
DISCUSSION ON U.S., GLOBAL MACRO AND CONSULTING OPPORTUNITIES

Jeremy Schwartz – Global Chief Investment Officer
05/23/2017

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 Aadhaar¹ (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.

¹See 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/?ContentType=SPIVA>

Important Risks Related to this Article

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

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Bullish: a position that benefits when asset prices rise.

Organization of the Petroleum Exporting Countries (OPEC): whose mandate is to coordinate and unify the petroleum policies of its members and to ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Active manager: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.