DM Monthly Report

November 2014

PORTFOLIO ACTIVITY

In October, we trimmed weights in 3M, DirecTV, and Sysco in DM Foreign Equity and used the resulting funds to establish a new position in Whirlpool Corp.

FEATURE STOCK
Visa Corp. (V)

Shares of Visa gapped higher at the beginning of November, climbing by nearly 18% over a two day period following the release of extremely strong fourth quarter earnings. Per share adjusted income for the quarter and full year rose by 17% and 19%, respectively, with both credit and debit transaction volumes showing solid growth. Perhaps most important to observers, however, was a 10% jump in cross-border transaction volume as this helped to allay concerns that international business had become a weak spot for the company. Looking ahead, management offered confident guidance, suggesting revenue growth in the low double-digits and per share earnings growth in the mid-teens for the company's coming fiscal year. This outlook put to rest worries that a tepid economic backdrop would undermine future profitability. Management's upbeat view was underscored by the announcement of both a new $5 billion share buyback program and a 20% dividend increase.

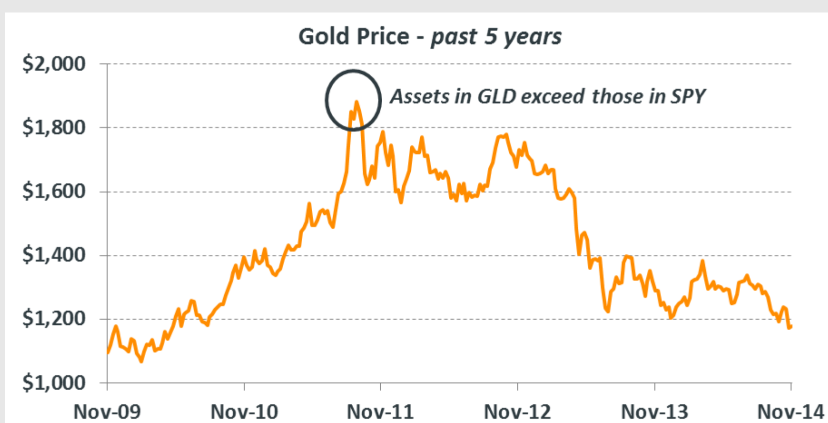
THE GOLDEN BEAR

Earlier this year, founder and then-Chairman of the world's largest gold miner, Barrick Gold, made a frank and somewhat disarming admission:

I have no ability to forecast gold prices. I have been in the business 30 years and it occupies my mind day and night. I don't care if you're Einstein—it's impossible to forecast for a week from now or a year from now.

The uncertainty of Peter Munk, a person as close to the "inside" of the gold market as anyone, makes for an interesting contrast against the conviction with which bullion was being touted a few years ago. At the time, we were told that "money printing" by central banks would debase paper currencies, undermine economies, and lead to a devastating bout of runaway inflation. In this environment, gold would reassert its ancient position as a store of value and investors were advised to allocate significant portions of their capital to the metal and its miners in anticipation. The pervasiveness of this view was embodied by the growth of "GLD", or the exchange traded fund designed to mimic the price of gold, when assets in the unit briefly exceeded those of SPY, the ETF representing the entire S&P 500 Index. Of course, since that time, the US dollar has surged, the S&P has climbed by about 80%, and the price of gold has fallen by more than a third. So what investing lessons can be learned from this episode?

1. Forecasting the price of any commodity is difficult and attempting to predict the path of one so emotionally driven as gold is probably not a constructive use of analytical resources;
2. Be wary of compelling stories (like the end of paper money) as they rarely translate into great investment ideas, and;
3. By allocating capital away from stocks (representing dynamic enterprises which innovate, reinvest, and grow) and toward gold (an inert object), one is making an implicit bet against human ingenuity, a precarious proposition over any investment time frame.



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