

A 2015 Macro View

TORTOISE vs THE HARE?

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2015 Investing Outlook

- Many cross currents globally
- Positives:
 - ◆ US economy, momentum strong, cheap oil...
- Negatives:
 - ◆ Global economy, currency wars, deflation...

Investing Decisions 2015

- Status quo?
- Add Equities? US or EU?
- Sell bonds?
- Sell high?
- Curran's Macro View...

What is “Macro View”?

- Two Main Investing Strategies:
 - #1 “Top Down” uses the Macro View
 - ◆ Overview of big trends-themes
 - ★ Eg. Elder boom→health stocks
 - #2 “Bottom Up” use valuation
 - ◆ company specific analysis
 - ★ Eg. Teva great valuation

Macro → Hare or Tortoise in 2015?

- 1. Hare is over confident and fast
 - ◆ Is all in, optimistic...bullish
- 2. Tortoise is slow and meticulous
 - ◆ Is cautious and looking over shoulder...bearish

The Tortoise View Point

- 1. Oil & commodities trend
- 2. Valuations Rich
- 3. Bond message a worry
- 4. Deflation trend
- 5. Currency wars a risk
- 6. Europe 7. China 8. Middle Class

The Hare View Point

1. US doing ok
2. Oil is Cheap
3. Central Banks All stimulating
4. Low recession risk
5. EU could surprise on Upside
6. The TINA Factor

(Majority in this camp!!)

1. Tortoise-Oil Crash!

- 60% rapid decline is rare-a shock
- Maybe more demand vs supply?
- Dr Copper down 43%, iron ore 60%, coal 64%
- Baltic Dry Index down 60%-lowest 29 yrs!
- Weak global demand...

2. Tortoise—Valuations Rich!!

- Motto- always, always buy low!
- Currently all US valuation measures frothy
- Problem is it could get even more frothy....another bubble?
- Lots of things pointing towards this...herd in, low IR, US best of the worst...

Valuation Over View

- 1. CAPE 27.3 X---avg is 15x
 - ★ Only higher 1929 and 2000
- 2. Buffett Ratio---MC:GDP
 - ★ Only higher 2000
- 3. Price/Sales ratio
 - ★ 1.8x vs 0.8x
 - Sales DON'T lie
- 4. Tobin Q Ratio
 - ★ Only higher in 2000 and 1968
 - ★ And E now declining...

3. Tortoise-The Bond Message

- Record low yields GLOBALLY
- Bond yields driven by inflation-IR expectations
- German 10 yr now below Japan!!
- Low yields telling me low growth...even deflation
- “secular stagnation”...
- Caution on High Yield or Junk Bonds....

4. Tortoise-Deflation is a Worry

- US CPI declined 0.4% Dec
 - ◆ Largest drop since 2008
- EU also declined 0.2%
- Deflation can crush economies...and stock markets
 - ◆ “prices will drop so lets wait...”
 - ◆ Stocks don't do well here...

5. Tortoise-Currency Wars a Risk!

- Global economy slowing so...
- Most lowering IR-currency to boost exports
- 15 CB lowered IR 2015!!...and QEs
- US is the exception...
- Big risk when so many devaluing...trade restrictions etc...
- So far “no” US or China devaluation...

6. Tortoise-European Union at Risk

- Many hurdles
- Austerity was a mistake...
- Demographics very poor
- Flawed monetary union
- GDP weak—Greek exit?
- Unemployment 11.5%, youth 50%

7. Tortoise-China Hard Landing 2015?

- Massive epic credit and real estate bubble...
- Needs to unwind? How?
- GDP 7.4% slowest in 24 yrs
 - ★ Soft vs Hard landing??
- CPI 0.8% in Jan
- Wont help global growth 2015
- Ironical that Shanghai soared recently...

Question--Can The US Decouple?

- Global economy is slow (ing)
- Bearish and Bullish arguments
- US is 70% domestic consumer
- Tortoise is concerned but not the Hare...

8. Tortoise-Income Inequality

- Avg CEO:avg employee salary
 - ★ Was 40:1-→now 400:1
- Record profit margins....
- Wage growth weak, job growth weak
- ...Weak aggregate retail sales...

Tortoise-Income Inequality

- Top 1-5% done well since 2009
- Stock market-real estate gains help rich
- Bottom 90% doing poorly
 - ◆ Hence poor sales and GDP
- Low IR & QE exacerbated this

Lets look at Bullish Hare

- Always “wall of worry”
- Record low US IR
- Record Central Banks easing
- “Governments have our backs”
- Music is still playing...

1. Hare-US Doing OK!

- “immune” to global slow down
- 70% GDP are consumers
- Unemployment 5.7%
- Consumer confidence high-oil
- Auto sales high
- Housing could improve
- So US can decouple & grow

Tortoise Counter Argument

- Wages stagnant
- Jobs—mostly oil, 55+ yo, part-time
- Participation Rate 25-54 yo very low!!
- Retail sales weak
- Middle class weak
- High US\$ hurts 45% E offshore

2. Hare--Oil is Cheap

- short term excess supply NOT weak demand
- Low oil is the same as “tax cut”
- Expect US booming retail and buss profits
- Will also help EU and China

3. Hare—All Central Banks Stimulating

- Of 34 global Central Banks 26 are easing!
- Especially big ones—EU, Japan, China
- US QE experience was very positive for markets...
 - ★ But US maybe odd man out 2015?

4. Hare- US Recession Risk is Low

- Uncommon to see 20% + market declines if NO recession
- 99% economists--“No recession in the cards”
- “Yield Curve not inverted”
 - ★ (but has flattened)
- So the Hare is all in

5. Hare--EU Could Surprise on Upside

- Massive QE...
- Low IR
- Euro lowest in 12 yrs...exports
- Valuations cheap...attracts money

6. Hare-"TINA" Factor

- "There Is No Alternative"
- Bonds a time bomb re long end
- Cash zero returns
- Hedge funds have been killed
- Equities do well in Low IR and low inflation

Macro Conclusion

- 1. where is the “pendulum swing”?
- 2. risk vs reward?
- 2015 weighted towards RISK!!
- Now want Tortoise Approach
 - ★ Slow, steady & tactical
- Focus now Wad Protection
 - ★ good time to “sell high”
- “80% returns made in 20% of the time
 - ★ Jeff Gundlach

Macro Conclusion

- 2015-conditions ripe US equity BUBBLE!!
 - ◆ \$ flooding into US equity-bonds
 - ◆ Higher yields, strong currency
 - ◆ “only engine” growing
 - ◆ 3rd Presidential Cycle yr
- time to “SELL HIGH”
- been invested since 2009-take profit

Macro Observations.

- 1. Valuations-buying high...
- 2. Very Long bull market...
- 3. No 10% correction 3 yr...
- 4. Bond message...low growth..
- 5. Rare oil shock...Dr Copper...
- 6. Weak global growth
- 7. Forward US E guidance weak
- 8. US IR going up...
- RISK vs REWARD????

Tortoise Defensive Investing Strategy

1. Dividend focus only...
2. Low Beta focus only...
3. Be Tactical with 15-25%...
4. Bonds—floaters, no HY, short
5. Best Value—EU and EM-India
6. “Cash is king”..esp. US cash
7. Suppress Temporal lobe-greed
8. Let logical frontal lobe lead...

2015 Guesstimation

- Tortoise WINS the race??
- Slow and steady pays off??
- Recessions every 6 yrs...
- A “shock” would be hard to manage right now...
- Thank-you!!

Introduction

- State the purpose of the discussion
- Identify yourself

Topics of Discussion

- State the main ideas you'll be talking about

Topic One

- Details about this topic
- Supporting information and examples
- How it relates to your audience

Topic Two

- Details about this topic
- Supporting information and examples
- How it relates to your audience

Topic Three

- Details about this topic
- Supporting information and examples
- How it relates to your audience

Real Life

- Give an example or real life anecdote
- Sympathize with the audience's situation if appropriate

What This Means

- Add a strong statement that summarizes how you feel or think about this topic
- Summarize key points you want your audience to remember

Next Steps

- Summarize any actions required of your audience
- Summarize any follow up action items required of you