Andrew 0:05

Hello, and welcome to the JGUA Financial Commentary Podcast. I'm your host, Andrew Baron. And in this episode, I talk to John Ullman about our firm's approach to analyzing stocks and bonds, and try and help shape our perspective on our investment philosophy. But before we get into all of that, a short disclaimer, the contents of this podcast are strictly for informational purposes only, and nothing said shall be taken as investment, tax, or legal advice. Any strategies discussed may not be suitable for listeners specifically and JGUA encourages consulting with your advisor before implementing any strategies to ensure that they meet your individual objectives. And with that, welcome to the podcast, John.

John 0:49

It's a pleasure to be with you today.

Andrew 0:51

JOHN, I wanted to open up with your thoughts on government spending, and the funding for major social programs like Social Security, Medicare, Medicaid, and the Affordable Care Act.

John 1:03

We're not political in our views, we're looking at economics. And it's one thing to put trillions of dollars in a national emergency when it's needed. But basically, we're printing money at the Fed. Not that it's being loaned to other countries or whatever, it's really internal. And I think many Americans would like to see that continue. From our standpoint, it's important to have a balance between spending and revenues. And if we don't, I think there are tremendous risks that are not being seen by many now about what's going to happen. Eventually, the interest rates, inflation and the US dollar versus other currencies.

And we have in Social Security, Medicare, the Affordable Care Act, and Medicaid. Other programs, like these four in particular, that are not sustainable, with current funding. And the more deficit that we have, the higher—eventually—the interest payments are going to be.

We have a $30 trillion deficit. And we ended up with 5%, higher rates over time than now. That would add a trillion and a half dollars before some offsetting tax collections additional deficit. And you're looking at over a trillion dollars a year. Now excluding all of the CARES Act and other government support. That really has stabilized the country. And we have great apprehension for the fiscal irresponsibility that people are willing to go through because they don't want to pay higher taxes.

Down the road, we think consumer spending is going to be affected, because there's going to have to be higher taxes. But ultimately, when we put together infrastructure programs, user fees, and other things are going to come into it. And I feel like the likelihood is that those programs will not be adequately funded. And the government effectively is going to be further subsidizing a lot of infrastructure programs with roads, bridges, tunnels, water, that will be more of a deficit. And we need to find a way to be paying for most of what we're spending over a reasonable time period.

Andrew 3:29

Next, let's talk about market cycles. Could you give us a little bit of history and where do you think we are now?

John 3:37

Well, there's been some very strong periods. But there also have been some very significant other periods. So we've just gotten through second momentum period from about 2017 to 2020. I mean, here we have this tragic, natural disaster of a pandemic. And since about the 23rd of March, the stock market has been extremely strong. So I do think we're in a very interesting and vulnerable time period. Going forward I think a lot of Americans have expectations that all of these support levels are just going to continue. So you know, are we in a bubble that's going to cause a real sell off? I don't know, it happened in 2000. But I think people need to be respectful if they've put their life savings into different markets.

Andrew 4:34

John, you've been doing investment research for decades now. And actually, if our audience would like to hear a story about John originally getting into investing, there's a pretty good story in one of our previous podcasts. Today we have a handful of giant companies that seem to dominate. What are your thoughts on the present landscape and some historical cycles given your decades of experience?

John 4:58

One of the studies I did for Corning, when I first came was that the chairman was looking for an assessment of Corning shares. And while I was a research analyst, I didn't know the company very well. And I remember doing a study and partnered with a business school at Cornell to get some of the data from their systems, which looked at companies from 1965 to 71. That had high for those people familiar price earnings multiples, always over 20. So if a stock was at the $2 a share in a year, it had to be at $40 and up the whole year to stay in and it went to 39. It would be under 20 for part of the year. This would look prospectively in January at a company and kind of retrospectively in December, because I used a calendar year and they had to do it for six years. There were 16 companies that met that requirement.

So Corning was one of the world's best thought of companies at that time. And I'll just try to remember a few I think five were drug companies or healthcare American Hospital Supply. American Home Products, Becton Dickinson, Merck, and Johnson and Johnson from recollection, companies that were in there.

In addition, besides Corning, which was the sixth you had Emery Air Freight, Polaroid, 7, 8, Xerox 9, and 10 3M 11, Coca Cola 12, Eastman Kodak 13, Texas Instruments 14. And Avon I think was on there 15. Hewlett Packard might have been the other ones for 16. If you look back at those companies about 50 years later, Xerox, well Eastman Xerox is a shell of what it got into. IBM is no longer the leader that it had been in that era and though, it's still a very large company.

Eastman Kodak and Polaroid went bankrupt. Hewlett Packard is a shell of what it was in terms of leadership technology. You know, I think Corning has done well. Most of the healthcare companies either merged or have done well. Texas Instruments has been successful. 3M, like Corning been a little more cyclical, but they're very strong company. Coca Cola has dominated. Emery Air Freight has had its ups and downs, it's been a very successful company. But if you looked at some of the market leaders in there, some of them are gone, and didn't survive.

I did a comparable study with a different ratio in the 1950s. And you found like US Steel, I did with the different multiples so Corning came in, we had a greater number of companies. But there were a lot of cyclical companies at that time. Also, healthcare companies were strong. So if you look at the Amazons and the Apples, the Netflix's the Googles, Facebook, the FAANG stocks, and some people with Microsoft in there as well. The question is 20-30-40-50 years from now, will they be in the same leadership positions? It could be, but historically, that's not happened. And every cycle can have differences to it. For example, many remember the dotcom 1997 to 2000, the market really took off for many of these stocks and then it crashed.

And the NASDAQ index, which is not totally technology, whose bank stocks and other companies lost 78% or more of its value, diversified portfolio. And that's the largest index now in two years. So people who had a million dollars in it had $220,000, or $1,000, $220.

And I think people underestimate the volatility of the market, people have an expectation how much you're going to make in the market. And we often would have said in different time periods about 10% a year. Well, there have been some very strong periods. But there also have been some very significant other periods. And I think too many people are far too casual about their investments and being disciplined.

Andrew 9:02

I like how you put that and thank you for giving those examples. I think they give a good frame of reference for our audience. Knowing all of that, what areas does our firm focus on?

John 9:12

We've look at different sectors, conservative, high quality and speculative. Conservative is substantially out of the general stock market, cash and equivalents, investment grade bonds and we also put certain utility stocks in that category. We have ones that are in foreign currency denominations in Canada, Australia and New Zealand, but they're very high quality credits. We have ones that the rate goes up by specified amounts over time. We have others that are inflation protected. We're focused on certain sectors, infrastructure is very likely to finally get major funding and if the economy runs into a rougher times that will probably increase. We think certain areas in healthcare with proprietary pharmaceuticals and devices. Third area in this country with all the innovation that's here, is technology. Now we'll tend to look for things that look more cost effective that are not outrageously costly. So we have a value based style that has served us and I think our clients very well. We have foreign investments. Those are not the multinationals that would fall in the regular categories, but they would be things like emerging markets, or country funds, or individual issues that serve a particular country or region. We have a utility category, which we've increased significantly, as an alternative to longer term bonds. But with a significant majority of those conservative investments being high quality and short term, with the minority being in utilities and some of the bonds that I mentioned earlier, that would have some additional risk, but they are a minority piece. So we call that a barbell strategy, which we feel very good about in terms of trying to have lower levels of risk for a given outcome that might occur.

Andrew 11:26

John, could you expand on how individual investments are chosen, as well as how we work as a team to serve our clients?

John 11:34

We developed our own individualized modeling and software, our approach is very, very mathematical. We look at percentages in different sectors. If the markets up and our amount of funds in the market increases beyond our thresholds, we end up selling to get back into that guideline. And don't let the success end up with a disproportional amount of exposure. Every account that we manage needs to have at least 50% that’s in the conservative category. And that's worked out through a financial planner on the firm as an advisor with the client. And we have a tremendous team of research analysts that have exceptional credentials and experience. And every stock that we put in a client's portfolio has one of us as a research analyst that covers that particular stock. There are buy and sell targets for each. Some of the sells are for partials and individual situations about capital gains, gifting of appreciated securities in lieu of cash for charities, and other specifications for clients can be individualized.

Andrew 12:55

I know we've focused a lot on investments. But we do more than just money management. Could you expand on the additional services that we provide to our clients?

John 13:05

The idea was based on things that I had thought about when I was in high school a concept which was pretty unique, then, somewhat now of having a comprehensive services. Values based, essentially no conflicts of interest, selling nothing based on ethics and trust. To do essentially everything without limit that's financial. I mean it includes managing assets individually, doing tax returns, reviewing insurance, making advice, not selling anything, getting involved with all sorts of financial related projects, which include wills structures, and cash flow studies and a myriad of other things. And we have had the privilege of working with clients for very, very long time periods and multi generationally. And the idea of being part of the families has been a real exciting and I feel like we've made and had an opportunity to make a difference in countless lives. And I think it has served us and particularly our clients very well now, as we evolve this over 42 and almost 42 and a half years.

Andrew 14:23

Thank you so much for sharing your time and your story with us.

John 14:26

My pleasure.

Andrew 14:28

And to our audience. If you have any questions, please send them to info@jgua.com and please visit our website for additional content. And until next time listeners, stay smart.