INVESTMENT WEEK
9 March 2015 www.investmentweek.co.uk

Bull & Bear

For more fund manager views investmentweek.co.uk

# Spike Hughes on US

## (IA) North America: Over three years

| | 3yr % change | Rank | Vol (monthly) | Fund size (m) (£) | Morningstar Rating™ |
|---|---|---|---|---|---|
| **Top 5** | | | | | |
| Legg Mason Opportunity | 119.99 | 1 | 4.41 | 211.28 | ★★★ |
| Fidelity American Special Situations | 78.55 | 2 | 2.84 | 557.80 | ★★★★★ |
| Old Mutual North American Equity | 76.25 | 3 | 3.02 | 735.14 | ★★★★★ |
| Legg Mason CB US Agrsv Gr | 75.89 | 4 | 2.84 | 2,963.22 | ★★★★ |
| T. Rowe Price US Blue Chip Eq | 74.56 | 5 | 3.64 | 172.09 | ★★★★ |
| **Bottom 5** | | | | | |
| Cavendish North American | 41.34 | 99 | 3.02 | 88.55 | ★★ |
| Perkins US Strategic Value | 40.36 | 100 | 2.80 | 217.78 | ★★★ |
| Investec American | 37.41 | 101 | 3.69 | 185.19 | ★ |
| CF Richmond Core | 34.00 | 102 | 3.08 | 17.65 | ★★★ |
| Janus Opportunistic Alpha | 31.59 | 103 | 3.47 | 62.73 | ★★ |
| **Sector Average** | **60.46** | | **3.07** | **460.00** | |

*Performances calculated bid to bid, net income re-invested, GBP to 27/02/15.*
*Data Source: © 2015 Morningstar, Inc. All Rights Reserved.*

For any market with a broad stock universe, like the US, sector calls are a waste of time and only add to risk. Quoted sector returns are just market weighted averages and the vast majority of stocks do not perform anything like their sector averages over three to five-year periods. The emergence of mega-cap stocks in the US in recent years has added to the problem as sector numbers only really tell you what the largest stocks are doing, which is misleading.

Energy and materials sectors are good examples. On average they are the worst performing sectors over the last three years, barely in positive territory. These are large sectors, with more than 100 stocks. So, while stocks like Denbury Resources are down 45% and Freeport-McMoRan is down 25% over the last three years, a stock like Tesoro is up more than 230% and Eastman is up more than 100%. Yet these stocks are all in the same sector. Being underweight to overweight these sectors is completely irrelevant. The only thing that matters is the stocks that you hold within the sector.

Another good example is that of Apple and Blackberry. They are both in the same sector, both tech stocks, but Apple is up more than 100% over the last three years, whilst Blackberry is down 25%.

These differences get wider the longer the time horizon; therefore holding stocks for longer helps add value. Again, the industry has got this backwards. Timelines for holding periods of stocks in the US have become shorter, not longer, and the average holding period for a stock is now less than a year. It is very hard to add value with such a short outlook because stocks often behave similarly in the short term, reacting to macro news, but very differently over longer periods as their business models really take hold.

Managers cannot help but make life difficult for themselves. If they want to outperform they should be investing in a lot more stocks and holding them for much longer time periods, but marketing departments will typically insist they do the opposite in order to play to the masses and sell concentrated, unconstrained approaches.

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

## Bull Points

- American companies remain profitable
- Dividend growth amongst US firms remains strong

## Bear Points

- Valuations on US stocks are high
- Interest rates are likely to rise and constrain upside