Investment Manager Meetings Recap

What Are Investment Manager Meetings?

At Strategic Income Group, we believe in reviewing detailed investment research. Every 90 days we set aside a week during which around 7 to 10 investment managers to give us recommendations on our current portfolios as well as share their firms' current views on the market and economy. This recap is our commentary on the most recent meetings.

Overall, we had a great week of meetings. As usual, we were immersed with plenty of good information which was followed by great dialogue and discussion as it relates to our investments.

This quarter we had a continued consensus from the investment management companies where they favor *equities* over *fixed income* and *fixed income* over *cash*. Further, they continue to see more opportunities overseas than here in the United States.

Here are our notes from the meeting:

- **Asset Allocation** – We had a discussion of how we manage risk . . . should we add return or reduce risk?
  - Prudential head of analytics complimented our portfolios as "being ahead of the game" and said, "less than 1% of retail advisors are effectively using assets such as MLPs and global infrastructure.
- **Active vs. Passive** – We had a discussion of how the rising tide is not raising all ships.
  - We talked about core vs. tactical concepts.
  - Fees – We talked about reducing fees via LPL agreement (more on this in the coming weeks).
- **Security Selection** – We talked about maintaining proper diversification and risk allocation while increasing those positions that have tailwinds and reducing the positions that have headwinds.
- **U.S. Corporations Financial Health**
  - Most liquid assets in history.
  - Percentage of short-term debt is at lowest level in the last 35+ years (they have refinanced their debt to low rate longer-term debt).
  - Profit margins as a percent of GDP are at highest levels in 60+ years.
  - No longer cheap, they are now slightly overvalued. We feel they will continue to move up, however.

  - Growth and income is scarce so investors will pay up (higher valuations).
  - There's more volatility.
- **Housing Affordability**
  - With the current inventory rate it takes on average 4.6 months to sell.
  - Still remains well under-built for apartments.
  - Biggest need for housing is changing, Gen Y and baby boomers.
  - There are 80 million people in Gen Y (peak renting years, ages 20-34).
  - More people rent than own.
  - 2/3rds of the apartments in the United States were built prior to 1980.
  - Between 2005-2010 there were 3.8 million new renters.
- **United States Renaissance**
  - Oil – $100 to $40 back to $60 . . . we are being told to expect oil in the $70-$80 range over the next few years. Prices at the pump will be higher with higher volatility.
  - We continue to like the pipelines as a toll road. While they experienced some volatility with the movement of oil it was unwarranted.
  - U.S. is the #1 producer of oil in the world.
  - Texas produces more crude oil than the U.S. imports from the Persian Gulf.
  - U.S. is exporting almost 400,000 barrels per day.
- **U.S. Dollar**
  - Still very strong. U.S. stopped QE in October of 2014. That causes and will continue to cause U.S. Dollar to remain strong.

Interesting Facts

Just like Americans call all tissue paper, "Kleenex," in India, they call all toothpaste, "Colgate."

Only 10% of the population of India brush their teeth on a daily basis. How will this impact companies like Colgate as the world catches up?

In the near future India will surpass China as the most populated country.

The drink of choice in India is actually Scotch. They are currently drinking more Scotch than Scotland produces in a year.

From a population standpoint, India has 1.2 billion people – China does not do a census and many say they have between 1 billion and 1.6 billion so you can round and say 1.3 billion. In essence, the U.S. is China's rounding error.

  - This acts as a headwind for U.S.-based large and mega cap companies. When they bring their earnings back, they are being hit hard with the currency exchange because dollars are expensive.
  - We favor U.S. small and mid cap companies because of this.
  - A strong dollar favors international companies that export to the United States.
- **U.S. vs. International** – 22 of the 26 central banks in the world lowered rates or added some QE in 2014.
  - International is our largest overweight position and has given us an outperformance to our benchmarks.
  - International is still undervalued.
  - MSCI dividend is 2.9% vs. S&P 500 is 1.9%.
  - Interest rates to rise but remain low for a long time.

As mentioned, Prudential's head of analytics complimented our portfolios as "being ahead of the game" and said, "less than 1% of retail advisors are effectively using assets such as MLPs and global infrastructure."

In light of the information we received, we will be making some updates in our portfolios to further increase our international exposure. The strength of the U.S. dollar is favoring U.S. small cap companies and we will be adjusting our allocation there as well. We expect the Federal Reserve to start raising rates over the next several months and will be adjusting a few of our fixed income positions to align with these changes.

Questions?

If you have any questions whatsoever regarding our investment manager meetings or any of the notes, give us a phone call or stop by our office:

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