



ANALYTICS INVESTMENT ADVISORS, LLC

Investing in a Slow Growth Economy

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What?

- For the 12 presidential tenures between 1933 and 2008 the average annual US GDP growth rate was 3.6% (Chart 1).
- During the 6 year period between 2010 and 2015 the Obama administration average annual US growth rate was 2.0% (Chart 1, 2009 was not included due to the proximity of the 2008 recession).
- The average annual US GDP growth rate differential between these two time periods is 1.6%, a 44% reduction.
- The average annual return between 2011 and 2015 for the five leading sectors were: Health Care (24%), Consumer Discretionary (16%), Consumer Staples (13%), Technology (12%), and Real Estate (11%) (Chart 2).
- Janet Yellen recently stated: "Considerable uncertainty about the economic outlook remains... We cannot rule out the possibility that slow productivity growth seen in recent years will continue in the future."¹

Why?

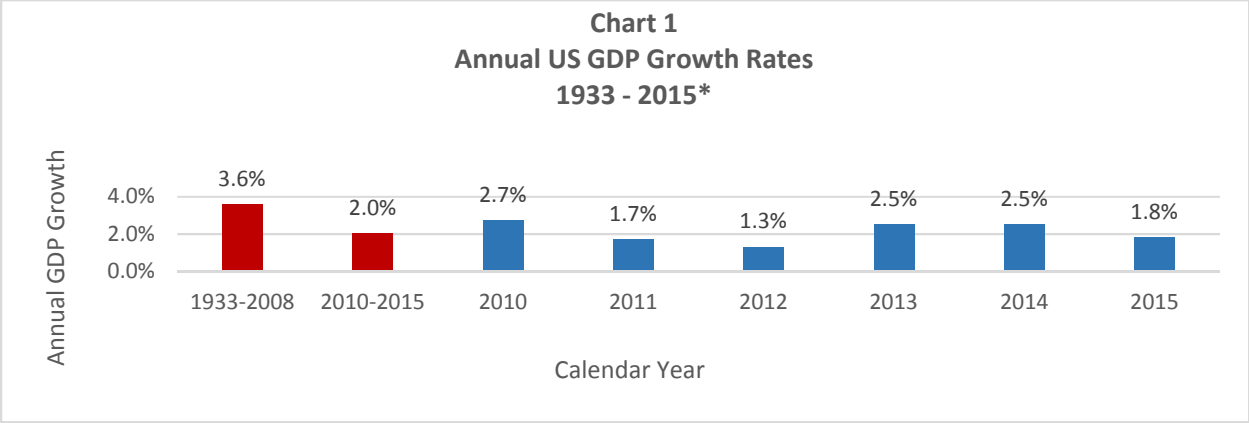
- The relative underperformance of the US growth recent is due in part to: 1) weak global demand and a stronger dollar; 2) an unprecedented increase in regulation; 3) the minimum wage movement; 4) state occupational licensing requirements; 5) restrictive land use regulations; and, 6) transfer payments to low income workers, all of which are causing corporations to squeeze variable and labor costs to boost earnings.

How?

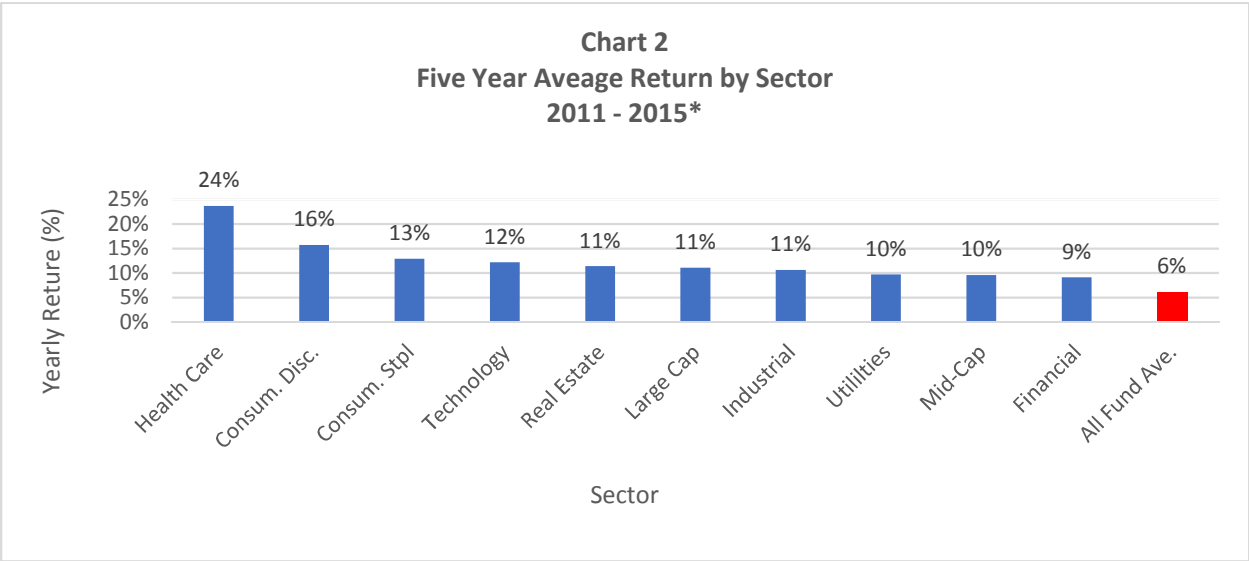
- Given that the United States economy is projected to experience weak expansion for the remainder of 2016², a reasonable guide to sector selection is to assume that the industries that have performed well under similar conditions in the past are likely to continue doing so near term. These include: Dividend Paying Equities (**HDV**, 12 mo. yield 3.54%, large cap); Biotechnology (**IBB**, favorable demographics, low valuations, record levels of \$ transactions); Pharmaceuticals (**PJP**, greater patent volumes, large cap proclivity); Consumer Staples (**FXG**, stable revenue growth, global reach); Technology; (**QQQ**, diversified large tech firms, good late cycle growth); S&P 500 Index (**SPY**, 500 equity holdings, broadly diversified across companies and sectors, excess return 1947- 2014, 6.8% vs. 1.5% for intermediate-term bonds); Real Estate (**XHB**, home furnishing, low interest rates for home buyers, record new home sales, tight inventories). Accordingly, these sectors and corresponding exchange traded funds will be given special consideration for each of the five Analytics Investment Advisors strategic allocations for the balance 2016.

¹ *Wall Street Journal*, June 21, 2016. This statement is equivalent to an admission that the United States may be in a state of "secular stagnation" wherein the economy grows slowly while interest rates remain exceptionally low.

² The International Monetary Fund cut its outlook for the U.S. economic expansion to 2.2% citing weak energy sector, strong dollar and overseas turmoil.



*Source: 1933-2008; John Morgan, *Moneynews*, June 11, 2014. 2010-2015; U.S. Bureau Economic Analysis.



*Source: Yearly average of 10 Presidential terms between 1933 and 2008 (F.D. Roosevelt to G. Bush).

Performance Summary

	Average*	YTD*					
	2013 - 2015	6/30/2016	%AUM	Alpha**	Beta**	R2**	SD**
S&P 500	13.81%	2.69%					
Barclay US TR	1.13%	5.31%					
Cautious	11.7%	-0.82%	< 1%	-0.04	1.18	0.67	5.66
Moderate	16.3%	-3.70%	30%	0.02	1.21	0.76	5.40
Assertive 1	19.4%	-7.44%	32%	0.35	1.22	0.55	6.47
Assertive 2	24.4%	-6.68%	26%	1.16	1.42	0.56	7.54
Aggressive	25.6%	-20.51%	11%	-0.04	2.37	0.64	11.71

* Net Size Weighted Returns, PortfolioCenter, Schwab Portfolio Technologies. Returns are Net of Fees, which are negotiable and range between 50 and 125 basis points.

**Risk Return Statistics, Analytics Investment Advisors, LLC; most recent 12 months.