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2ND ANNUAL

# Innovative REAL ESTATE STRATEGIES


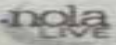
HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

**Market  
Signals;  
What The  
Financial  
Markets  
Are Telling  
Us Now**

**PETER RICCHIUTI  
TULANE UNIVERSITY**

**THE MATERIAL COVERED IN THIS PRESENTATION IS  
THE OPINION OF THE PRESENTER AND SHOULD  
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# PETER VS. DA' COACH

| BEAT MIKE   |                   |        |
|---|-------------------|--------|
| CELEBRITY STOCK PICKERS   |                   |        |
|   |                   |        |
| 1.  | Peter Ricchiuti   | 18.30% |
| 2.  | Mary Judice       | 6.87%  |
| 3.  | Mike Ditka        | 4.38%  |
| LEADERS IN THE LOUISIANA STOCK-PICKING CONTEST  |                   |        |
| RANK  | PLAYER            | % GAIN |
| 1.  | Troy Sampey       | 25.40% |
| 2.  | Darryl Boykins    | 24.88% |
| 3.  | Jason Nunnally    | 23.09% |
| 4.  | Theodore Heine    | 22.81% |
| 5.  | Harold Rienstra   | 22.50% |
| 6.  | Stephen Eustis    | 22.38% |
| 7.  | Melvin Harrison   | 22.13% |
| 8.  | Robert Knight     | 22.02% |
| 9.  | Jefferey Wilson   | 21.91% |
| 10.   | Melissa Holmes    | 21.77% |
| 11.   | Charisse Zanca    | 21.75% |
| 12.   | Evans Blanchard   | 21.66% |
| 13.   | Garry Gregory     | 21.64% |
| 14.   | Daoling Zhang     | 21.52% |
| 15.   | Joachim Fernandez | 21.47% |
| 16.   | George Guzzardo   | 21.42% |
| 17.   | Ronald Landry     | 20.80% |
| 18.   | Frank Giurintano  | 20.69% |
| 19.   | Jeff Stern        | 20.69% |
| 20.   | Mark Hightower    | 20.55% |
|    |                   |        |
| Note: Check your results on the web site <a href="http://www.nola.com">www.nola.com</a> . The Louisiana Stock Picking Contest is co-sponsored by The Times-Picayune and Tulane University's A.B. Freeman School of Business. The contest period is June 1 to Aug. 31. |                   |        |

# THE FACTS



**We are not entering another Great Depression. Following the Stock Market crash of 1929 the government:**

- ❑ Increased interest rates**
- ❑ Increased Tariffs**
- ❑ Slowed Government Spending**

# A TYPICAL RECESSION

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- ❑ Averages 14 months in length.
- ❑ Before this, we've had two recessions in the last 30 years (early 1990's and 2000 – 2001).
- ❑ They always end and the economy always rises to a higher plateau.

*Source: U. S. Department of Economic Advisors*

# NEW COLLEGE GRADUATES TO BE FROZEN UNTIL JOB MARKET IMPROVES

## FREEZE!



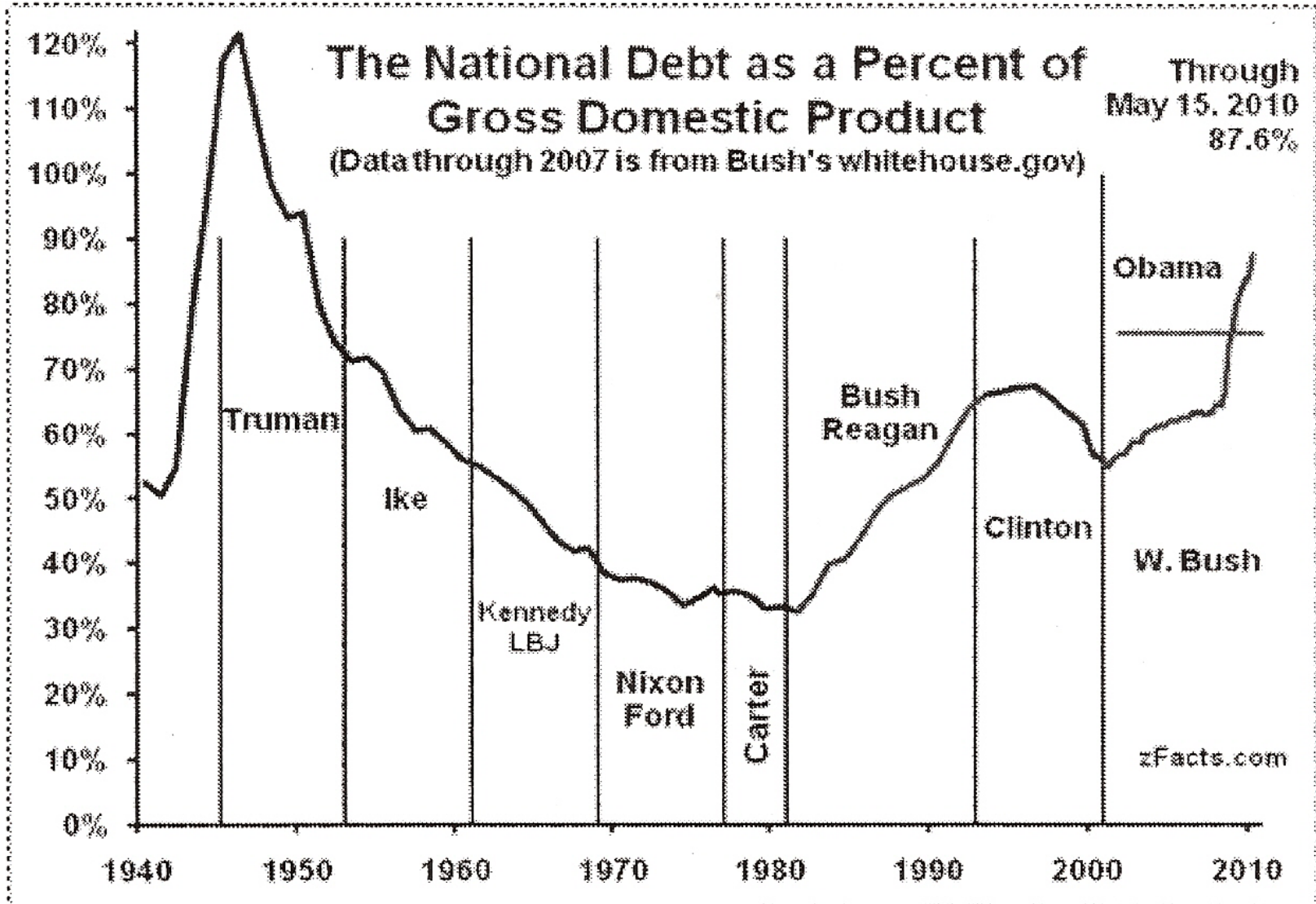


# WHITE HOUSE JESTER BEHEADED FOR MAKING FUN OF SOARING NATIONAL DEBT



Source: *The Onion*

# DIRECTION COUNTS



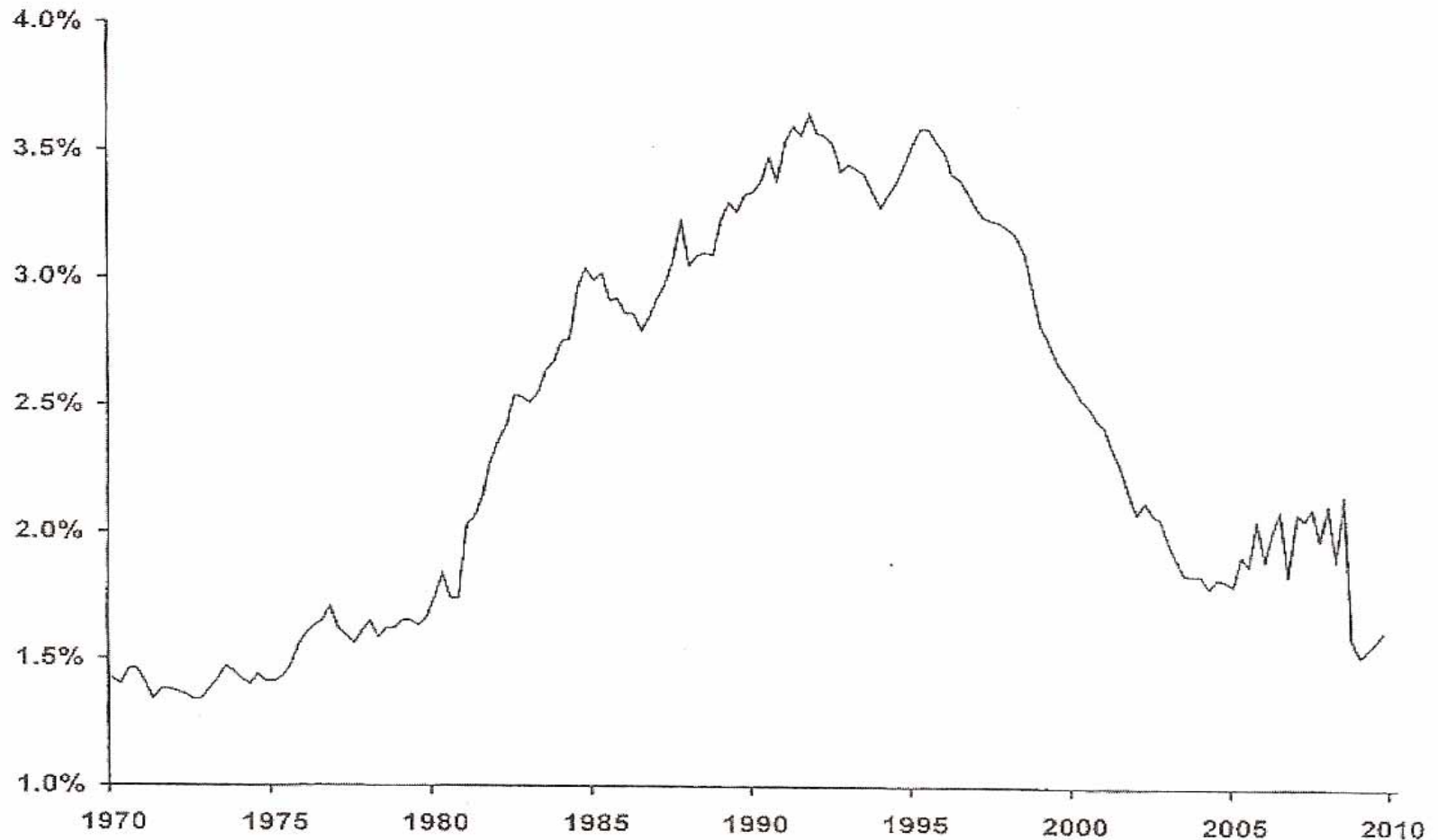


# PAYING IT DOWN

- ❑ Some Higher Taxes
- ❑ Some Budget Cuts
- ❑ Changes To Entitlement Programs
- ❑ Higher Revenue from a Rebounding Economy

# INTEREST BURDEN

**U.S. Government Net Interest Payments as a Percent of Nominal GDP**



*Source: Wells Capital Management*

# RANDOM THOUGHTS...

- ❑ Tax evasion has added about three trillion dollars to the national debt over the past decade.
- ❑ Just one in seven workers is of normal weight without a chronic health problem.
- ❑ Over the past 25 years college tuition has increased nearly 4 times the rate of inflation

# PROFITS COUNT, A LOT!

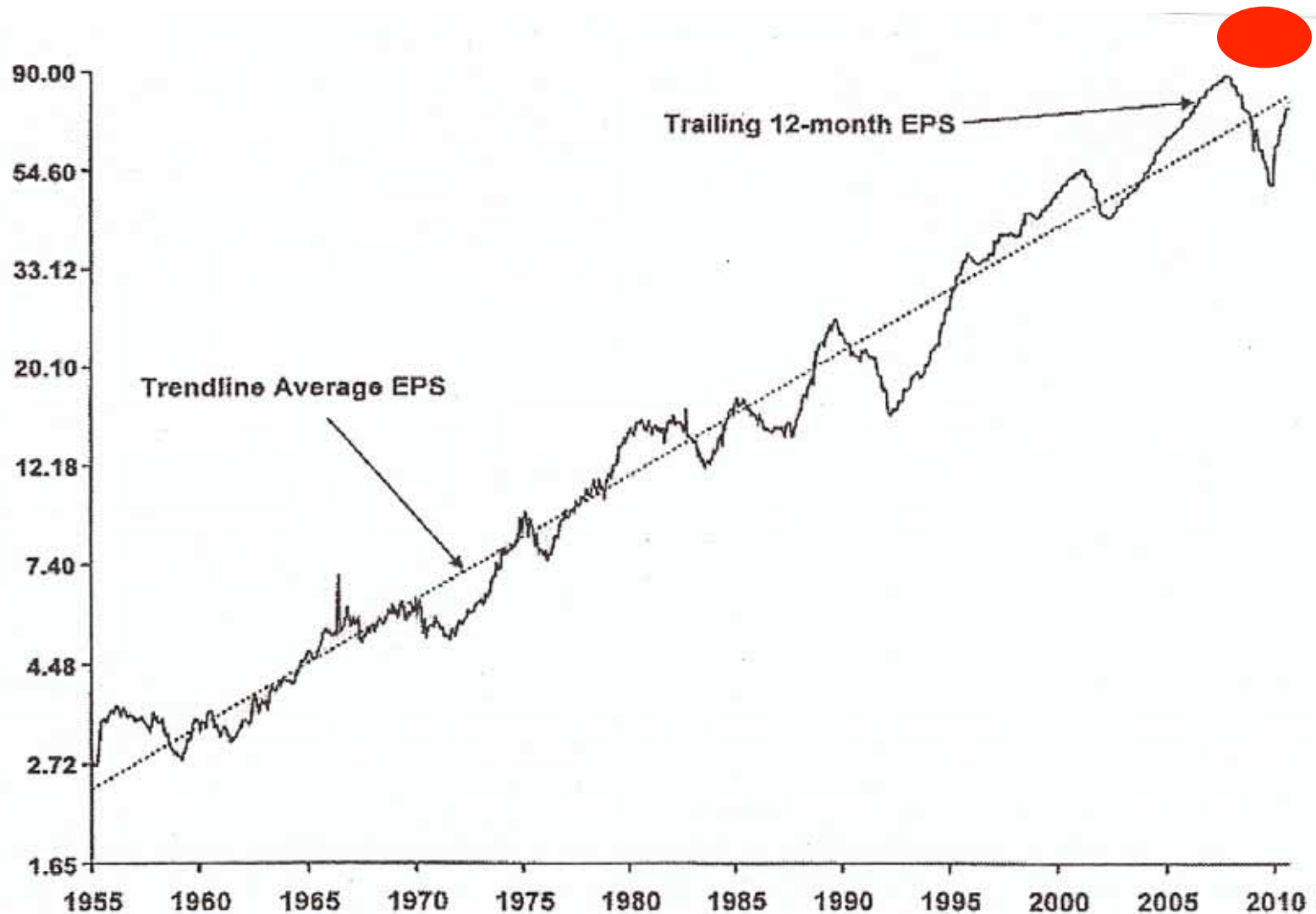
Since WW II

- ❑ Corporate profits up  
110 fold
- ❑ Stock prices have risen  
80 fold

*Source: Standard & Poor's*



# S&P 500 EARNINGS





# ENERGY ISSUES

- ❑ Prices will remain stubbornly high
- ❑ Demand Strong – Especially China and India
- ❑ Supply Weak –
  - ❑ An inverse relationship between oil prices and world peace?

# NEW REFINERIES?



©CBS

- ❑ **NIMBY**
- ❑ **BANANA**
- ❑ **NOPE**

# THE SAUDI ARABIA OF GAS

- ❑ Very Cheap. Oil/Gas ratio is usually 6-1 and is now about 30-1.
- ❑ Clean burning and cheap relative to oil.
- ❑ Natural Gas can be used to; heat homes, power cars, cook, and generate electricity.



# CURRENT SLOPE +200 BASIS POINTS

Ten year treasury note (2.00%) minus  
3-month treasury bill (0.00%)

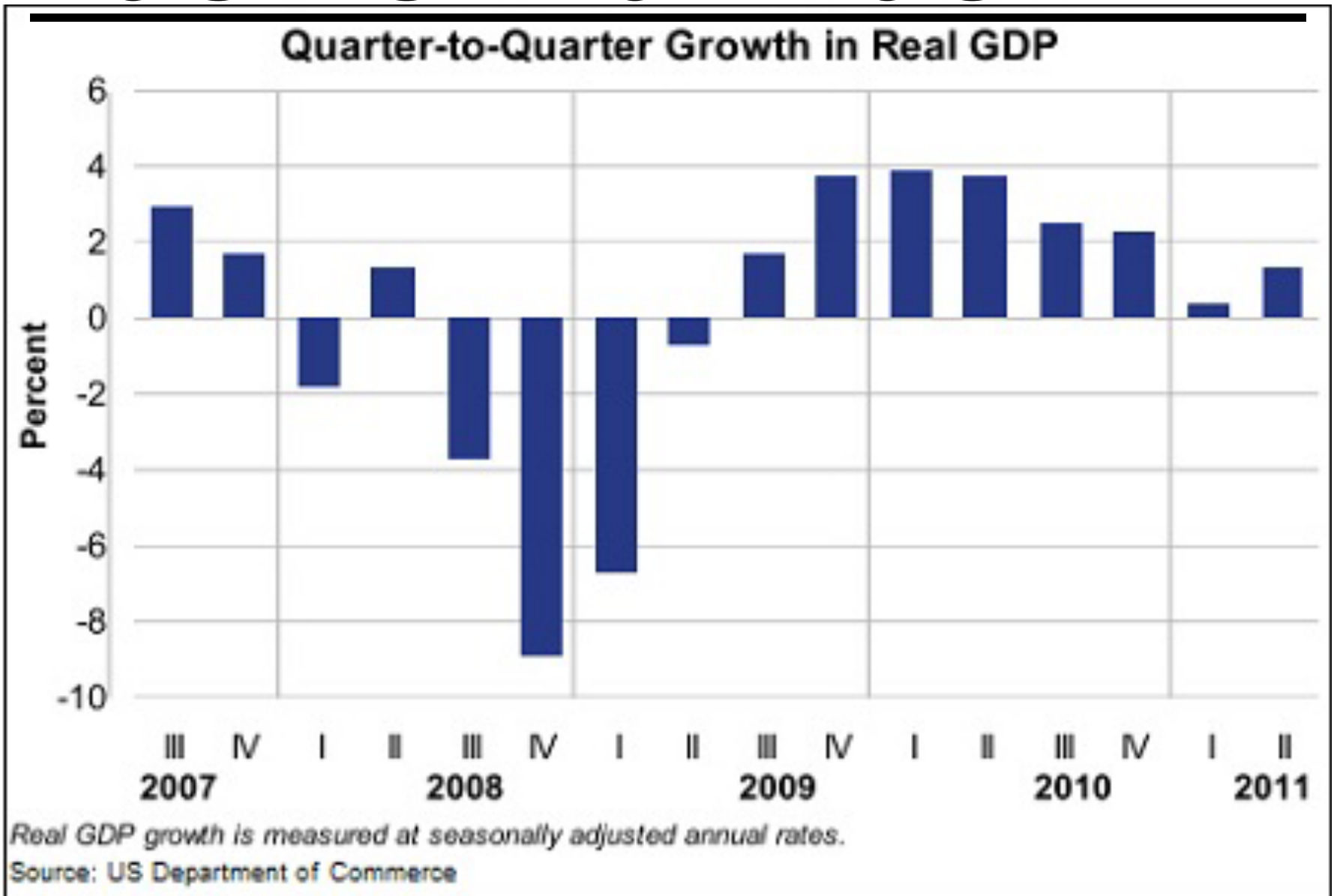


# NO DOUBLE DIP

1. High but falling housing starts.  
**Low and Flat.**
2. High but falling weekly hours worked.  
**High and Rising.**
3. Inverted Yield Curve.  
**This Remains Steep.**  
**(Currently about +200 basis points)**



# ECONOMIC RECOVERY



# **EMPLOYMENT IMPROVING**

## **□ Private Sector Job Growth**

**-In 2010 an average of 100,000 new jobs were created each month.**

**-In 2011 an average of 150,000 new jobs were created each month.**

**-In 2012 expect an average of 200,000 new jobs created each month.**

# MORE RANDOM THOUGHTS...

- ❑ As a percentage of GDP, federal taxes are now at the lowest since 1950.
- ❑ Nationwide Real Estate values have declined by \$7 trillion in the past five years.
- ❑ Less than 3% of what Americans spend their money are goods and services from China. 88.5% is spent on American-made goods and services.

# **A DIFFERENT RECOVERY**



- ❑ **Household Debt is now below average**
- ❑ **Lots of Household Liquidity**
- ❑ **Record Corporate Profits**
- ❑ **Very Healthy Balance Sheets**
- ❑ **Recovery Led by Other Nations this time**

# LOU DOBBS HOSTS *MONEYLINE* FROM WINDOW LEDGE





# CONSUMER ANGST

- The vast majority of this spending is done by the middle class.
- Since 1980 the U.S. economy has doubled in size, but
  - 30 years ago the top 1% of population earned 10% of the nation's income.
  - Today, the top 1% earn 20% of the nation's income. (This group now controls 40% of the country's wealth.)

# HONEY, I SHRUNK THE MARKET

- Buybacks and Mergers have significantly lowered the number of shares outstanding in the U.S. market
- In 2011, companies repurchased \$397 billions of their own shares while issuing only \$169 billion in new equity.
- Management recognizes that their shares are under-valued.
- This smaller share base will provide upside leverage when investor confidence returns.

# GREECE OFFERS TO REPAY BAILOUT WITH GIANT HORSE

*STEED WHEELED INTO BRUSSELS AT NIGHT*



# FINANCIAL MYTH BUSTING

## □ High Unemployment



# A GOOD TIME FOR STOCKS?



**Since 1948 the stock market has performed significantly better (more than twice as high) when unemployment was high (greater than 6.6%)**

*Source: Jim Paulsen – Wells Capital Management*

*Data from 1948 to 2011*



# FINANCIAL MYTH BUSTING

- ❑ High Unemployment
- ❑ Most Americans think we are on the “wrong track”



# IF A MAJORITY OF THE PEOPLE...

- ❑ In the early 1990's 2/3<sup>rd</sup>'s of Americans felt the country was on the wrong track...
- ❑ In 2000 80% of Americans believed the country was on the right track...

*Source: Wells Capital Management*

# FINANCIAL MYTH BUSTING



- ❑ High Unemployment
- ❑ Most Americans think we are on the “wrong track”
- ❑ There is too much leverage
- ❑ There is a Democrat in the White House

# WHERE TO?

- ❑ Share Buybacks
- ❑ Increased Dividends
- ❑ Mergers & Acquisitions
- ❑ Much Needed Capital Expenditures
- ❑ Hiring?



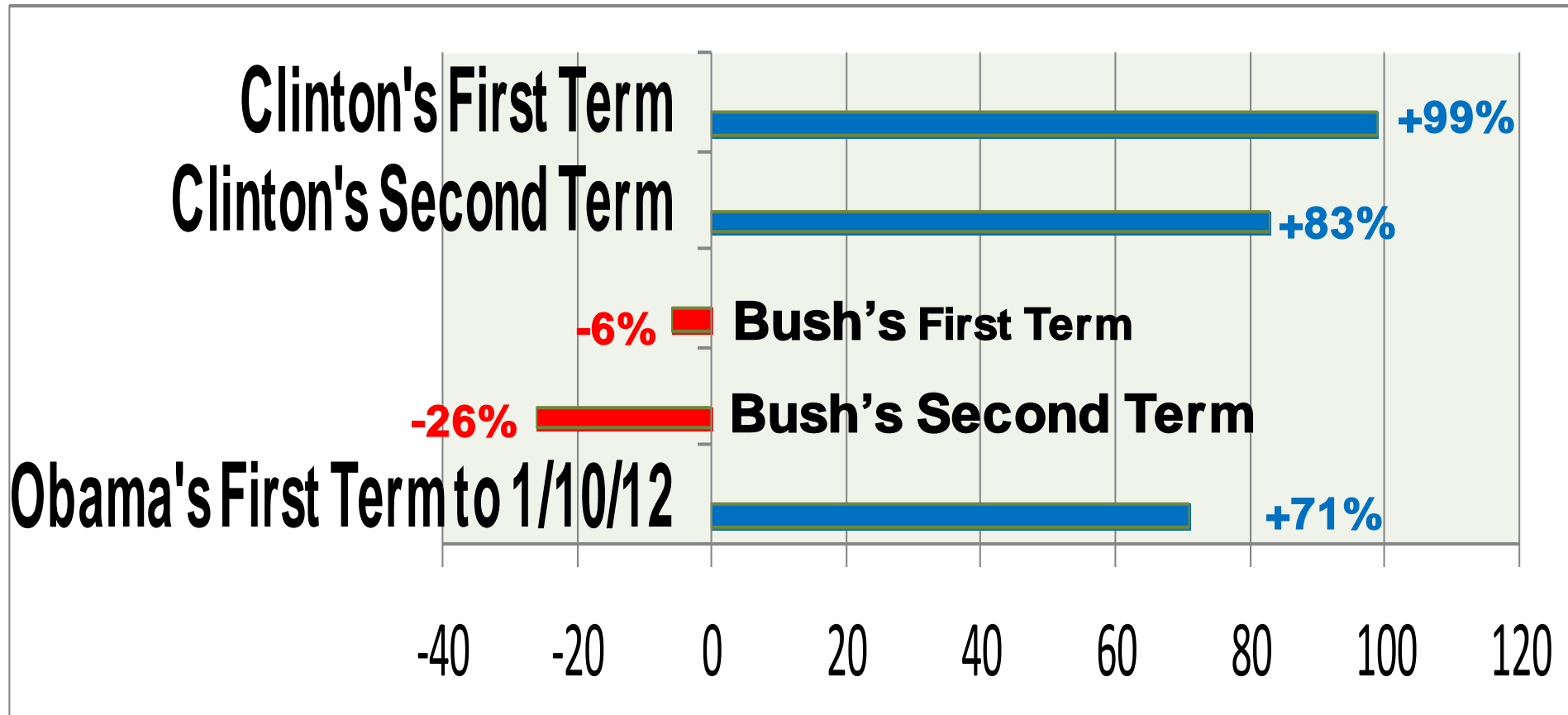
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# **FINANCIAL MYTH BUSTING**

- ❑ High Unemployment
- ❑ Most Americans think we are on the “wrong track”
- ❑ Companies are leveraged
- ❑ There is a Democrat in the White House

# POLITICAL PERFORMANCE

## Standard & Poor's 500



# Mason-Dixon Line Renamed IHOP-Waffle House Line



# THE NEXT BUBBLES?

## GOLD

- ❑ Unlike other commodities, virtual every ounce ever produced is still around. We're mining more every year.
- ❑ Perhaps the only reason that Gold is valuable is that we believe it is valuable

## BONDS

- ❑ Outrageously priced with little room for increases in interest rates and/or inflation

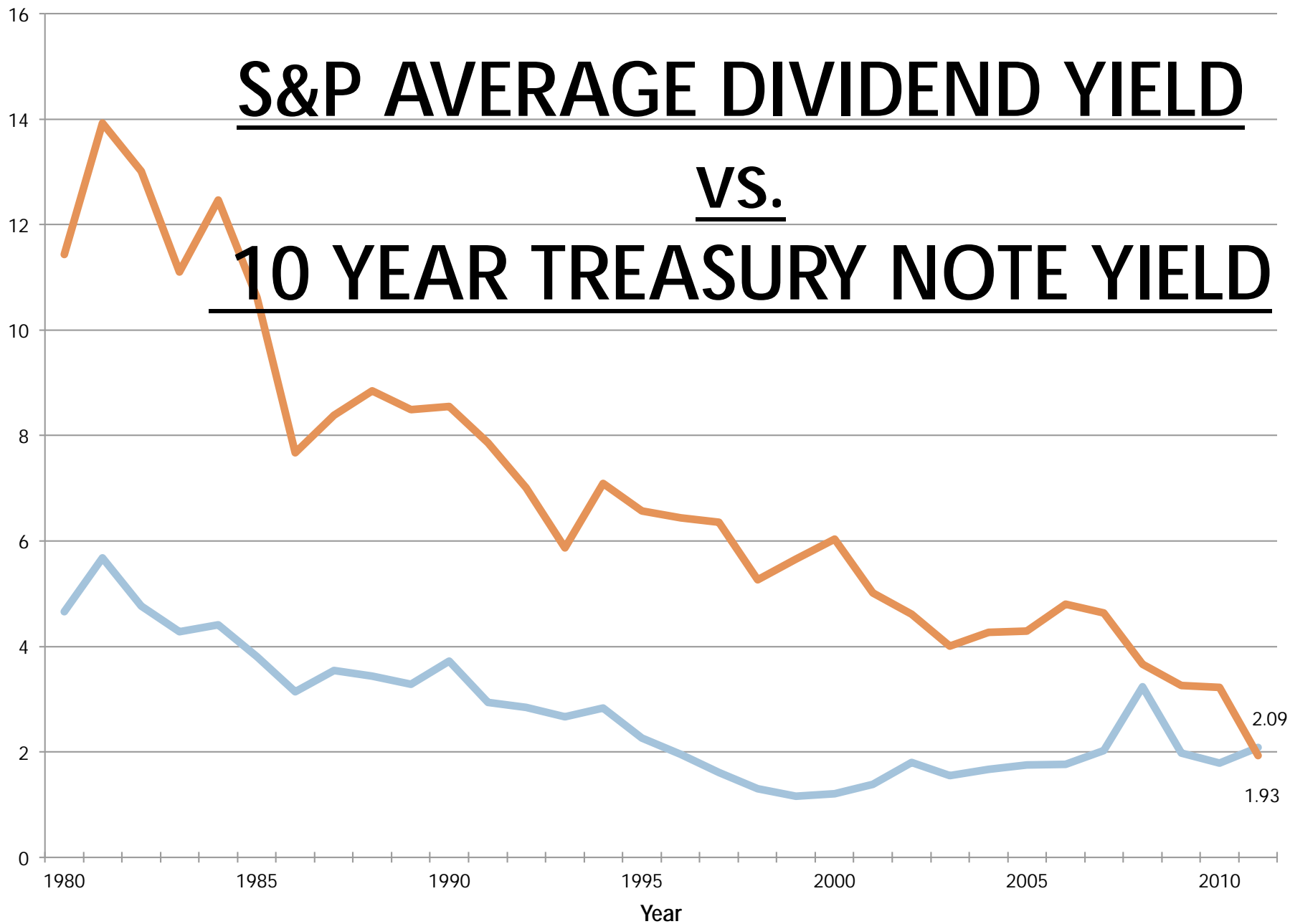


**S&P AVERAGE DIVIDEND YIELD**

**VS.**

**10 YEAR TREASURY NOTE YIELD**

Yield



— S&P Avg Dividend Yield

— 10-Year US Treasury Note Yield

# WHICH INNING?



## Late Innings:

- ❑ Slowing Economic Growth.  
Double Dip or just a soft patch?

## Middle Innings:

- ❑ The average Post-War recovery has lasted 59 months

## Early Innings:

- ❑ Consumer confidence levels are still very low.

(If it were to end now this recovery would be shortest and shallowest ever.)

# WHY I LIKE SMALLCAPS



- ❑ Faster Growth
- ❑ Higher historical long term returns
- ❑ Management often owns a lot of shares
- ❑ More flexible as economic winds shift
- ❑ More likely to be bought out.

# WHAT KEEPS ME UP?

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## Immigration Restrictions

- ❑ Highly qualified applicants

## Restrictions on free trade

- ❑ Open markets are important to our future economic growth

# Not An Economic Clunker

- ❑ The U.S. is the largest and most productive economy in the world (4.6% of the world's population producing 25% of the world's output)
- ❑ U.S. Economy is Larger than Japan, China and Germany combined.
- ❑ China's growth is mainly at the expense of Japan, South Korea and Mexico, not the U.S.



©Matt Groening

# NOT AN ECONOMIC CLUNKER

- ❑ U.S. is the world's largest exporter of goods *and services*.
- ❑ We attract more foreign investment capital than any other nation.
- ❑ The finest higher education system in the world... by far
- ❑ A culture of technology and innovation second to none!

# **STARTED IN DOWNTURNS**

- ❑ Procter & Gamble: The Panic of 1837
- ❑ General Electric: The Panic of 1893
- ❑ General Motors: The Panic of 1907
- ❑ United Technologies: The Great Depression 1929
- ❑ Fed Ex: The Oil Crisis of 1973
- ❑ Microsoft: 1973 – 1974 Recession

*Source: Wikipedia*

# IMPORTANT THOUGHT



There are some things we still  
do well in the U.S.

We innovate, we create,  
We invent.

*Source: Dan Becker/Ivy Funds*



# GREAT READING & SOURCES

## Popular Books

One Up On Wall Street, Peter Lynch (Simon & Schuster)  
A Zebra in Lion Country, Ralph Wanger (Simon & Schuster)  
The Money Masters, John Train (Harper & Row)  
The Little Book That Beats The Market, Joel Greenblatt

## Analytical Books

The Intelligent Investor, Benjamin Graham (Harper & Row)  
Security Analysis, Benjamin Graham (McGraw-Hill)

## Sophisticated and Well Written

Common Stocks and Uncommon Profits, Phillip A. Fisher (Harper & Row)  
The Contrarian Investment Strategy, David Dremen (Random House)

## Great Investment Websites

|                        |                  |
|------------------------|------------------|
| Bloomberg.com          | Investopedia.com |
| NPR.org (Planet Money) | MotleyFool.com   |
| Seekingalpha.com       | YahooFinance.com |

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