



Adams Hall

Asset Management

Who Do You Trust?

In September, famed Pimco CIO, Bill Gross, started a series of conference calls on the “New Normal” referring to their view of the current economy and the prospects for future growth. Characteristics of the New Normal are lower GDP, lower asset returns, and (for the foreseeable future) deleveraging, reregulation, and de-globalization. This new mindset is not revolutionary in itself. Many other economists and prognosticators have echoed Mr. Gross’ prediction of lower asset returns and a slower economic recovery. On the other side of the country, J.P. Morgan’s Chief Market Strategist, Dr. David Kelly, said “Telling everybody that there’s a new normal sounds a lot like saying ‘this time is going to be different’”. While there are still challenges ahead of us, J.P. Morgan sees signs of recovery: credit spreads have narrowed, lending standards have lowered, and 3rd quarter corporate profits have beaten estimates so far. They also cite rising productivity, slow growth in labor costs and low interest rates. We at Adams Hall think a great deal of Bill Gross and Dr. Kelly, but when their opinions differ so greatly, who do you trust?

The entire market seems to be having difficulty with this question. Investors’ diametrically opposed views on everything from prospects for growth to whether there will be inflation or disinflation are resulting in simultaneous rises in usually opposing types of assets. Those who believe the worst is over have been buying equities since March. They are also pushing oil and commodity prices higher. At the same time, for opposite reasons, others are piling into bonds: yields on 10-year Treasuries have fallen 10 basis points in the past 3 weeks. Likewise, gold investors see both positive signs and negative news as reasons to buy.

There are a few investment themes that Dr. Kelly and Bill Gross would both agree on- investing in quality, and investing globally. We at Adams Hall are big believers in both of these themes.

Quality Stocks:

Since the beginning of the 2009 stock market rally, higher quality dividend paying stocks have lagged far behind their non-dividend paying counterparts. In fact, if you look closely at the constituents of the S&P 500, non dividend paying stocks have returned 46.19% through August 31, while dividend paying stocks returned only 12.59%. If we are, in fact, in a ‘New Normal’ with deleveraging on the horizon, the stocks with healthy balance sheets should fare much better than

non-quality stocks. While the run-up in lower quality stocks has certainly been welcome, we still expect owning quality names to be beneficial and for this current rally to recognize their healthy balance sheets. In the meantime, the dividend yield is much more rewarding than CD's or money market funds.

Global Investing:

Gross and Kelly would agree that global economies, especially some emerging economies like China will lead the growth going forward. From 2004-2008 emerging market countries accounted for 60% of global growth and in 2009 they have contributed almost 100%. Emerging economies did not generally mirror the excesses of the U.S. and Europe in the period leading up to the past financial crisis and therefore do not need to rebalance in the same way. They are in an excellent position to benefit from low interest rates.

What To Do:

Getting back to where we started, "Who do you Trust"? In summary, we have respected Bears on one side and respected Bulls on the other. What we do know at Adams Hall is how to listen to your goals and together position your portfolio to "weather the storm" and "grow in the sunshine". This means diversified portfolios that don't put all your eggs in one basket. Right now, that means not taking big bets on interest rates, commodities, currencies, or any other of the "get rich quick" pitches that flood our inboxes, mail boxes and cable TV boxes.

Feel free to call us if you would like to discuss your portfolio in detail and how we think this "New Normal" (or whatever you want to call it) can be navigated successfully.