

# Discussion on U.S., Global Macro and Consulting Opportunities

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Last week's podcast was jam-packed with interesting conversations that included market color from Professor Jeremy Siegel on the political climate and different scenarios for the U.S. market.

For an extended conversation on the program, we had Chris Meyer, the head of Truepoint Institutional Advisors, discussing problems he sees in the traditional investment consultant world.

We also had a very interesting macro discussion with Raoul Pal on several important topics relevant to positioning a global portfolio. Below are highlights of the podcast:

- **A U.S. Manufacturing Slowdown?:** We discussed what indicators Pal uses to judge the health of the business cycle and how one stock in particular is a gauge for manufacturing activity in the U.S. Pal is watching this closely as the data is starting to point to a slowdown coming, and this would be one of his indicators to be bullish on bonds. He thinks more visibility for the direction of the U.S. economy will be coming later this summer.
- **Oil to Fall:** Pal discussed why he believes the Organization of the Petroleum Exporting Countries will lose a supply/demand battle influencing the price of oil and explained the case for a meaningful fall in the price of oil.
- **Dollar Bull:** Pal believes another big rise in the dollar may be coming. His thesis involves global debt positions combined with many other factors, including the repatriation of cash from overseas back into the U.S. because of tax reform. Pal finds \$2.5 trillion of cash overseas. If \$1 trillion came back, we can see a move bigger than the last time there was a large repatriation—when \$300 billion came back and the U.S. dollar moved 15%. Also, if oil falls like Pal expects, with oil priced in dollars, there will be less of a supply of U.S. dollars available in the market, driving up their price—something that happened in the 2014–2015 dollar rally.

- **India Bull:** Pal thinks one of the great megatrends for the next five years and longer is India, citing the great technological progress it has made with ideas such as Aadhaar<sup>1</sup> (the biometric registration of India's population), something Pal calls one of the greatest technological developments in the world today. The country also has a payment system that allows transfer of cash without a middleman such as banks; it has India Stack, an open source platform of application program interfaces on which to build new technologies; and India banned a huge swath of cash, which is helping to recapitalize the banking system by putting unofficial cash businesses into the formal economy, making them taxable and helping to fend off corruption. While the market has moved considerably in 2017, it is helpful to have a framework that shows how India presents a great long-term investment story.

### **Truepoint Institutional Advisors: A Conversation with Chris Meyer**

In our discussion with Meyer about his institutional consulting practice, we started out with a question that came up at a conference last week: institutional clients have a return bogey of 8%, so how do we get there?

- Meyer outlined that if these clients have a 70/30 or 80/20 allocation to stocks/bonds, with bond yields where they are, bonds cannot be expected to return much more than 2% to 3% over the long run. Therefore, institutions would need 9% to 10% returns on the equity segment of their portfolios. Meyer sees this as quite difficult based on current valuation levels. Aside from hard actions like cutting spending or contributing more to pension plans, Meyer thinks institutions should look at reducing fees for their portfolios, getting better diversification (while not being overly diversified) and tilting to factors that may be rewarded over time like value, quality, size and momentum.
- We spoke about what it means to be overdiversified. Truepoint was reviewing a client proposal that had seven or eight large-cap active managers—given the fees paid to these active managers and their blended exposure that looks like a benchmark, this was a classic case of being overly diversified in a segment where too much in fees was being paid for benchmark-like exposure. Many consultants are afraid of putting clients into one or two managers for career risk reasons, but this is not in the interest of clients.
- Can you find skillful managers? Meyer outlined his thinking as being evidenced-based in nature and said that he previously spent 22 years trying to identify active managers who can perform well. He seems humbled from that experience and thinks it is very difficult to identify ahead of time who will be the strong performers. Meyer cited a SPIVA2 study finding that over the last 15 years, 90% of active managers failed to beat the benchmark.
- Meyer is working on a series of papers outlining why investors fail to meet their goals. Topics he mentioned include inadequate investment committee governance, conflicts of interest, a lack of patience and discipline from chasing returns that terminates managers at the wrong time and a misguided investment focus on minutiae.

<sup>1</sup>See this description for more background: <https://uidai.gov.in/your-aadhaar/about-aadhaar.html>

2See the “SPIVA U.S. Year-End 2016” report for more detail: <https://us.spindices.com/search/?Content-Type=SPIVA>

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Investments focused in India increase the impact of events and developments associated with the region, which can adversely affect performance.