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The Fate of Total Return Investing in a Tapering World

September 17th 2013

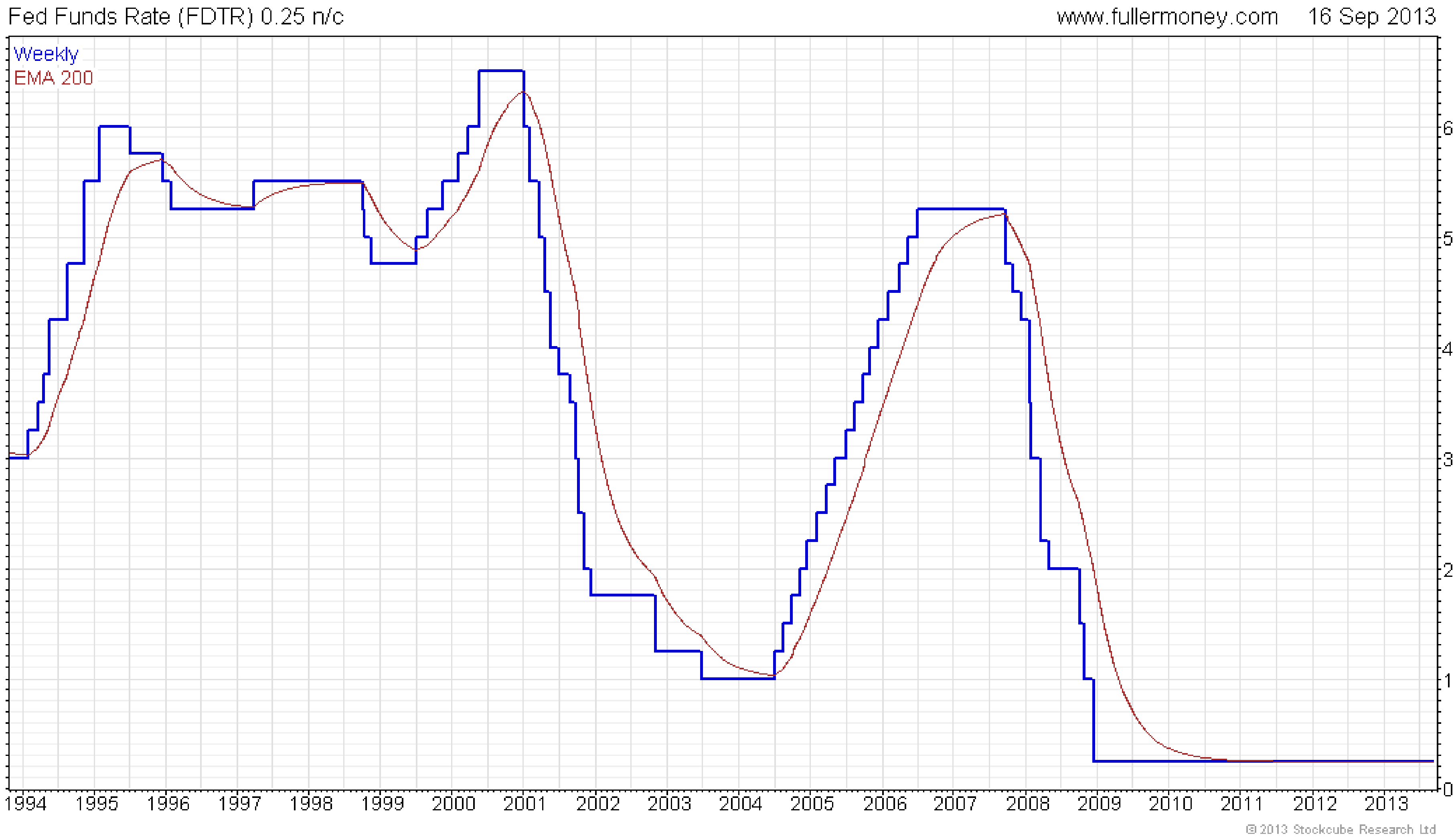
The Fed is at a critical juncture.

Whether tapering is announced tomorrow or not, we are close to the end of quantitative easing.

In January we are also going to have a new Fed chairperson, who is likely to have a similar ideology to Ben Bernanke.

Quantitative Easing has injected huge quantities of additional capital into asset markets.

The Fed Fund's Rate dropped from 5.25% in September 2007, to the current 0.25%.



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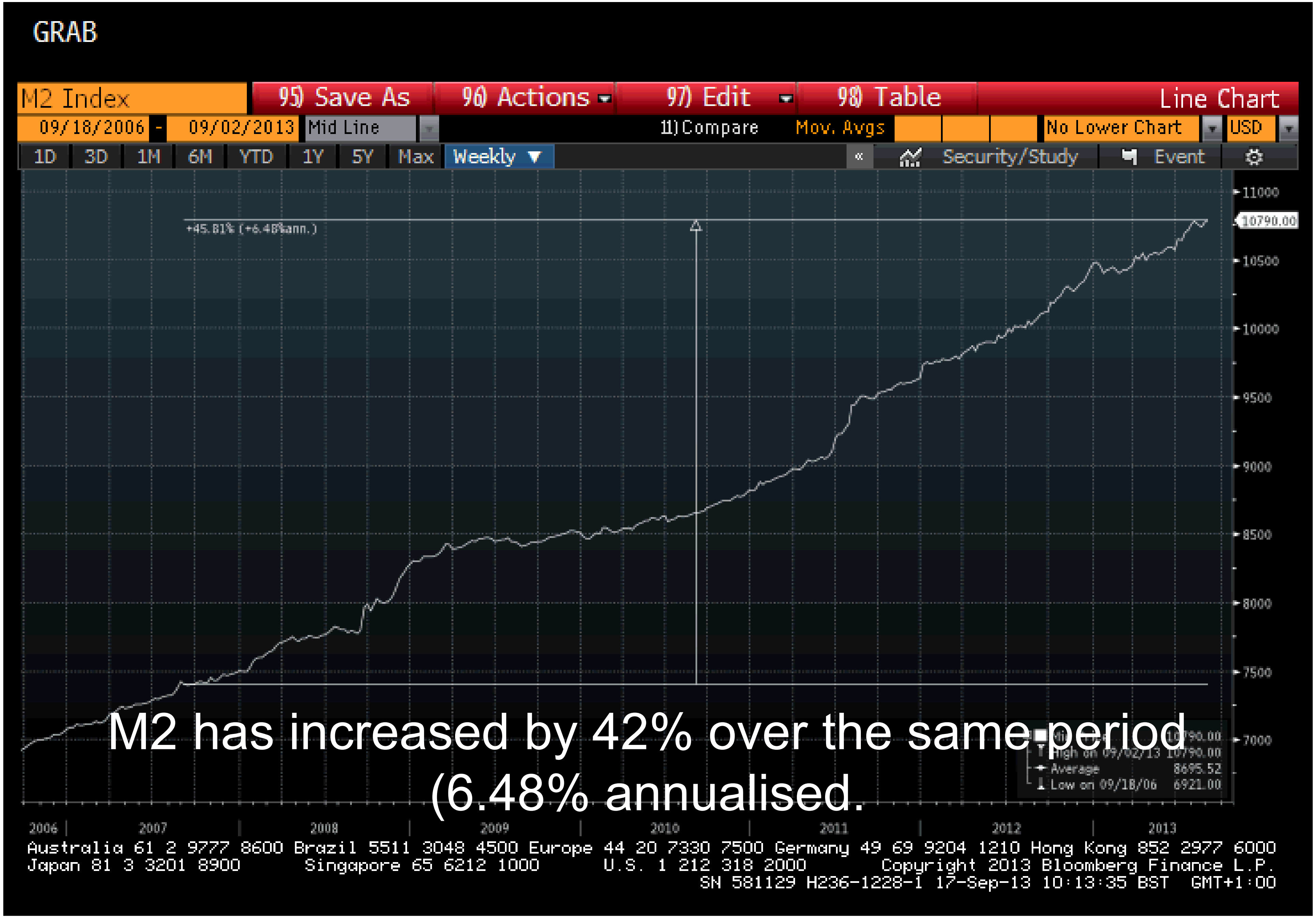

M2 has increased by 42% over the same period (6.48% annualised.

What contributes to Total Return?

1. Capital

2. Yield

3. Currency

4. Leverage.

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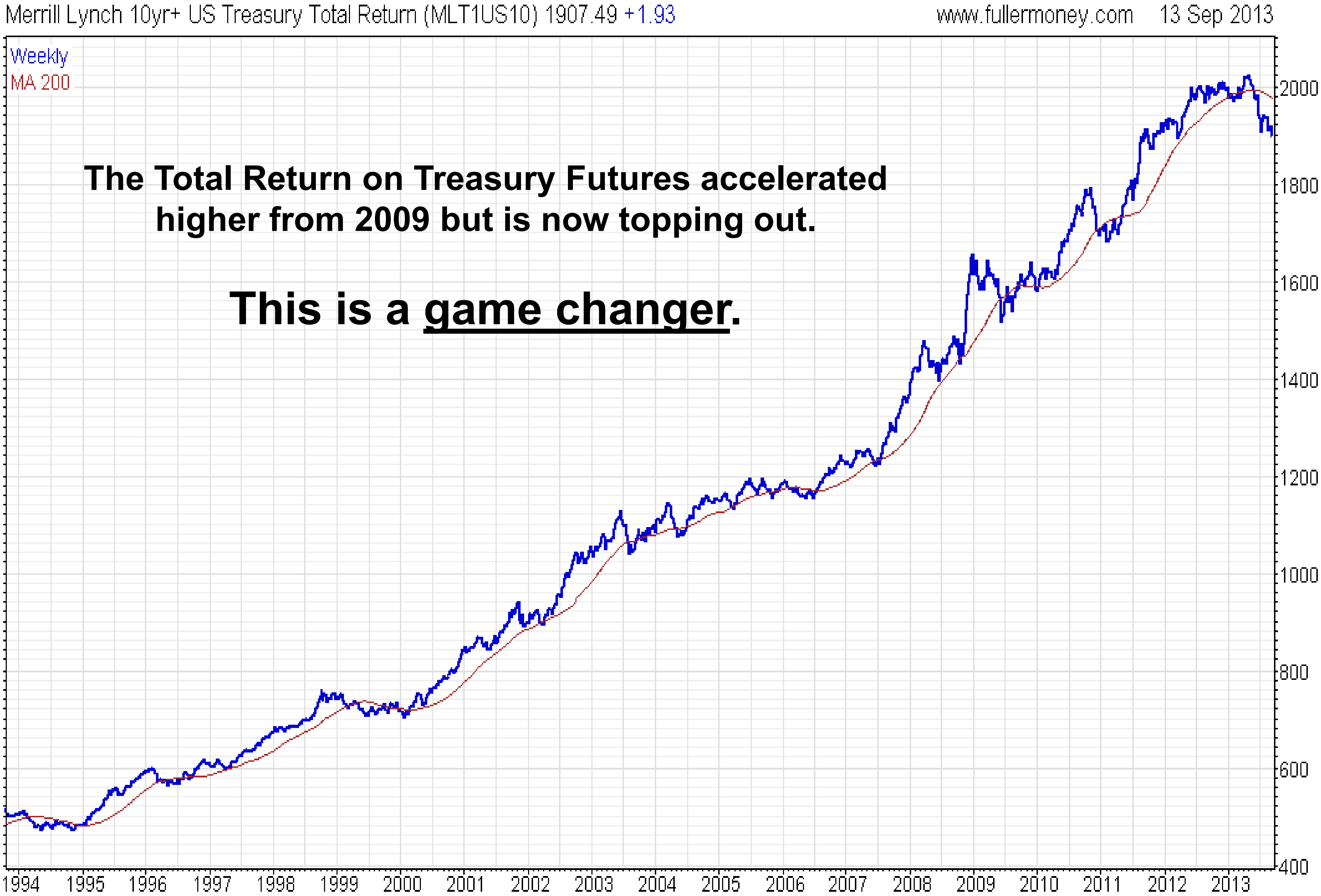


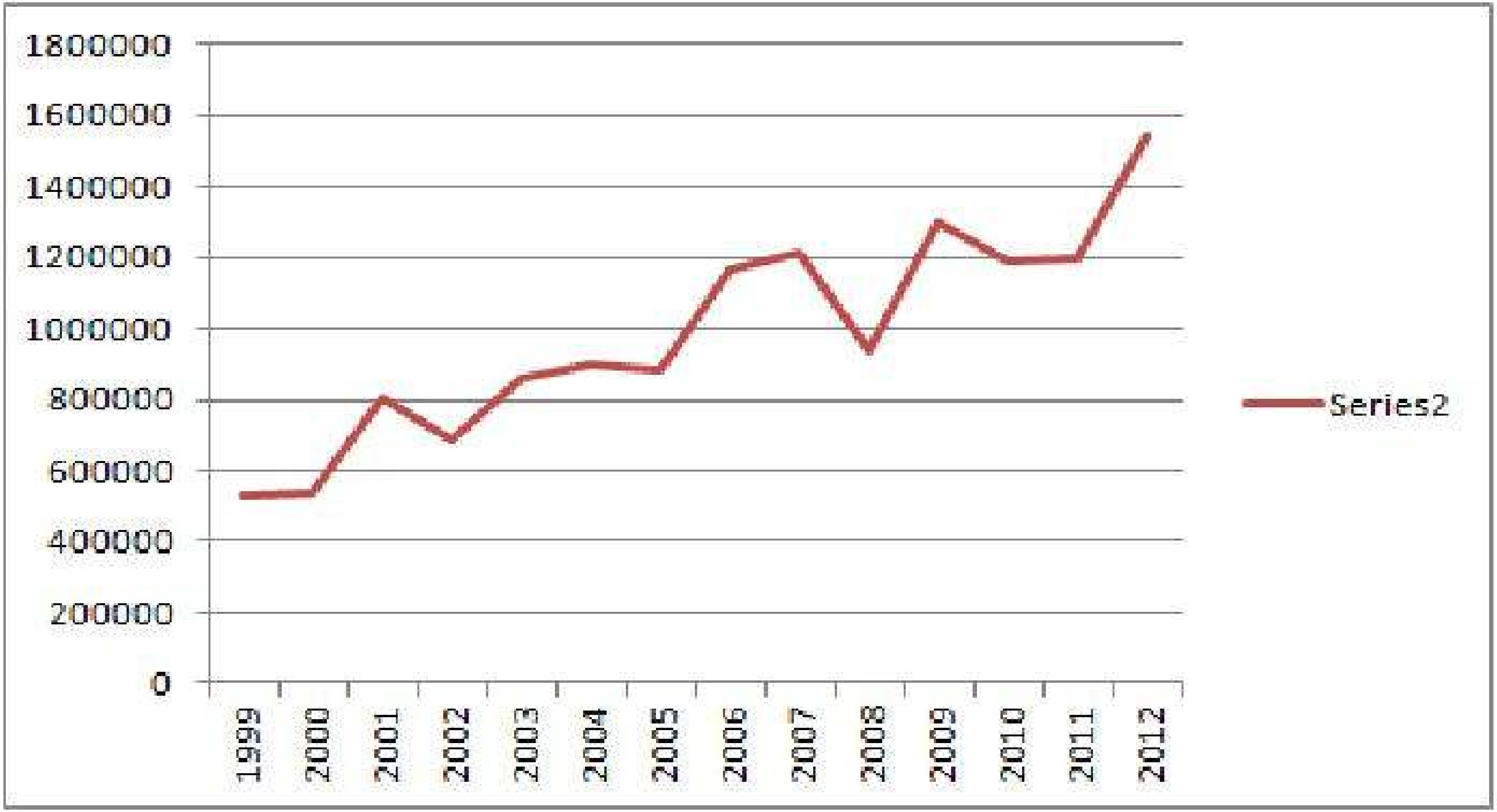
The Total Return on Treasury Futures accelerated higher from 2009 but is now topping out.

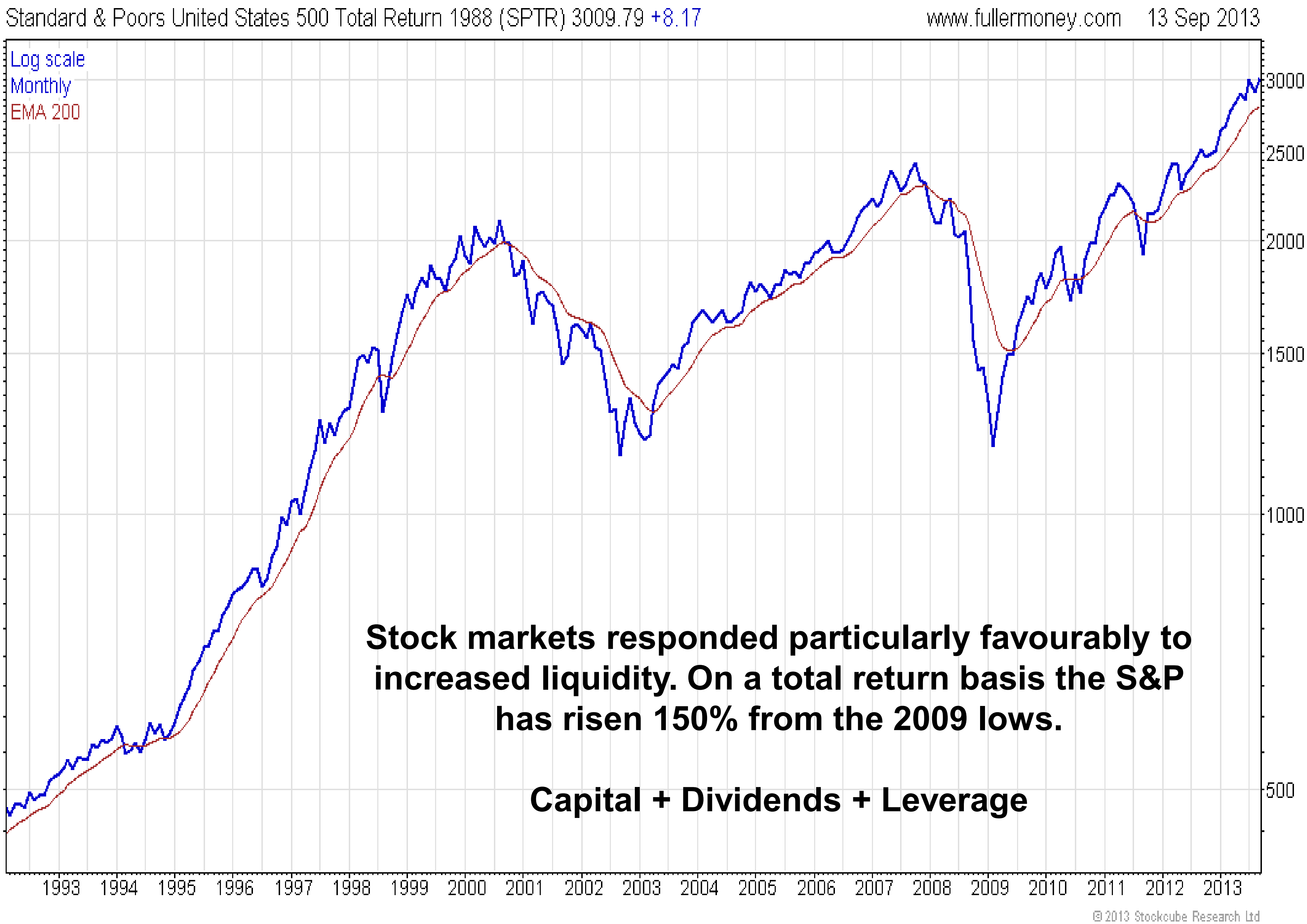
This is a game changer.

Bond investors have been treated to a favourable cocktail of capital appreciation and yield over the last 3 decades. This situation is now evolving.

Bond funds do not have a yield to maturity. They are a straight play on capital appreciation and have been hit hardest.

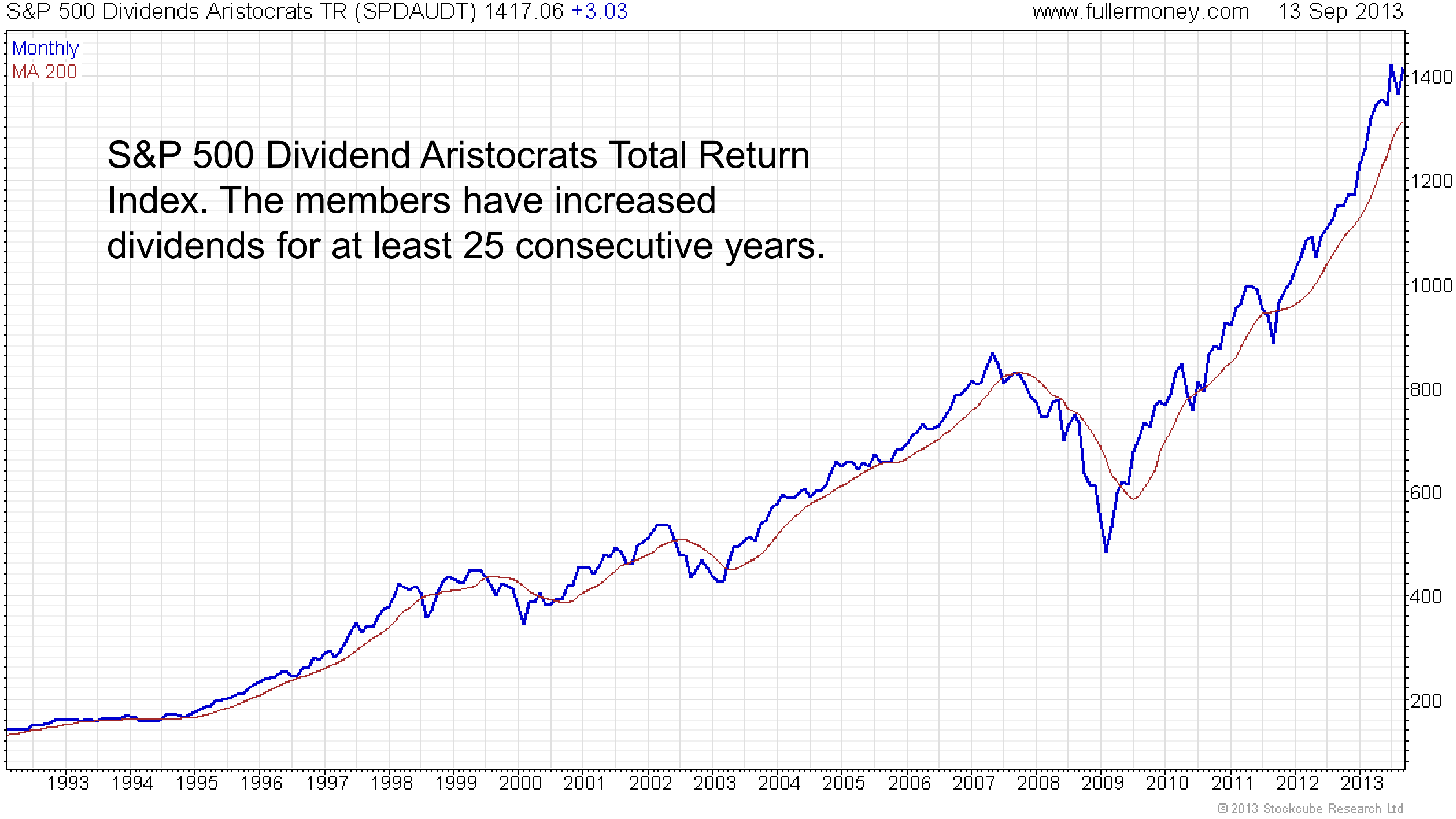
Corporate Bond Issuance.





Stock markets responded particularly favourably to increased liquidity. On a total return basis the S&P has risen 150% from the 2009 lows.

Capital + Dividends + Leverage


S&P 500 Dividends Aristocrats TR (SPDAUDT) 1417.06 +3.03
www.fullermoney.com 13 Sep 2013
Monthly
MA 200
S&P 500 Dividend Aristocrats Total Return Index. The members have increased dividends for at least 25 consecutive years.
1400
1200
1000
800
600
400
200
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
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PowerShares Buyback Achievers (PKW) 39.24 +0.27
www.fullermoney.com 16 Sep 2013
Log scale
Weekly
EMA 200
Buyback Achievers buy back at least 5% of free float annually.
40
35
30
25
20
15
2007 Apr Jul Oct 2008 Apr Jul Oct 2009 Apr Jul Oct 2010 Apr Jul Oct 2011 Apr Jul Oct 2012 Apr Jul Oct 2013 Apr Jul
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MARGDEBT Index (MARGDEBT Index) 382102
www.fullermoney.com 31 Jul 2013
Monthly
EMA 200
Margin Debt was close to an all-time high at the last update.
400000
300000
200000
100000
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
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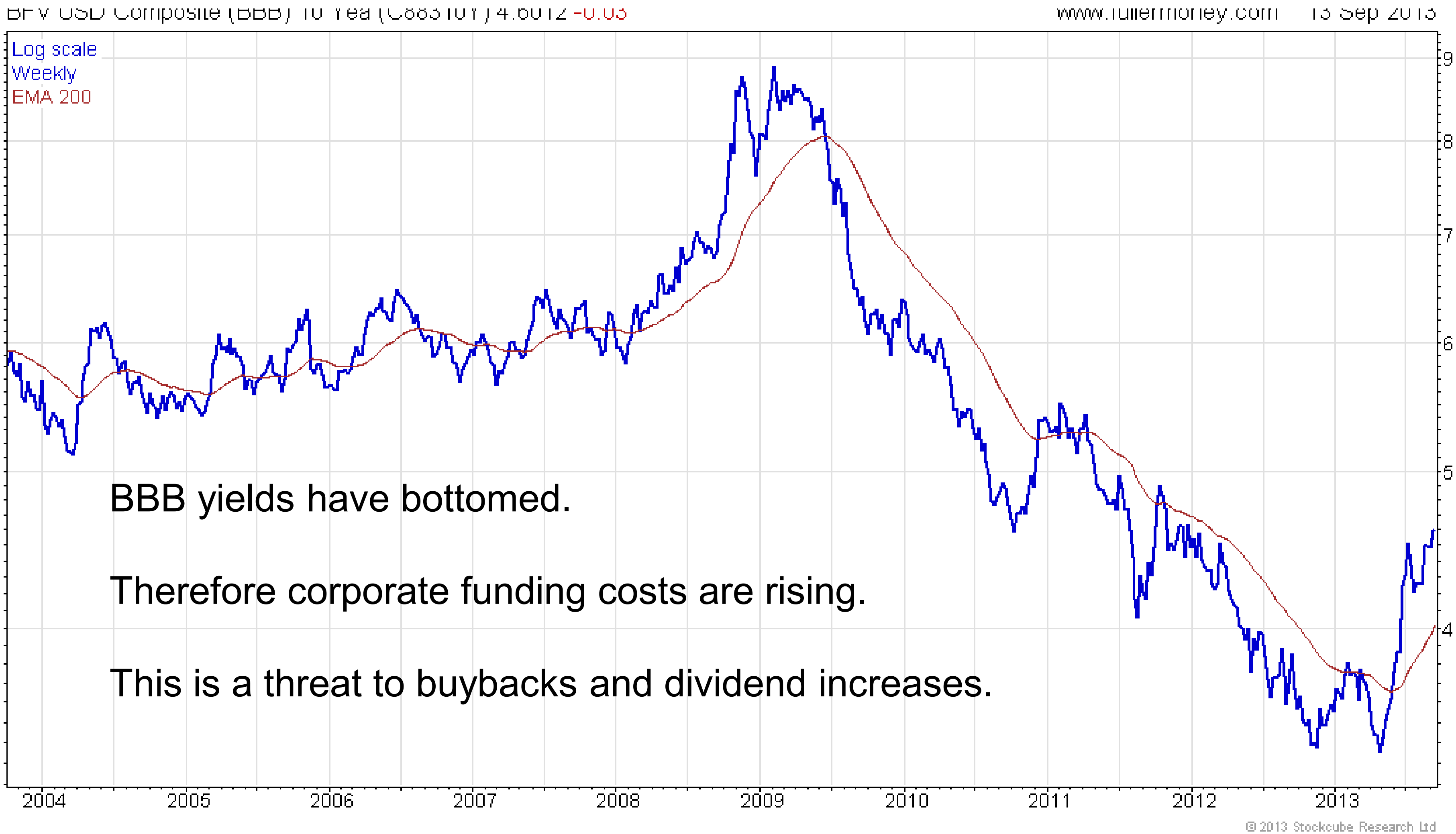
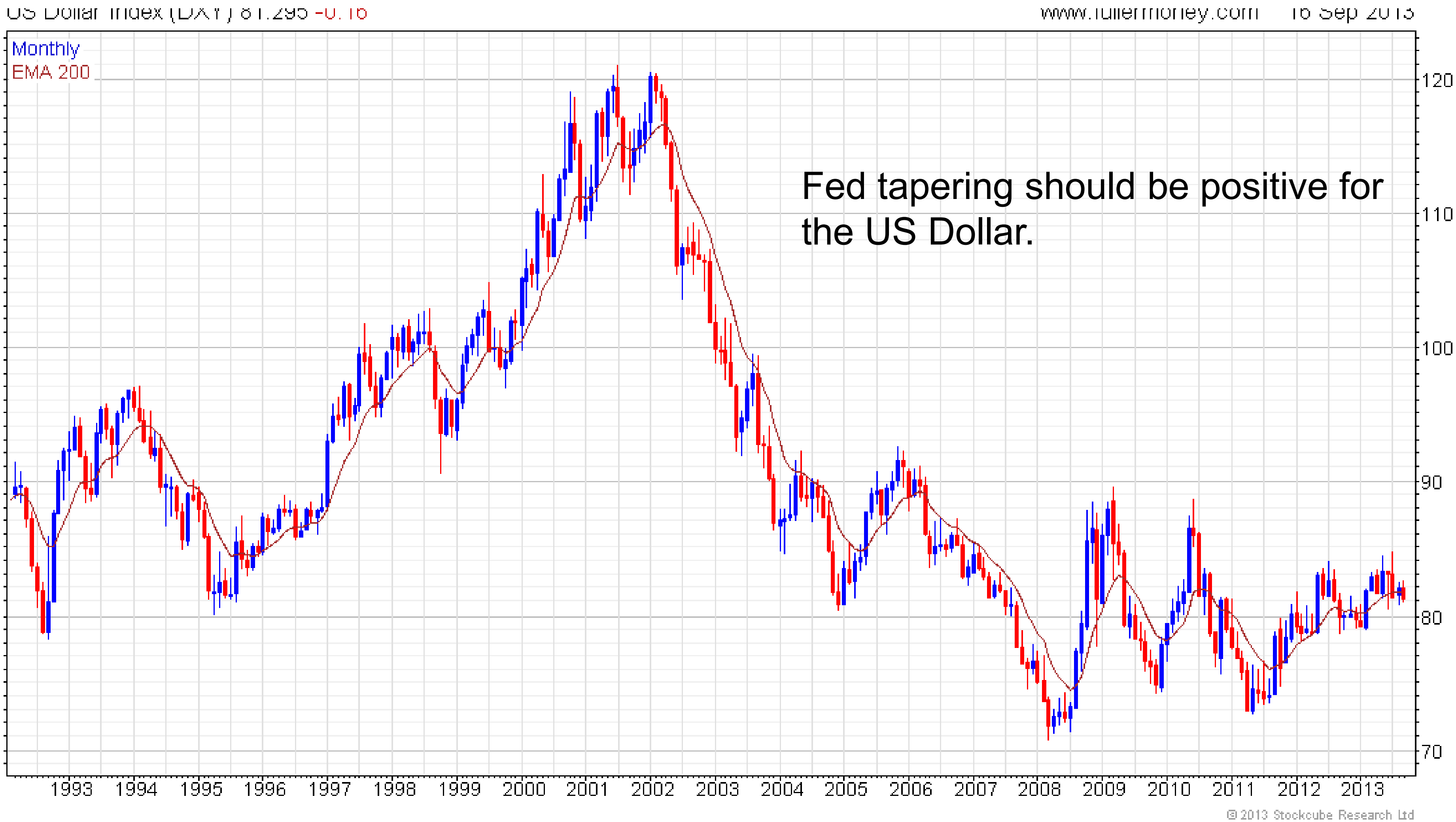


BBB yields have bottomed.

Therefore corporate funding costs are rising.

This is a threat to buybacks and dividend increases.


US Dollar Index (DXY) 81.295 -0.16
www.fullermoney.com 16 Sep 2013
Monthly
EMA 200
Fed tapering should be positive for the US Dollar.
120
110
100
90
80
70
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
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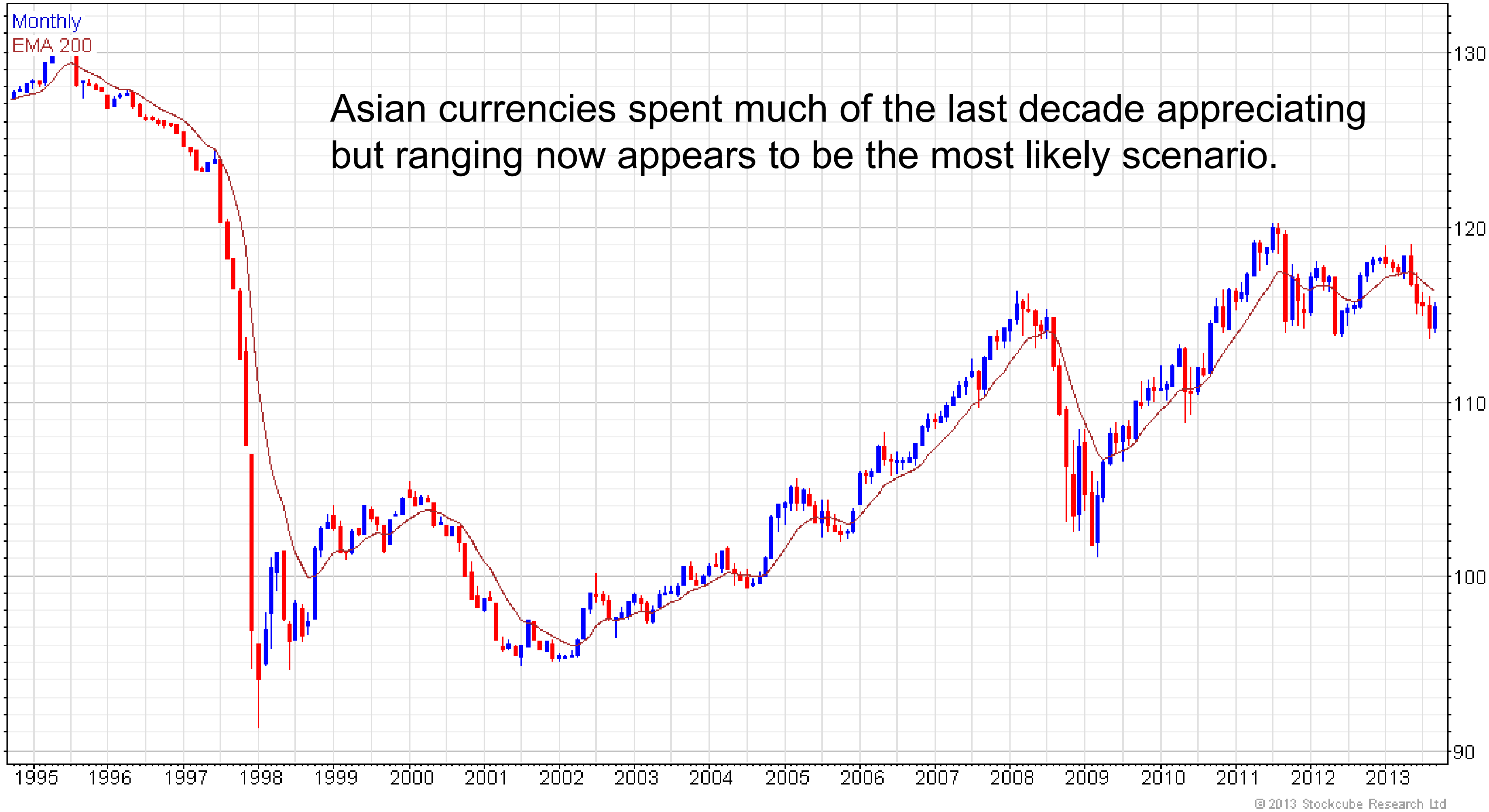
Monthly
EMA 200
Asian currencies spent much of the last decade appreciating but ranging now appears to be the most likely scenario.
130
120
110
100
90
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
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ASEAN40 Index
96) Actions
97) Edit
98) Feedback
G 6 - MONTHLY
07/03/2000 - 09/17/2013
11) Compare
Local CCY
1D 3D 1M 6M YTD 1Y 5Y Max Daily
Security/Study
ASEAN40 Index - Last Price 10901.03 +17.16
ASEAN enjoyed capital market and currency appreciation for much of the last decade which attracted foreign investors.
Foreign investors are sensitive to currency gyrations which has contributed to ranging.
12000
10901.03
10000
8000
6000
4000
2000
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
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Conclusions

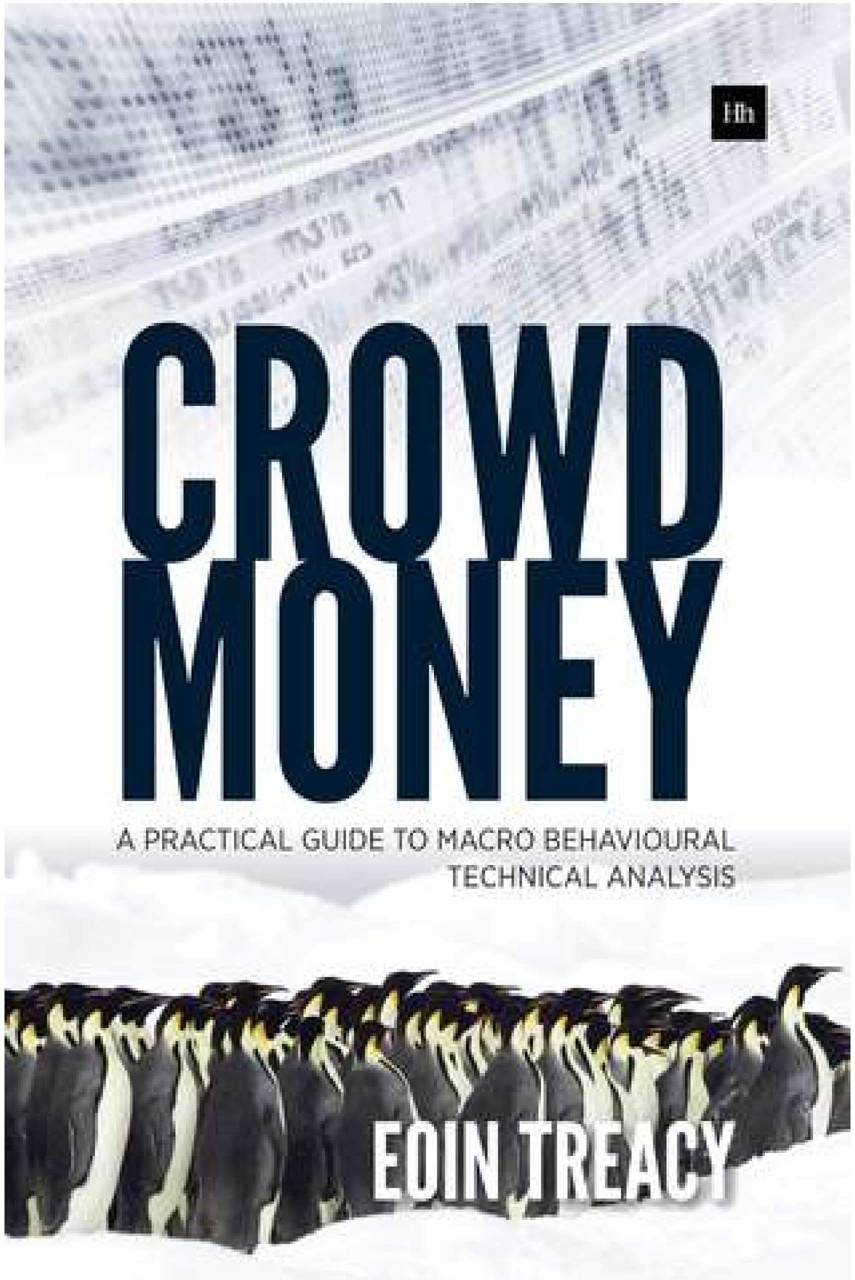
1. Sovereign bond markets can no longer be relied on for capital appreciation. Therefore a higher yield must be demanded.

2. Shares that have relied on access to cheap credit to boost returns are at risk.

3. The tapering of QE will have the most impact on leveraged traders.

4. Companies with long records of dividend increases, global business models and exposure to the growth of the middle class should outperform over the long term.

5. As monetary policy normalises Wall Street could range for up to 18 months.



Thank you very much

Eoin Treacy's new book 'Crowd Money' will be released on October 7th and is available for pre-order on Amazon.com

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