ECONOMIC TRENDS

INTERVIEW WITH BOB SWANSON

Robert Swanson, Principal & Chief Market Strategist at Cambridge Global Asset Management, joined the investment industry in 1983. Mr. Swanson has extensive experience in managing Canadian and global equity, income and balanced portfolios. Prior to joining Cambridge in 2011, he worked at Fidelity Investments, where he was lead portfolio manager of several mutual funds with combined assets under management exceeding $20 billion. In addition, he was head of Fidelity's Canadian asset allocation team and portfolio manager of several institutional equity mandates. In 2010 and 2011, funds managed by Mr. Swanson won an impressive seven Lipper Fund Awards, which recognize funds that have excelled in delivering consistently strong risk-adjusted performance, relative to peers.

His experience also includes Bank of America Investment Advisors, where he worked from 1989 to 1999 and was a senior portfolio manager responsible for developing and managing institutional and high net worth accounts. Prior to this, he worked at ABN-Amro as an interest-rate risk manager, and later as a portfolio manager. He started his career as a portfolio manager at Merchandise National Bank in 1983.

Mr. Swanson holds a B.Sc. in finance from Northern Illinois University and an MBA from Northwestern University, as well as the Chartered Financial Analyst designation.

What are your views on the current economic environment and financial market conditions?

The global economy is on divergent paths. Europe and Asia continue to struggle while North America continues to show moderate strength. Certain regions within Europe are struggling more than others, but in general, the Eurozone is facing slowing growth.

Forecasts for global growth have been revised lower, while expectations for real growth in the U.S remain around 3%.

Inflation does not appear to be an issue particularly in light of declining energy prices. In Canada, inflation is tracking right along the BoC objective of 2% annually.

What is your view for the 2015 year? And to hiring and employment?

The Canadian labour market saw signs of progress – a We continue to see economic expansion in North America. There has been substantial progress in bringing down the unemployment rates. While, there may be continued improvement, the pace of improvement is likely to slow.

Falling oil prices are raising concerns for continued employment growth in Western Canada. There are many industries tied to energy production and development. Should activity slow in response to lower prices, employment gains are likely to be more muted, and may potentially reverse in time

In looking ahead to 2015 - 2016, what is your outlook for:

Inflation?

The Bank of Canada has a 2% target for the inflation rate. There is pressure outside of the commodity space and now with a reduction in energy prices, which has a disinflationary effect, expectations have retreated. Wage pressures should subside if activity in the energy regions moderates.

From now to 2016, the inflation rate will average around 2% which is reasonable given the development of what we are seeing on a global basis. China will no longer be a mass consumer of raw materials and goods as they once were. There will be some manufacturing and production wage inflation, but this may be offset by falling input prices.

Interest rates and bond yields?

Most forecasts are calling for nominal GDP growth in excess of 4%. With an improving economy and the Fed, completing its stimulus programs, we should expect to see an increase in interest rates. Given the weakness overseas, however, the rise in rates may be more gradual.

Mortgage rates?

Mortgage rates have benefitted from the overall decline in interest rates. If our expectation for rising rates hold, we should expect to see a gradual increase in mortgage rates as well.

Commodities in general and gold and oil in particular?

I have a difficult time making an investment case for gold. It was once thought to be a hedge against rising inflation. In recent years, it has been viewed as a hedge against deflation, geo-political unrest, and as protection against currency devaluations.

In the last 5 years, we have had times when the market was fearing inflation resulting from central bank stimulus programs, and yet gold has declined in price. We have had fear of Japan like deflation, and gold has declined. Lately, it seems every country has been attempting to devalue their currency, and gold continues to slide. Gold itself generates no earning or dividends. This is why

I don't view it as an investment.

It may act as a diversified within a portfolio, so perhaps a small allocation is warranted as an uncorrelated asset class.

I would suspect the price of gold settles in the price range of $1,000-$1,200 per ounce which approximates the marginal cost of production.

The Loonie?

We think the $ could continue to appreciate versus the Loonie.

The US is currently one of the strongest developed. The projected growth, shale oil development, and strive for self-sufficiency through oil independence also creates the case to the dollar further strengthening. Also, if the US were to raise rates this would support a strong US dollar as the interest rate differential will make US holdings more attractive.

What opportunities, if any, exist in the current economic and market conditions for small business?

For small business to be successful it's about being close to the customer and developing those relationships. A focus is also to continually look at increasing efficiency, better use of human capital, technology, running distribution and sourcing effectively – basically have extremely lean operations. You also have these small business environments which can nurture those relationships and stand to benefit from the lower energy price, save and create greater efficiency.

What is your opinion on risk and risk management?

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If you own a business big or small, having a security breach has an impact. The amount of traffic in sales alone decreases substantially. When it comes to technology online payments, servers, clouds, etc. individual and businesses are paying the penalty. For instance as an individual your identity can be swiped and destroyed. A perfect business example of this was with Target – the question is how do you get around it? I don't have the answer to this, and one company after another is having big data breaches, who knows what developments that leads to? But it is a risk and clearly everyone is focused on it right now.

What is your viewpoint on gold and what role does it play in a portfolio?

When I speak with clients, I tell them you have to be diversified. In western Canada there is mining, oil and gold, which is top of mind for all. I don't really understand the fascination with gold. If 5% of your portfolio is gold, fine but have diversity. The west is all about energy and I advise the same, have it, but not your entire portfolio. Balance by asset classes – stocks, bonds, gold and further into various sectors and geographies. You need to counter balance otherwise if for instance with the 25% hit on oil just in the last few weeks your portfolio would suffer.

If you were to leave investors with one thing to keep in mind when it comes to investing, what would it be?

Find more stable industries and companies to invest. Take the risk away through diversification and quality. Finding quality companies is not always the best investment strategy, but it tends to be the most consistent over time.

I ask how many current clients have a plan to get from where they are to where they want to be. You need to have a plan, and to stay the course in times of volatility. Use market extremes to make minor portfolio modifications, but stay on plan. Don't get swept away in the emotion of the markets.

Think moderate and longer term. Think high quality, and diversify to achieve your goals. Diversification by sector, geography, industry, is critical to ride out the ups and downs.

Don’t lose sight of what you are trying to accomplish because of all the noise. Whatever the case may be, know your plan – know why you are investing, know your purpose. You do not need to respond to all the market noise.

For more information about the Ismaili Business Professionals Association please refer to the following link: https://ibpacanada.com/