March 8, 2016

BURKE
FINANCIAL STRATEGIES
An Independent Firm

A Meeting of the Minds

I recently met with 16 other top financial advisors. These advisors also work with Raymond James, and include many of the most successful in the country. We shared ideas, and also listened to presentations from four top fund managers selected by the group for their insights. You may find the insights interesting and profitable.

As a backdrop, all of us have shared a common frustration. As investment professionals, we preach diversification, and diversified portfolios have not performed as well as the S&P 500. But all in the group now believe that good opportunities exist.

Before I get into our investment thoughts, let me share some information about fees. Using the group as a benchmark, here at the team of Burke Financial, we are at the lower end of the spectrum with respect to fees charged directly to clients. This was no surprise as we have consistently compared our fees against peers using statistics from trade publications.

But we do even better when other fees paid by the group's clients are considered. We manage bonds and stocks directly, with no outside managed fees. Outside managed fees are a second layer of advisory fees paid to a third party money manager. We manage the investments directly, rather than hire an investment manager at the client's expense. We also tend to avoid investment offerings that typically charge high fees, such as hedge funds.

That is as close as I will get to disparaging the group because these peers are extremely passionate, and many have earned accolades both within Raymond James, as well as from the media and the trade. Let me share with you some of what we learned.

One of the advisors is from west Texas, and he works almost exclusively with energy firms and executives. He and his clients strongly believe that energy stocks offer one of the best investment opportunities in many years. This opinion was shared by one of the presenting fund managers.

That energy stocks are now lower valued is neither news or insightful. But the insights are about supply. They believe that the information gathering process about supply is flawed. The data is gathered through unaudited queries. One of the clients of the Texas advisor hired a plane and pilot to fly him over storage tanks. He found that there were many tanks at far below capacity, even though storage in this country is reported to be close to full capacity.

Given that the data about the number of rigs in operation is more reliable, and that number is almost 75 percent below October 2014 levels, it seems entirely plausible that supply, in the US at least, is over stated. This is significant. While worldwide demand continues to increase at a relatively steady pace, worldwide supply has increased sharply. It is broadly understood that the current market imbalance is attributable to excess supply.

A fund manager provided additional insight into energy demand. The manager, from Ivy Funds, says that the world will need a growth in supply of 5 percent or 5 million barrels a day by 2020, just to keep up with demand growth. Much of the demand growth is expected to come from the Chinese who bought more than 16 million cars last year. Other than a slight increase of less than 1 percent of world supply available in Iran, the only place with significant excess supply is the US.

In our view, given the supply constraints and anticipated demand increase, it is only a matter of time before prices go up, regardless of whether the Russians, Saudis and Iranians come to a supply constraint agreement. It is this last point that is featured in the media, with no mention of what those in the energy business are saying.

Based upon this analysis, we have begun to position clients more heavily in energy stocks. We may consider more, depending on client risk tolerances.

Our group began to consider a second investment idea; one that we will continue to pursue as it seems just as exciting – health care stocks. A fund manager from a health care mutual fund provided an in-depth analysis of the industry.

According to Michael Gregory, Portfolio Manager, health care stocks are down 45%. This is a much larger decline than that of the most commonly quoted figures on the health care sector, because the quoted figures are weighted heavily to several, very large companies.

Michael listed three reasons why health care expenditures will continue to grow, which in turn should improve profitability in the industry. The first is that the Affordable Care Act (Obamacare) has made health insurance available and affordable to millions of Americans. Second, the largest segment of the American population is the baby boom generation, and the boomers are now at an age when their health care needs are going to increase dramatically. Finally, there are no deflationary concerns in the health care industry, such as those faced by the commodity and technology industries.

Health care stocks are traditionally considered to be “defensive” stocks, holding up well in down markets. Given the recent sell off, we believe health care stocks offer attractive valuations, and therefore offer more upside than the other traditional defensive sectors – consumer staples and utilities. Both of these sectors are currently selling at a premium. We believe health care companies offer more growth potential as well.

We are now doing some due diligence (research) to see if this opportunity is as exciting as Michael says it is. If our research supports his conclusions, we will look to overweight this sector as well. And given that health care stocks tend to be more stable than energy stocks, the overweight may be appropriate for more clients.

March 8, 2016

There were some other compelling ideas discussed by the group that we will also consider. For example, some of the advisors are offering an anti-aging seminar, which I think is a great idea. We are considering this idea as well as several others suggested within the group.

Activity and volatility in the markets are on the rise. Often, increased volatility creates opportunity. We will look to take advantage of these opportunities, while keeping in mind our long-term financial planning and investing philosophy. Please call or write if you would like to discuss any of this further.

Sincerely,

John B. Burke, MS, CFP®
President, BFS

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of John B. Burke and not necessarily those of Raymond James. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. In a fee-based account clients pay a quarterly fee, based on the level of assets in the account, for the services of a financial advisor as part of an advisory relationship. In deciding to pay a fee rather than commissions, clients should understand that the fee may be higher than a commission alternative during periods of lower trading. Advisory fees are in addition to the internal expenses charged by mutual funds and other investment company securities. To the extent that clients intend to hold these securities, the internal expenses should be included when evaluating the costs of a fee-based account. Clients should periodically re-evaluate whether the use of an asset based fee continues to be appropriate in servicing their needs. A list of additional considerations, as well as the fee schedule, is available in the firm's Form ADV Part II as well as the client agreement. Advisory fees are in addition to the internal expenses charged by mutual funds and other investment company securities. To the extent that clients intend to hold these securities, the internal expenses should be included when evaluating the costs of a fee-based account. Diversification does not ensure a profit or guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected.