

# “Building a Portfolio for the Next 5 Years”



Presented by Matthew McCall  
President, Penn Financial Group  
Managing Editor, NicheETFInvestor.com

[www.pennfinancialgroup.com](http://www.pennfinancialgroup.com)

[www.MatthewDMcCall.com](http://www.MatthewDMcCall.com)

# Why Stocks Now

- Earnings
  - 2011 est. \$97/share for S&P 500
  - 2012 est. \$100-\$105/share
  - P/E based on 2011: 12.2
  - P/E based on 2012: 11.6
  - Index would trade at 1537 at 15x 2012 earnings
    - A 29% rally from the current level
- If not now, then when?
- Short Interest on NYSE at the highest level in over 2 years
- Contrarian view

# Must Own Investment Themes

- Emerging Markets
- Commodities
- Inflation
- Higher Interest Rates
- Water
- Emergence of the Baby Boomer
- Niche Sectors

# Emerging Markets

- You want growth?
- Middle class expansion
- Commodities
- Beware of the BRICs
- Consider Frontier Markets
- **iShares MSCI Emerging Markets ETF (EEM)**
  - Largest EM ETF with over 800 stocks
  - 46% in BRICs; 0.69% ER
- **Market Vectors Indonesia (IDX)**
  - Fourth most populous country in the world
  - Financial services (29%) and energy (16%)
  - GDP growth estimate of 6.3% in 2012
- **EG Shares Brazil Infrastructure ETF (BRXX)\***
  - World Cup 2014 and Summer Olympics 2016
  - Up to \$1 Trillion needed over the next 5 years to get ready for events and to keep up with population growth – via Reuters

# Commodities

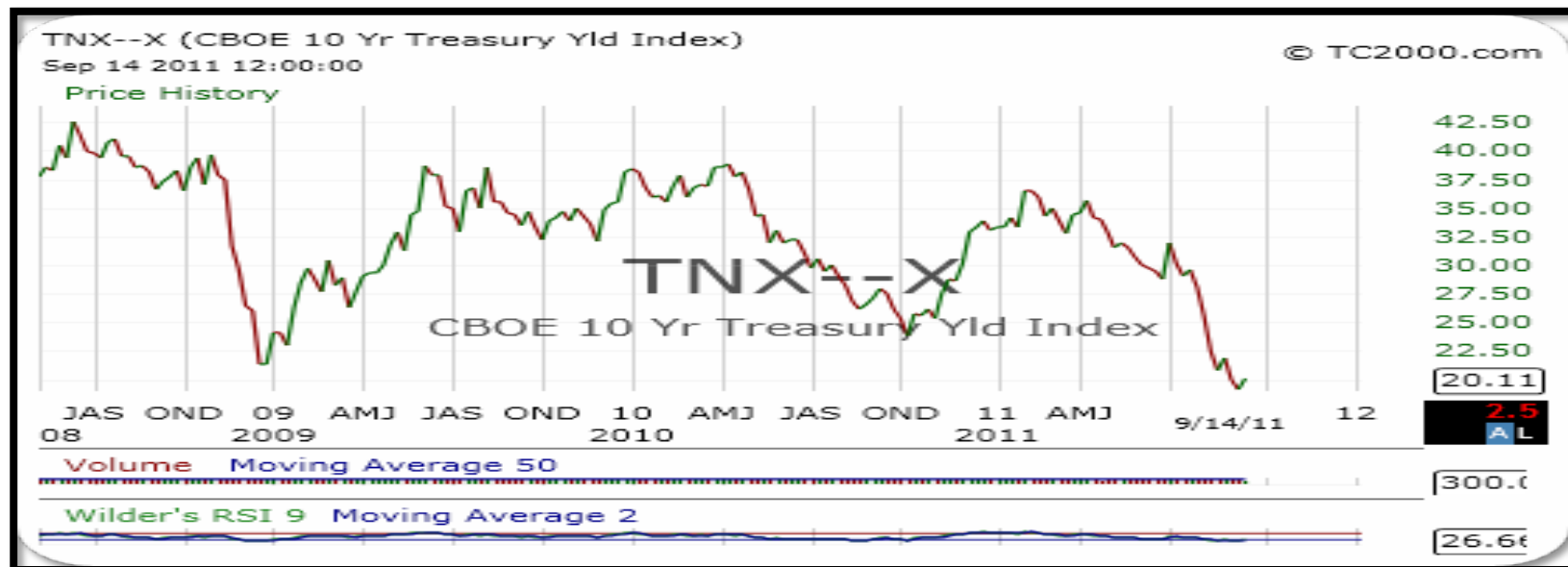
- Demand/Supply issue
  - Emerging Markets
- Weak US Dollar
- Diversification is key
  - Metals
    - *Gold (GLD) and Industrial Metals (DBB)*
  - Energy
    - Oil (USL and BNO)
  - Softs
    - JJS
  - Agriculture
    - *DBA*
  - Livestock
    - COW
  - Diversified
    - DBC
    - USCI

# Inflation

- A country cannot continue to print money and expect to not deal with inflation in the future
  - M2 Money Supply is high and once the banks start to lend again – inflation will surge
- Inflation is already seen in food and energy prices (but not the government numbers)
- Emerging markets are already dealing with it
- **Guggenheim Timber ETF (CUT)**
  - Composed of companies involved in land, timber, paper & pulp
  - Historically does well during inflationary periods
  - Top holdings include: IP, FBR, MWV; 30% in the US
- **SPDR DB International Government Inflation-Protected Bond ETF (WIP)**
  - 3.7% Dividend Yield
  - UK, France, Turkey, Germany, Israel, etc.

# Higher Interest Rates

- With QE2 behind us, artificially held down IR should begin to rise
- Eventually foreign government will demand higher yields
- When money begins to move back into equities, a bond bubble will lead to higher IR
- **ProShares Short 20+ Year Treasury ETF (TBF)\***
  - As IR rise and the price of the long bond falls, TBF will increase in price
  - TBT is the leveraged alternative; TBX is 7-10 Year



# Water

- The next great commodity – Blue Gold
  - 1.1 billion people live without clean drinking water
  - In emerging countries nearly 80% of illnesses are related to poor water and sanitation
  - 3,900 children die every day from water-borne diseases
  - EPA estimates water will be the single largest expenditure in the US
  - Less than 15% of China's 1.3 billion people have access to clean water from a tap
  - Less than 1% of the world's fresh water or 0.007% of all the water on Earth is readily available for human consumption (WHO)
- Infrastructure
  - **Northwest Pipe (NWPX)**
    - Manufactures large-diameter steel pipes mainly for water supply
    - Forward P/E ratio of 15; Competitor was recently bought
- Land Rights
  - **PICO Holdings (PICO)**
    - One of the largest private land owners in Nevada = water and mineral rights
    - Also owns a water company
    - Stock has struggle recently

# Emergence of the Baby Boomer

- Increased need for health care, vanity, retirement advice, etc.
  - **HCP Inc. (HCP)**
    - REIT that concentrates on health-related properties
    - 5.4% Dividend Yield
  - **Allergan (AGN)**
    - Think breast implants and Botox
    - Forward P/E of 19; Great chart
  - **NuSkin Enterprises (NUS)\***
    - Anti-aging products and nutritional products
    - Forward P/E ratio of 15; PEG Ratio of 1.1
    - Stock is hitting a new all-time high



# Niches ETFs

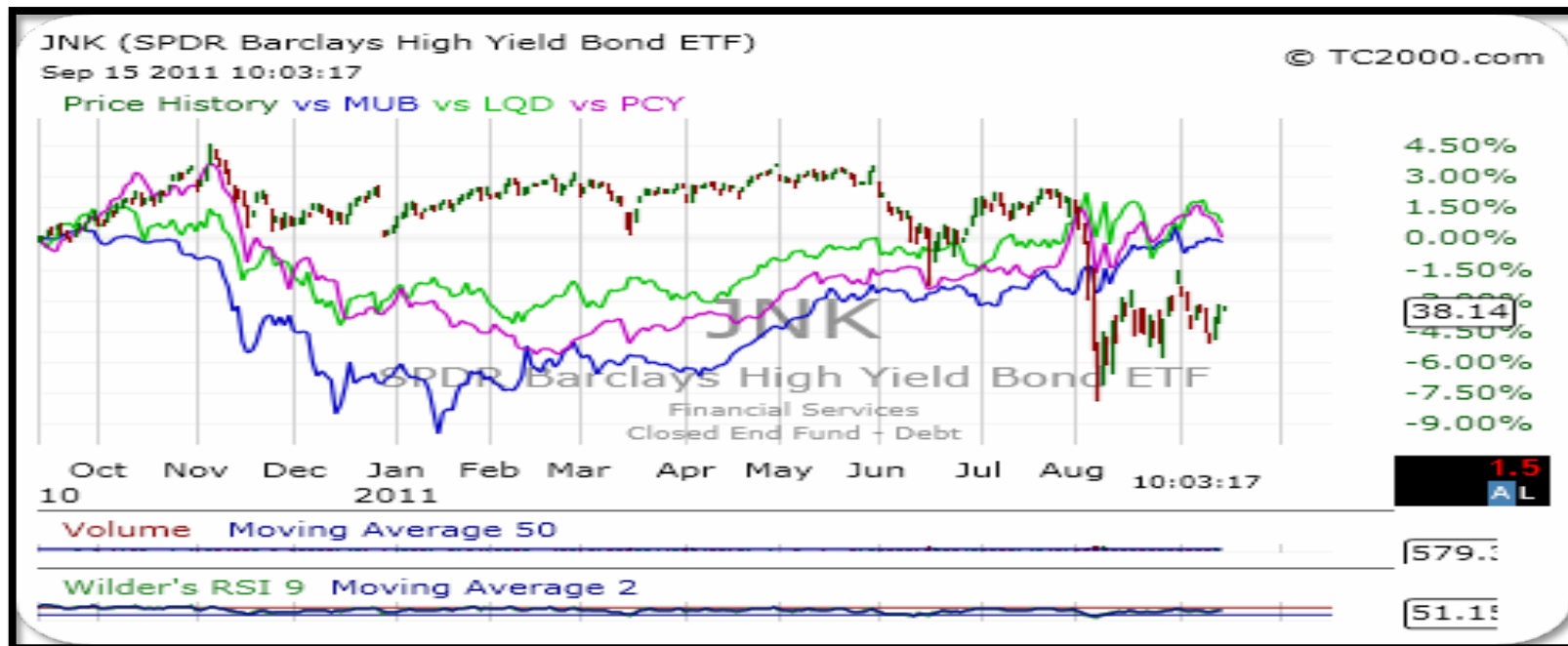
- ETFs that focus on small and often overlooked sectors within the market
- Offers exposure to sectors previously unavailable to the individual investor
  - Brazil Infrastructure, Small-Cap Agribusiness, etc.
- Adds diversification to a portfolio
- Opportunity to profit from specific themes
- Removes company and country risk

# Niche ETFs

- **IQ Global Agribusiness Small-Cap ETF (CROP)**
  - Emerging market demand = More mouths to feed
  - Inclement weather, Global uprisings, Green movement
  - Offers global and small-cap exposure
  - Top Holdings: TSCO, VIT.TO, SFD, CZZ, TTC
  - Expense Ratio: 0.75%
- **First Trust ISE Cloud Computing ETF (SKYY)**
  - First ETF to offer niche exposure to the sector
  - IBM reported sales increased by 55% in cloud services
  - Lowers overhead & increase productivity
  - Top Holdings: AMZN, RNOW, BBBB, CSCO, GOOG, VMW
  - Expense Ratio: 0.60%
- **WisdomTree Asia Local Debt ETF (ALD)**
  - Invests in the local debt (denominated in local currencies)
  - Top countries: Indonesia, S Korea, Australia, Thailand, Singapore, Malaysia
  - Current yield: 2.3%
  - Expense Ratio: 0.55%

# Preservation of Capital & Above-Average Income

- US Bonds – NO!
  - Rising interest rates
- Corporate Bonds
  - **JNK and LQD\*\***
- Municipal Bonds
  - **HYD and MUB\*\***
- International Bond ETFs
  - **PCY\* and EMLC**

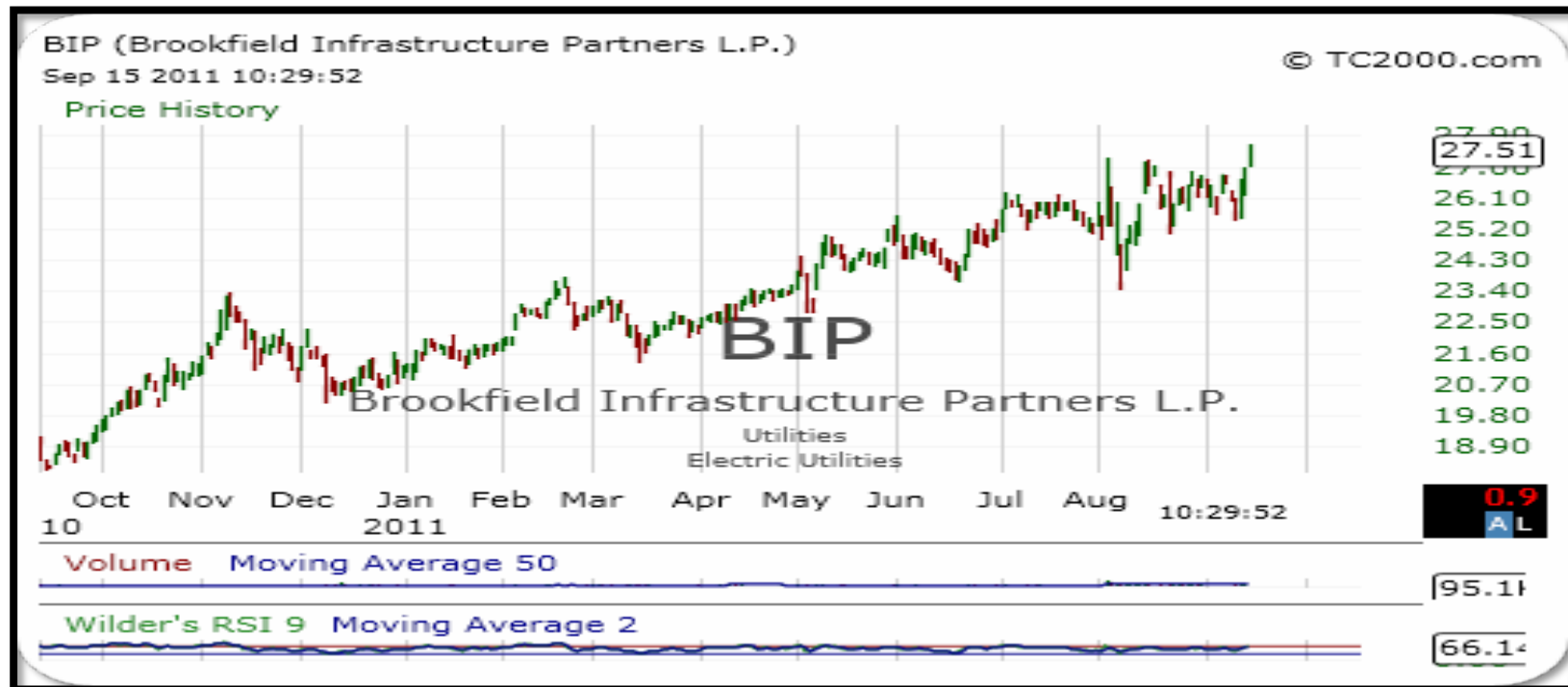


# Preservation of Capital & Above-Average Income

- **High Yielding ETFs**
  - **SPDR Convertible Bond ETF (CWB)\***
    - Basket of convertible bonds with heavy exposure to tech (26%)
    - 4.0% Dividend Yield
  - **Guggenheim S&P Global Dividend Opportunities ETF (LVL)**
    - Composed of 100 stocks from around the globe: US (23%), Australia (11%)
    - 5.3% Dividend Yield
  - **ALPS Alerian MLP ETF (AMLP)**
    - Invests in a basket of MLPs
    - 6.4% Dividend Yield
  - **Market Vectors Emerging Markets Local Currency Bond ETF (EMLC)**
    - Direct exposure to local currency bonds; affected by exchange rates
    - 15 different countries and 174 individual bonds
    - 5.8% Dividend Yield
- **High Yielding Stocks**
  - **Teekay Offshore Partners (TOO)\***
    - Marine transportation and storage services to the offshore oil industry
    - 7.5% Dividend Yield
  - **Consolidated Edison (ED)**
    - Provides electric, gas, and steam utility services to over 3 million customers in the NY area
    - 4.3% Dividend Yield

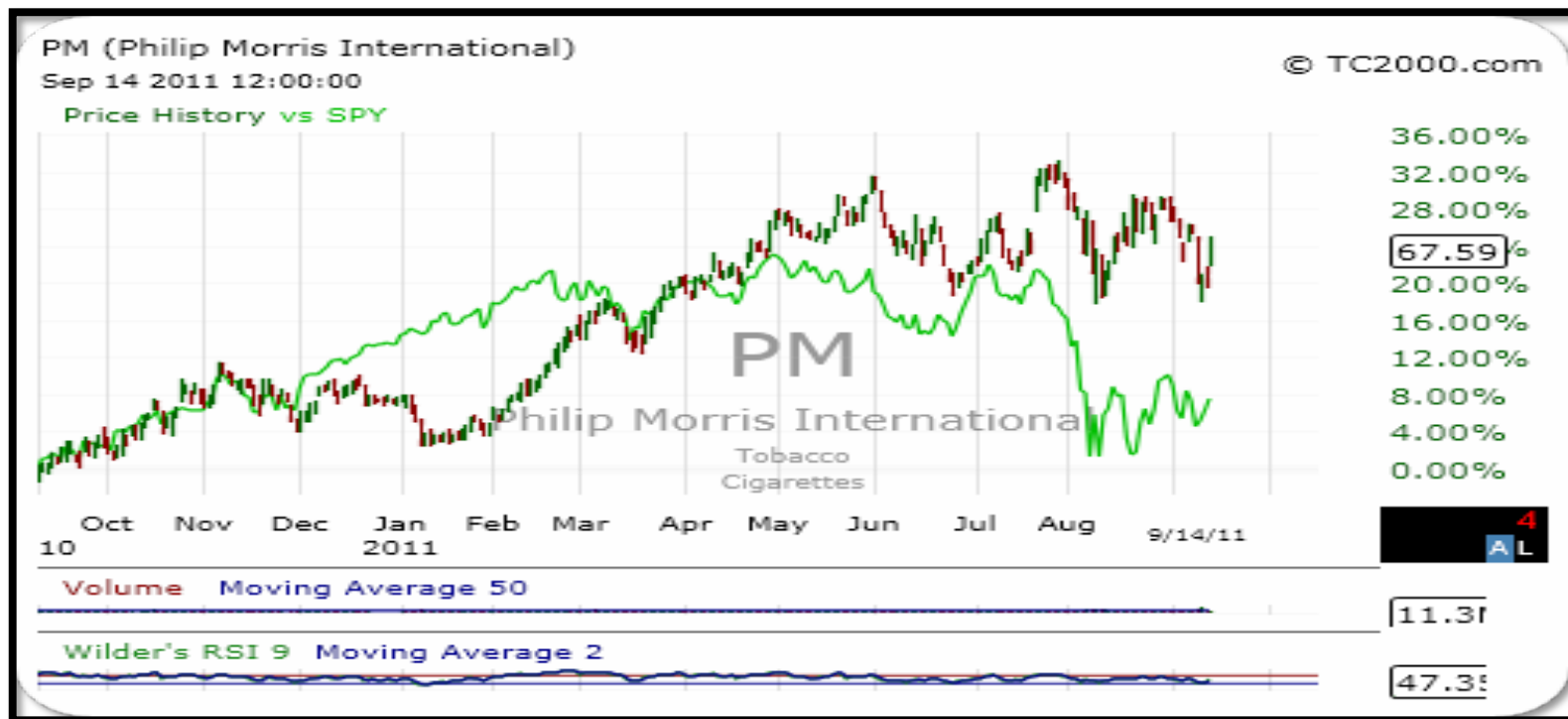
# The PFG WatchList Top 5

- **Brookfield Infrastructure Partners (BIP)\***
  - Coal port in Australia, electricity lines in Chile & Canada, gas distribution in New Zealand, ports in Europe & China, and owns timberland in US & Canada
  - Pays 5.3% dividend yield
  - Hitting new all-time high = Relative Strength
  - Buy on a pullback in \$25-\$26 range



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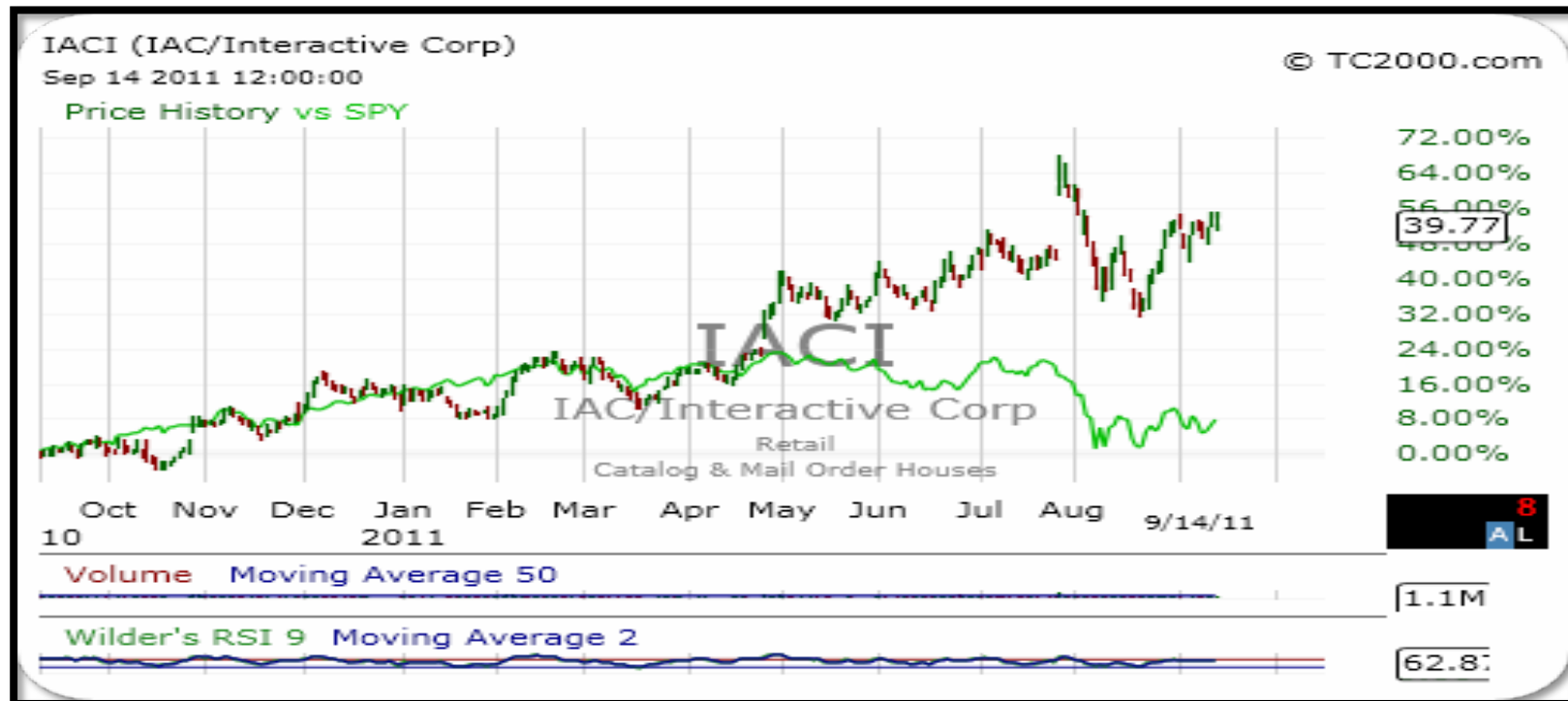
- **Philip Morris International (PM)\***
  - Sells tobacco products globally outside the US
  - 3.9% dividend yield
  - Trades with a PEG ratio of 1.1
  - Strong relative strength – down 6% from high
  - Support at \$64/share



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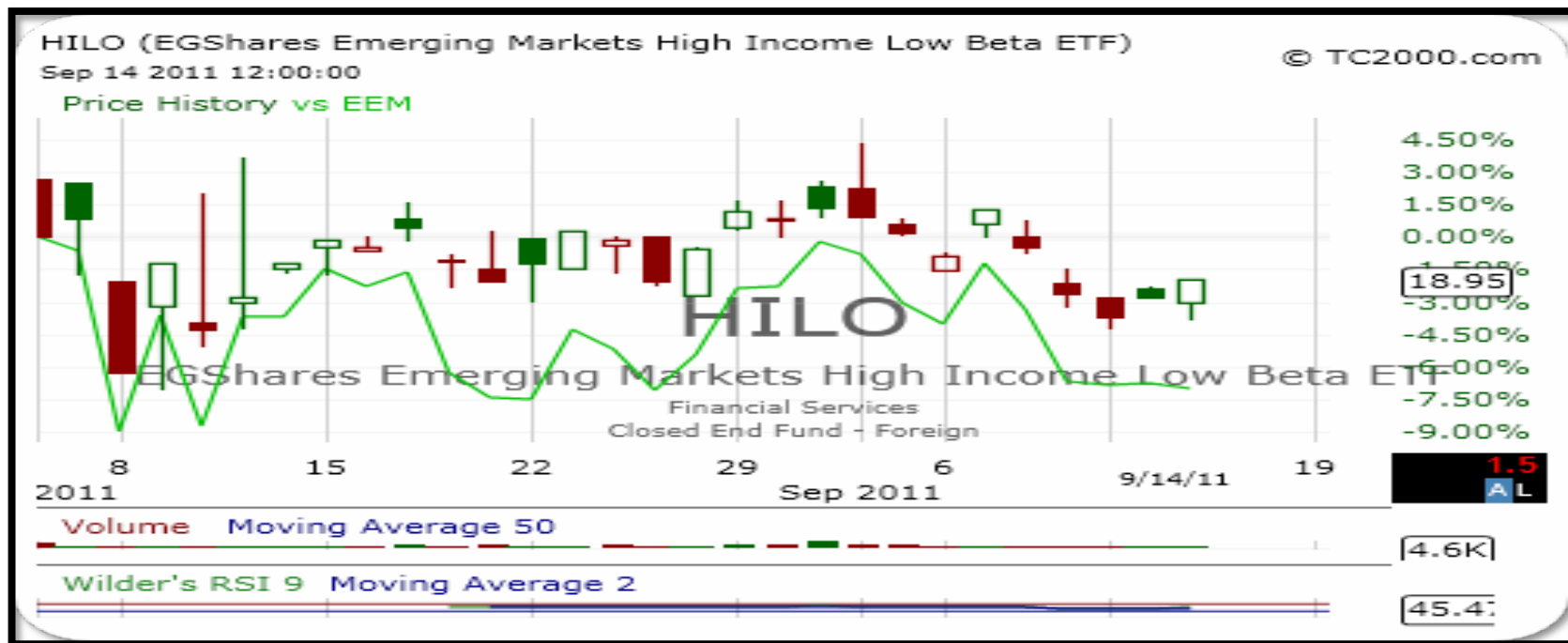
- **IAC Interactive Corp (IACI)**

- Internet company that owns a plethora of websites: Ask.com, Match.com, 1800Contractor.com, Gifts.com, Evite.com, and the Daily Beast
- An indirect play on the buzz of social media companies
- Trades with a PEG ratio of 0.5
- Buying opportunity in the high \$30's



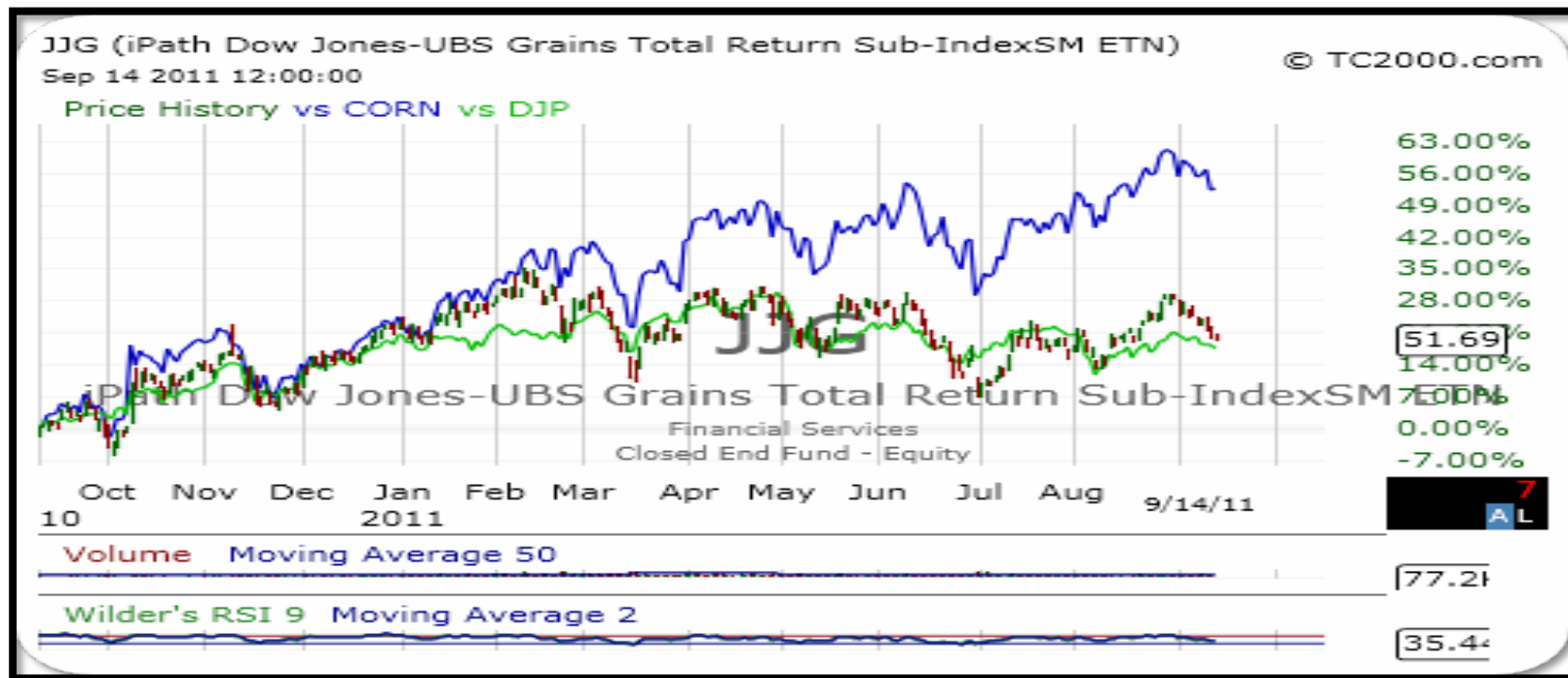
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- **EG Shares Emerging Markets High Income – Low Beta ETF (HILO)\***
  - Invests in E.M. stocks that trade with a lower than average beta (volatility) and pay an above average dividend yield
  - Dividend yield is 5.5%      Expense Ratio = 0.85%
  - Top Countries: Malaysia, S Africa, Brazil, China, Thailand
  - Top Sectors: Telecom (29%), Energy, Infrastructure



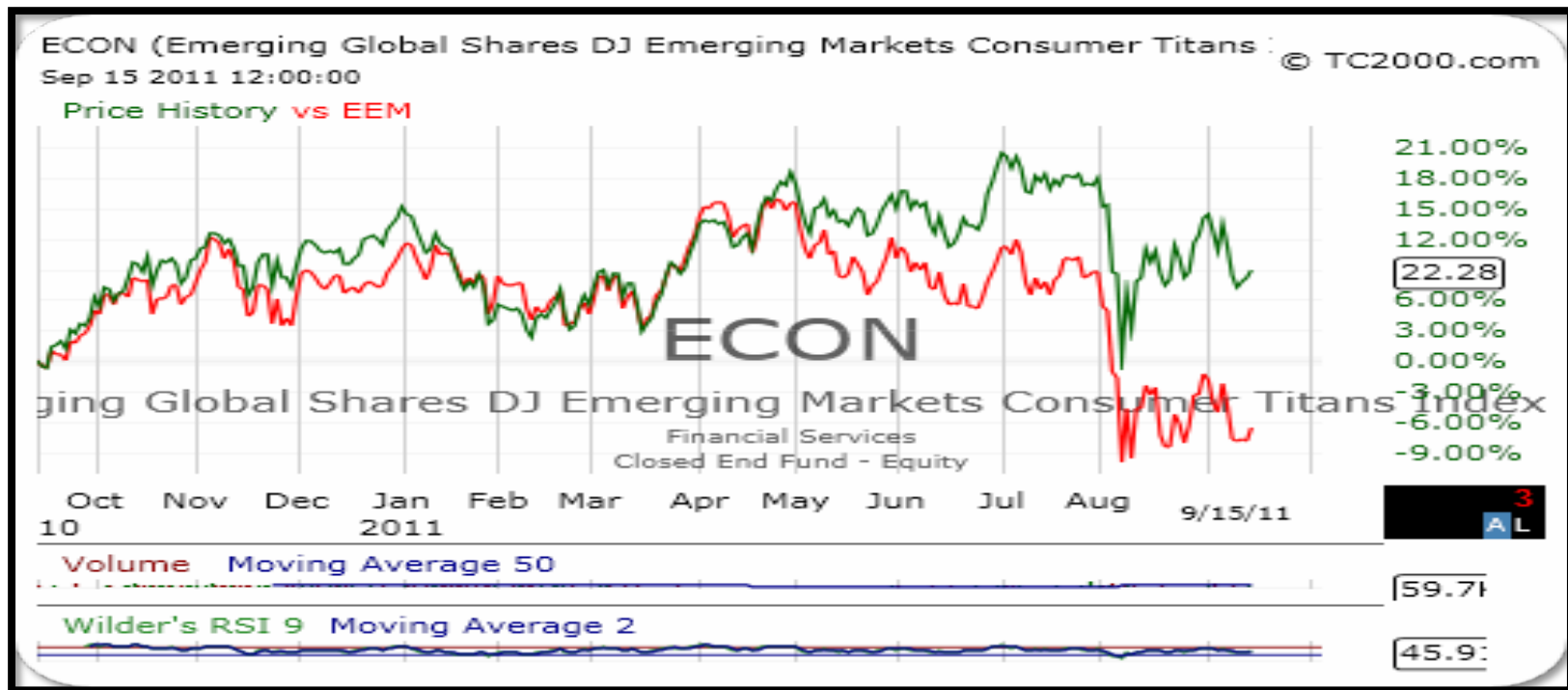
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- **iPath Grains ETF (JJG)\***
  - Invests in corn (40%), soybeans (38%), and wheat (22%)
  - Expense ratio 0.75%
  - Correlation to S&P 500: 0.39; Bond Index 0.29



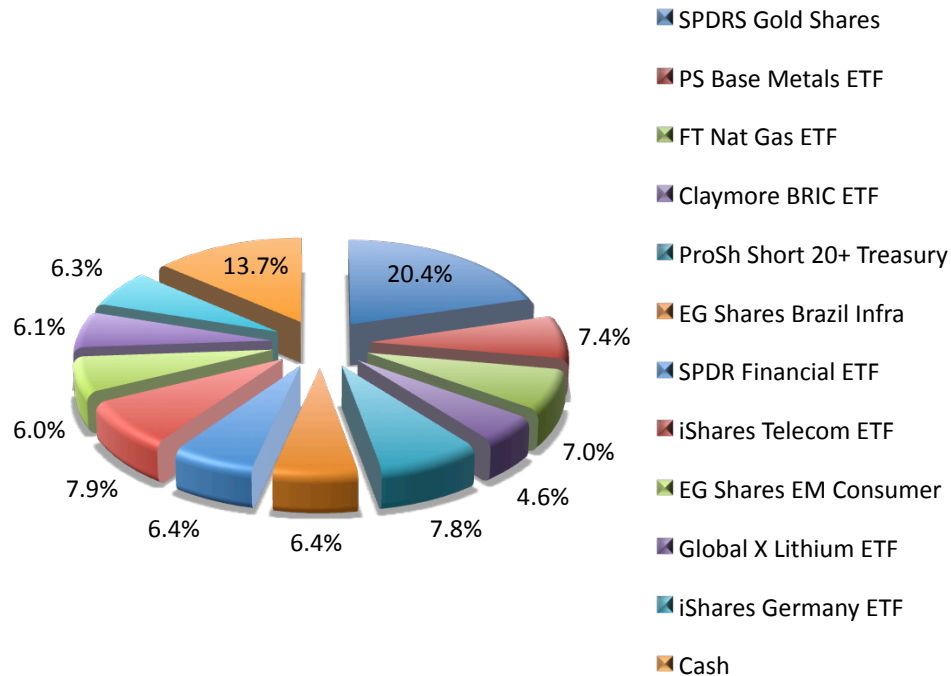
# EG Shares Emerging Markets Consumer ETF (ECON)

- Growing middle class
- Captures demand within the countries
- Outperforming EEM (+9% vs. -7% in last 12 months)
- Buy Area: \$21 to \$22.50



# ETF Bulletin

## All-ETF Portfolio



**Yearly Subscription: \$700**

**MoneyShow Special: \$350**

**Use the Sign-up Sheet in the handouts if interested.**

### **What you get:**

1. Weekly Bulletin
2. Real-Time Buy/Sell Recos
3. Updated WishList
4. Several Emails per week
  1. Major market changes
  2. New ETFs
5. 1 Email per week to Team PFG

**Year-to-Date: -1.6% vs. -6.7%**

**Since Inception (9/14/05): +14.1% vs. -4.4%**

# Wrap-Up

- Personalized Portfolio Management Services
- ETF-Only Portfolios
- Niche ETF Investor Free Membership
  - [www.NicheETFInvestor.com](http://www.NicheETFInvestor.com)
- Books (Available on Amazon)
  - “The Next Great Bull Market”
  - “The Swing Trader’s Bible”
- TV
  - Fox News Channel & Fox Business Network

# Q&A

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