Osborne | Global Investments, Inc.

JANUARY 2015 INVESTMENT IDEAS FROM OSBORNE GLOBAL INVESTMENTS, INC.

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Ideas for 2015

2014 was another strong year for the stock market. When will the market pull back? When will interest rates rise? Will prices go up (inflation) or will they go down (deflation) or will we have inflation in some goods like food and deflation in others like oil?

With the stock market at a recent all time high, one wonders how much longer it will keep going without a correction. Interest rates have been rock bottom for well over a decade. Is 2015 the year things change? I don't have the answers for these questions but have been conservative, holding high amounts of cash and short term bonds.

As for tax law changes for 2015, they are minor. Retirement plan contributions for 401Ks have increased to $18,000 and $24,000 if you are over 50. SEP IRAs and Solo 401Ks have been raised from $52,000 to $53,000. Simple IRAs have been raised from $12,000 to $12,500. IRAs and Roths are still $5,500 and $6,500 for those over age 50.

What has not changed is that the best way to save for retirement and cut taxes is to put money into a retirement plan.

Heinz Bonds

We initiated a position in Heinz Bonds with a 4% yield and five year maturity. Heinz was bought out by Berkshire Hathaway and a Brazilian company named 3G Capital.

Comparable U.S. Treasuries are yielding 1.6% and cd's 2.2%. The discrepancy lies in the fact that the bond rating does not take into account that Berkshire Hathaway and 3G own and control Heinz.

If you look hard enough, you can find deals like this in corporate bonds.

charles SCHWAB ADVISOR SERVICES

Oil and the U.S. Dollar

The price of oil has plummeted from over $100 a barrel just a few months ago to $50. Horizonal fracturing, a process of injecting sand and steam into shale, has allowed energy producers to explore in areas once thought impossible. Ten years ago, the U.S. was producing about 5 million barrels of oil a day. We are now up to 8.5 million. THIS IS A BIG DEAL!

It's such a big deal that it has helped bring a sharp decline in the price of oil. So sharp that it is hurting the very producers who helped develop this new technology!

The break-even price on most oil projects is between $50 and $70 a barrel. With oil prices at $55, many rigs are shutting down. It's the old story of supply and demand. A commodity is needed, prices rise, producers increase production, supply rises, prices fall, producers cut production, and the process starts all over. It happens in wheat, gold, tomatoes, peanuts, and all commodities.

So what will happen to oil? The prices could certainly fall more. When something is traded on an exchange, there is always a chance that speculators can drive the price way up or way down. **By the way, did you thank the speculators for driving down the price of oil?**

As for horizontal fracturing overseas, it seems to be more difficult. Many of these countries do not have the infrastructure to move energy: roads, pipelines, refineries, access to tankers. Plus, their rules for drillers differ.

Libya is close to producing 1 million barrels of oil per day. In early 2014, it was only producing 200,000 barrels a day. Global stability has led to a price drop as more countries are producing. Any disruptions to major oil producing countries could lead to a drop in supply.

Another issue with oil and commodities is that the dollar is at an 11 year high. It only takes $1.19 to buy 1 Euro. Three year ago, it took over $1.40. The same is true of the yen-a few years ago it took 75 yen to buy $1 and now it takes 120. Who would have thought that the dollar would have been so strong with the enormous balance sheet the Treasury carries? Other Central Banks are doing similar things that our Federal Reserve is doing—expanding their balance sheets and putting cash into their economies.

American companies doing business overseas will find that a stronger dollar will decrease their earnings. Commodities that are denominated in dollars, like oil, will cost foreigners more too.

Gold did well last year in almost every country except the United States and Canada. In Russia, gold was up over 70%. When the ruble collapsed, gold remained relatively stable. It makes one wonder if this could cause a rise in the price of gold.

It's always been thought that a strong dollar is a harbinger for weak gold prices but perhaps an extremely strong dollar could cause investors in foreign countries to hedge their own currency in precious metals.

Diversify, Diversify, Diversify!

Is your money invested in American blue chips? GE, Coca-Cola, Proctor & Gamble? All great companies but they've had a five year run. If you can stomach having your entire portfolio down 40% every seven or eight years, it's not a big deal. A lot of investors can't take that roller-coaster.

A substantial amount of portfolios that we see have mutual funds that basically hold the same thing. So what is diversification? It's having uncorrelated assets. The theory is if one investment is down 25%, another will be up 8%. It's harder to achieve than it sounds. Economies are so interconnected that they often rise and fall in tandem. But even when they do, there are differences in return and volatility.

For mutual fund accounts and 401Ks, we have a simple method to diversify. We buy a few mutual funds and let the managers spread risk. The caveat is that these funds are go-anywhere funds. They can invest in anything that they think will make money: stocks, bonds, gold, Asian companies, etc.

If you own funds, you've already decided to diversify. Why not take it a step further and truly diversify?

A diversified portfolio of high dividend yielding stocks should do well over the next ten years. With the amount of inflation in the world, it should eventually push stock prices higher. You want to be the owner of land, real estate, stocks, and hard assets. Being a consumer or renter will be hard as you must constantly fight the affects of inflation.

Over the Counter Foreign Stocks

Sounds risky. It's not. Many companies choose to not trade on the New York Stock Exchange as they do not want to comply with US rules. Nestle, as an example, is one of the most successful companies of all time and chooses to be traded over the counter in the US. All that means is that you buy the stock from a trader. If you have an online account, it's not too difficult.

The problem is that many U.S. retail stock brokerage firms do not research these companies. So they are passing up on some great companies like Tesco, Michelin, Heineken, Porsche, and Miller Beer. Why limit yourself? Only a handful of auto, beer, or pharmaceutical companies trade on the major U.S. exchanges. Why would you pass up on these opportunities?

If you want to own individual stocks, then you need to own at least a few of the great international companies that do not trade on the major U.S. stock exchanges.

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Osborne Global Investments, Inc., is a money management firm specializing in the management of stocks, bonds, and corporate retirement plans. Holmes Osborne is the principal. Holmes holds a bachelor's in finance from Syracuse University and the Chartered Financial Analyst designation. Holmes has spoken frequently on the topic of the economy and financial markets and previously had a television program on public access. Publications that his articles have appeared in include: The Motley Fool, TheStreet.com, Seeking Alpha, and Investopedia. He was the featured advisor in the April 2013 online edition of the *Wall Street Journal*. Holmes has also served as an expert witness in court cases involving financial ethics. Clients' assets are held in custody at Charles Schwab & Company.

Wishing you all the best in 2015!