

INVESTMENT WEEK

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Bull & Bear

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Spike Hughes on North America



(IA) North America: Over three years

	3yr % chg	Rank	Vol monthly	Fund size (£m)	Morningstar rating™
Top 5					
Legg Mason Opportunity	107.55	1	4.31	196.45	★★★★
Fidelity American Special Situations	67.60	2	2.98	664.84	★★★★
Old Mutual North American Equity	66.69	3	3.25	861.70	★★★★
T. Rowe Price US Large Cap Grth Eq	66.07	4	3.92	1,021.50	★★★★
T. Rowe Price US Blue Chip Eq	65.01	5	3.84	220.34	★★★★
Bottom 5					
CF Canlife North American	34.61	88	2.98	176.52	★★★
Perkins US Strategic Value	33.28	89	2.99	153.31	★★★
Legg Mason IF CB USEq Inc	31.58	90	2.80	60.69	★
Miton American	30.69	91	3.26	13.14	★★
CF Richmond Core	25.33	92	3.28	12.86	★★
SECTOR AVERAGE	48.24		3.24	446.03	

Performances calculated bid to bid, net income re-invested, GBP to 21/08/15. Source: © 2015 Morningstar.

2015 so far has been challenging for active managers of US portfolios. The market has been misleading, rewarding things that simply do not make sense – a reminder of the dotcom era, perhaps?

Last year, the US was highly polarised where, on the one hand defensive high-yielding equities were highly sought after, and equally 'go go growth' was dominant.

For the majority of 2014, mega-cap defensives were expensive with stagnant earnings growth and falling free cashflows, while 'go go growth' stocks were on crazy

valuations without strong fundamentals.

It is folly to take a very short-term view, particularly on a market as large and diverse as the US.

When looking at returns over a one year period perhaps 25% is made up of fundamentals working, and 75% will be noise and sentiment, which is difficult to predict with any accuracy. On a three to five year view it is the opposite way round.

2015 is showing real narrowness in the market. In the first quarter, five stocks accounted for more than 92.3% of the

Bull Points

A strong economy continues in the US
The majority of companies are exhibiting healthy characteristics

Bear Points

Dependency on a very narrow range of the market could backfire
Valuations overstretched in certain pockets

return in the North American index, which as it constitutes 668 stocks, is alarming.

It is difficult to know how long this narrowness and growth burst will continue.

Certainly, a portfolio with an attractive yield that is not over loaded with defensive stocks could make huge sense. The importance of a sensible valuation, higher quality dividend stream with a strong dividend growth component could all make a lot of sense with rising US interest rates and/or a set-back in the market due at some point.

Spike Hughes is CEO of Cohesion Investments, exclusive distributor to Kleinwort Benson Investors in the UK mutual funds market.