Shelton Green Alpha Fund; the fund's top five holdings as of June 30 were Moderna, JinkoSolar Holding Co Ltd, CRISPR Therapeutics AG, Vestas Wind Systems A/S, and Applied Materials Inc.

4) Focus on firms with growing revenues and margins, strong cash flow, and manageable debt

Jabusch said it's critical to find companies that offer strong cash flows, and also have the ability to continue growing their revenues and margins over the long-haul.

He also recommended avoiding companies with significant debt relative to their industry, but noted investors shouldn't necessarily be afraid of debt obligations, especially with interest rates as low as they are.

Instead, investors might consider looking at interest coverage ratios to see if companies have the ability to cover their debt obligations in years to come, Jabusch argued.

5) Find firms investing in their future at a reasonable valuation

Finally, Jabusch recommended looking for companies that are heavily investing in their future. He said firms that are regularly buying back shares should often be investing to stay relevant instead.

"It's like a farmer eating his seed corn, it's just dumb, you need that to grow," he added.

Buybacks aren't always a net negative — for instance, they can often be a positive sign if they're used to compensate employees. But Jabusch said younger investors should prefer firms with a growth mindset, not ones that use buyback to manipulate price-to-earnings (PE) ratios.

He added that investors should be careful with highly-valued firms, but cautioned that common valuation metrics are often poor measures of long-term intrinsic value.

Jabusch prefers metrics like price-to-sales or even price-to-earnings-growth (PEG) to the typical PE ratio because he is always thinking about the future intrinsic value of firms, not their current value based on recent earnings.