

**Barron's: The Art of Successful Investing Conference  
The Metropolitan Club, New York City, NY  
October 20, 2015**



By: Greg Faenza  
Qiuhan Yuan  
Tianyi Leng

Reviewed by: Dingxun (Kevin) Shao

Barron's: The Art of Successful Investing Conference, an annual conference with several of the top investors in the world, held at the Metropolitan Club in New York, October 12<sup>th</sup>, 2015. This year, Barron's lineup included Felix Zulauf, Scott Black, Ross Margolies, William Priest, David Herro, Oscar Schafer, Jeff Gundlach, Sarah Ketterer, and Greg Valliere. Below is the summary of the insights shared by these investing gurus at the Barron's Roundtable.

**Felix Zulauf**, Founding Partner, Zulauf Asset Management

Felix Zulauf mentioned the stock market decline from the past few months, and brought up that the recovery can be expected to be a little bumpy with the possibility that the market will have a second decline. He suggests that markets are heading towards a cyclical bear market on a global basis, including the US, from late 2016 to early 2017.

China, as the biggest economic driving engine for the world in recent years, is facing the problem of its' slowing economy. Mr. Zulauf believes that the Chinese Yuan (CNY) will continue devalue by 10% to 15% in the next 12 months. Greece, which was recently bailed out over the summer by creditors from the EU, IMF, and Germany, will face another crisis in the coming years. If the Greek crisis occurs again, Mr. Zulauf does not believe that the Greeks will receive a bailout this time around.

Mr. Zulauf sees much potential in the E-commerce market and domestic stocks. Companies such as Amazon (AMZN), Facebook (FB), Google (GOOG), Microsoft (MSFT), Adobe System (ADBE) and Home Depot (HD) are now leading the rally of the bull market. Generally, these types of companies have good cash flow. He also suggests investors be defensive and cautious of the approaching bear market when it hits next year. Holding long-term US treasury bonds can be a good idea, since the 30-year Treasury could up 20 or 30 basis points for short run. However, the yields will fall again late next year.



Joseph Rinaldi (left) with Scott Black (middle) and Felix Zulauf (right)

**Scott Black**, Founder and President, Delphi Management

Mr. Black believes the market now is slightly overvalued. He shows speculation going on in the market by pointing out that companies such as Amazon and Tesla have high valuations without profit. He believes that the candidates running for political office are unfit. His stock pitches include Lennar (LEN), a homebuilding company based in Florida, which has a gross profit margin of 24% far exceeding its' peers and is estimated to have revenues that could rise about 15% next year; FedEx (FDX), one of the top transportation services company in the air delivery and freight services industry, is selling at one of the lowest points it has been in years; and Arrow Electronics (ARW), an electronic wholesale company, whose earnings will probably shoot up if the value of the euro stays at current levels.

**Ross Margolies**, Founder and Portfolio Manager, Stelliam Investment Management LP

Ross Margolies shared his thoughts on stocks to buy and mainly focused on three sections. The first section is oil service. Margolies believes that the oil price rally is a false signal and he is not interested in buying crude oil directly. Rather, he prefers refiners and local players. Oil refiners achieved near term high margin and have ideal levels of inventory. Local oil service providers operate at low cost and they are building up inventory, which shows financial power. Local players are attractive also because they make good M&A targets. Margolies sees the cycle turning during 2016 and 2018. He especially likes Anadarko Petroleum Corporation (APC) with \$10 billion market cap, which he thinks has the best exploration and production. He also likes Range Resources Corporation (RRC), with the smallest market cap and lowest cost in natural gas.

Margolies continues to be a fan of airlines. Delta Air Lines, Inc. (DAL) remains the largest portion in his portfolio. Delta shows high and sustainable free cash flow and is leading a fundamental change in airline industry. He believes in Delta's strategy to expand globally by buying interest in other companies in Brazil, Mexico, and China. Another company Margolies especially mentioned is Gogo Inc. (GOGO), which is a telecom company providing airline services, like free movies on the plane. He says GOGO is growing fast and that he expects \$75-95 EBITDA per share in next year.

The third section is nondurable consumer goods. He likes Dollar Tree, Inc. (DLTR) especially believing that DLTR has a confident while cautious management team, as well as a clear plan of action, and clean execution of their strategies.

**William Priest**, CEO/co-CIO, Epoch Investment Partners

Mr. Priest also expressed his concern for the global market. He mentioned that there has been a lot of volatility in the past two months with the commodity market staying low, and emerging markets doing poorly because of reduced trade with China. Mr. Priest also talked about how credit terms drove demand pointing out that we now have more debt per \$1 of GDP, and that he does not see QE extremely effective in helping the real economy, but does acknowledge that it has helped the stock market. On the acquisition-side, Mr. Priest sees potential takeover opportunities in the mining and energy sectors.

Mr. Priest pitched CVS Health (CVS) and Boeing (BA). Mr. Priest prefers stocks with high free cash flows. He believes that CVS' free cash flow will exceed \$5 a share this year, and it could go up to \$7.50 per share in three years. His price target for CVS is around \$140 to \$150 in the next few years.

**David Herro**, Chief Investment Officer, Harris Associates

Similar to Mr. Zulauf, David Herro also mentioned the Chinese economy. Herro believes that the economy of China is 10 times where it was a decade ago, and it is hard for a country to continue maintaining that kind of growth rate. China is slowly going through a maturity phase, but it still has a long way to become a mature economy.

Herro pitched Baidu (BIDU), Richemont (CFR. Switzerland), and Credit Suisse (CS). Herro likes Baidu not only because Baidu is currently dominating the Chinese search engine market since Google is not willing to operate under the government censorship, but also because Baidu is actively expanding its markets and businesses. Besides, Baidu's strong financial statements and good company governance, Herro thinks that Baidu can do better and benefit from the recovery of the Chinese stock market crash in August 2015. Richemont (CFR. Switzerland), a luxury brand retailer, also has a huge market share in China. Although Richemont is a company based in Europe and its main target is developed countries, it has a huge demand in developing countries especially China. Credit Suisse (CS), also pitched by Herro, is a wealth-management company and an investment bank based in Switzerland. He believes the New CEO of Credit Suisse can help the company to have a better capital allocation and bring it a more stable cash-flow stream.

**Oscar Schafer**, Chairman, Rivulet Capital

Mr. Schafer is a fundamental stock picker who stays relatively positive about the stock market. He believes the stock market will do better than most people think in the next year. He also thinks people are paying a high price for certainty in stock, however, it's not true. So he is looking for stocks with low price and decent level of uncertainty.

Schafer is a fan of Interxion Holding NV (INXN), an internet traffic service provider traded around 15xEBITDA. The company is growing significantly worldwide. Schafer also mentioned that the company is expected to be part of a transition into a larger company in 2-3 years, though no specific deal is addressed.

Schafer also likes pharmaceutical section. He addressed his interest in \$500 million to \$1 billion market cap companies which are making money currently. He likes the company ANI Pharmaceuticals, Inc. (ANIP). It acquires products from other producers, and has 3 new products that make it \$100 million EBITDA. Its stock price has kept rising in the past 3 years.

**Jeff Gundlach**, Co-founder and Chief Investment Officer, DoubleLine Capital

As one of the most successful investors in the bond market, Mr. Gundlach shared some of his wisdom on investing in bond markets. He believes that it does not make sense to use the S&P as the market indicator, because we are in a new normal and just use the S&P makes no sense. The market growth on a global basis is disappointing, especially Brazil and China. Mr. Gundlach thinks that China is having trouble changing to consumption based economy because of the source of growth – the population – is not growing anymore. Mr. Gundlach thinks that the fed meeting on Dec. 15<sup>th</sup> will not see a rise in interest rates. Mr. Gundlach has high expectation on the Indian stock market. To be more specific, he mentioned that the Indian stock market will be the next generation.

Jeff Gundlach spent the beginning of his time discussing the bind that the current Federal Reserve is in over their ongoing decision to raise interest rates. He believes there will be no good policy options for the Fed if the recovery were to stop, but he also doesn't completely rule out the Fed making interest rates negative.

He then goes on to examine how raising interest rates will affect the economy. In doing this, he notes that almost two out of every three money managers have not seen the Fed raise interest rates. Furthermore, he argues that QE does little to help the real economy and in reality just inflates the stock market, and that rising interest rates will reduce uncertainty.

Lastly, he offered a very dim view of world economic growth. Within the next few years, he expects 1-2% world economic growth. This means, of course, negative economic growth in many countries.



Joseph Rinaldi (left), Jeff Gundlach, Qiuhan Yuan, Tianyi Leng and Greg Faenza

**Sarah Ketterer**, Chief Executive Officer, Causeway

Ms. Ketterer thinks that the Chinese government will succeed in the future, despite China's GDP slowing down. She also mentioned that Europe seems to be moving up faster than the US, but it's moving up from zero, and that cyclical stocks with higher dividend yields are getting lower P/Es.

Ms. Ketterer is a big fan of Volkswagen, despite the ungraceful emissions scandal which happened in September 2015. Ms. Ketterer and her company, Causeway, would still consider buying Volkswagen if the price drops more and expect Volkswagen to restructure after the company pays off all their legal expenses.

**Greg Valliere**, Chief Strategist, Horizon Investments, Charlotte, NC

Mr. Valliere comments on the political landscape and shared his opinions on the 2016 election year. He described the year 2015 is an "unusual year." He believes that the market is over analyzed, and Russia is becoming the major player in the mid-east. Mr. Valliere also mentioned 3 issues that the Congress needs to address, they are the immigration bill, tax reform, and deficit reduction. Mr. Valliere commented primarily on the political sphere and its relation to solid investing in the short and long term future. He noted his admiration for Paul Ryan and his depth of knowledge around entitlement reforms.

In examining the 2016 presidential race, Mr. Valliere likes Hillary Clinton to remain the favorite and eventual nominee for the Democratic Party. On the Republican side, he listed Jeb Bush, Chris Christie, and John Kasich as potential contenders but he ultimately likes Marco Rubio to be the nominee. He notes that it's too early to have a general election prediction, but does note the importance of this election on our economy.

From a financial standpoint, he examined the possibility of tax and debt reform going through congress. He notes the gridlock and is not overly optimistic that it will end anytime soon.





Photo with Edwin Finn, Editor and President of Barron's (second on the left)

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