Osborne | Global Investments, Inc.

MARCH 2015 INVESTMENT IDEAS FROM OSBORNE GLOBAL INVESTMENTS, INC.

- *11th Anniversary*
- *FPA Crescent*
- *Portfolio changes*
- *Interest rates*
- *Emily Cleo Osborne!!!!!!*

Eleventh Anniversary

This March was our 11th anniversary. We have outlived Lehman Brothers, Bears Stearns, Washington Mutual, and many other prestigious investment houses.

All of our research is original. We scour the globe for the best deals for our clients. We also write research reports about our investments to find out more information from like-minded analysts. We do not pay much attention to bond ratings but instead do our own analysis. When we buy a mutual fund, we look at the individual stocks inside the fund. We listen to conference calls and ask questions. If a bond yields 4% we don't just look at the coupon but pay more attention to the industry that the company operates in and the capital allocation that management has chosen. If we can't figure out a company's prospects we avoid it. If a company has changed and our thesis has changed, we will sell. Lately, we have been writing one research report a day. The more rocks you turn over, the more deals that you will find. It's kind of like the television show Pickers. The more antiques you look at, the more you are likely to find a hidden gem.

First Pacific Advisors Crescent Fund

We have added a new fund to the lineup—the FPA Crescent Fund. This fund is managed by Steve Romick and has averaged 11% for the last 22 years. Like our firm, FPA holds securities that are off the beaten path and, also, is holding higher amounts of cash.

Of all the funds we hold, Cresent has the largest amount of technology stocks. It leans towards the larger, US based companies but ,also, has a few companies from around the globe.

Changes to stock portfolios

We added and subtracted a few investments in the latest quarter. Our investment in Tesco was short-lived. This was the second time that we invested in the British supermarket chain. We held the stock for about 3 1/2 months and made close to a 19% profit.

Tesco has lost much business to Aldis, the German supermarket chain that owns Trader Joes. Berkshire Hathaway sold when the stock crashed. We were fortunate enough to buy at the bottom but sold when the company cut its dividend. At the time, Tesco had over a 6% dividend yield.

A new addition to the portfolio is CNH Industrial, Case New Holland Tractor. Case manufacturers tractors, engines, and buses. The stock is down because grain prices have suffered with bumper crops. My guess is that we'll experience poor weather once again and grains will rise. CNH sports a 3.5% dividend yield. We have held the bonds for several years.

Munich RE is the second addition. Munich is a reinsurance company, which insures the insurance companies. The stock has a 4% dividend yield and Berkshire Hathaway has an 11% holding. The largest loss Munich ever experienced was after the World Trade Center terrorist attack.

The third company is Swiss RE. Like Munich, Swiss RE is a reinsurance company. It has been publicly traded since 1869. Swiss has paid a dividend ever since then and now yields 4.75%.

The last is a preferred stock. A preferred pays a dividend but does not partake in the profits and thus does not rise and fall like a common stock. Preferreds are safer than common stock but not as safe as bonds.

The company is called CHS. CHS is a grain processor and oil refiner. You probably have never heard of the company as it has no common stock. It is held by members, mainly farmers, in the northern part of the U.S. The company owns CETEX gas stations.

The preferred yields 6.5%. As long as interest rates do not sky rocket, we should be okay. Preferreds can drop when interest rates go up as they do not have a maturity. My guess is that the yield will mitigate any rises in interest rates, which I do not forecast for the time being.

What's the theme with all of these investments? YIELD. As you can probably guess, I'm concerned about the markets trading at an all time high.

Though the American dollar has been very strong, the stocks that I'm finding outside the US are much more attractively valued. Price to earnings ratios of 12, dividend yields of 3% to 5%, stocks selling less than the available equity are what I like.

We have also taken a position in Spectrum bonds that yield 4.9% with a five year maturity. Spectrum owns Rayovac, Black Flag roach killer, and Iams pet food. The company is financialy solid and is majority owned by two large, well-run corporations. When these bonds mature in five years, investors will have almost a 25% return. That 25% may rival the return of the overall stock market.

Why Interest Rates Probably Won't Rise

The famous Warren Buffett gave the simplest reason why interest rates won't rise anytime soon. If the U.S. raises rates, money would rush in from Europe at too rapid a pace. All of the money would drive up our dollar and make our exports uncompetitive. We are experiencing some of that right now.

Interest rates are literally negative in some European countries. Can you imagine a government issuing a bond and you having to pay them to hold your money? It's happening. In the early 1980s, interest rates in the U.S. were at an all time high. When we say "all time", we mean all time. They were the highest recorded rates since economists have kept track of statistics. So high that not even your great-grandchildren will ever see rates of that nature. The dollar was at its strongest too.

Perhaps the current low rates will never be seen again for many generations to come. Is there a way to profit from these low rates? Are there investments to avoid? We've been staying away from long term bonds for a long time but been wrong in our analysis. Still, we don't go out further than six years in bond purchases.

You can do riskier, more difficult transactions like shorting bonds but that can blow up in your face. In the early 80s, you could buy 30 year bonds with 15% yields. How'd you like to have one of those right now? Profiting from this once is a lifetime phenomenon is difficult. I suppose the run up in stocks, bonds, and real estate was the way to take advantage of these historically low rates.

Emily Cleo Osborne

The newest addition to our family, Emily Cleo Osborne, entered the world on February 10. She is a beautiful, happy baby girl. The name Cleo comes from my paternal grandmother.

Emily's big sister Adelaide celebrated her birthday on March 29. Adelaide is now four. We had a "Meet Emily" party on a Saturday and Adelaide's birthday party on a Sunday. When someone wanted to sing happy birthday to Adelaide during Emily's party, she said, "No! This is Emily's party, not mine". Adelaide has been a big help to Jennifer and me with her little sister.