Fortunato Asset Management (FAM)
Q1 2015 Newsletter

On the Horizon

Financial news is daily obsessed with the Federal Reserve raising interest rates, which historically has caused valuation compression among stocks. This is the worry of the day. There will always be a worry of the day. Rather than spend time stewing about interest rates, how Greece turmoil impacts the market, or whether factory orders are up, I invest it researching the fundamental dynamics of individual companies. From there I glean a macro economic picture applicable to companies future earnings. To that end, its my job to find value wherever it exists at depressed or at least reasonable prices in industries that preferably have secular tail winds.

Although we hear about how “overvalued” the market is on a routine basis, many individual stocks and sectors and geographies do not reflect high valuations. Two of these and my favorites at the moment are financials and technology shares (ex-social media). With regulatory hassles still abounding, many large banks and insurance companies are trading at depressed fundamental valuations near or even below tangible book value. However, the earnings potential and credit picture looks bright, especially if the Fed raises rates. Many technology shares are priced reasonably from a revenue and earnings growth perspective.

Commodities and commodities stocks are depressed from an oversupply situation in almost all industries, but getting more interesting. I believe the commodities oversupply bust is the result of China's huge demand and building and infrastructure boom which is now slowing. If it bursts, the situation could worsen. Easy money policy in the form of low cost debt has added fuel to the fire. Some commodity industries such as oil tankers are looking better. I follow stocks in this sector closely, but have little invested there today as the risk/reward profile is not compelling yet.

Europe is the beneficiary of easy money policy now in the form quantitative easing and low rates. The market there is not as richly valued as the U.S. market and will likely continue to outperform for a while, therefore we look to add to positions there as we find opportunities.

Oil stabilization (at whatever price) is a positive for the markets in my view. A big jump or decline in oil prices will cause further volatility in share prices in general. Having performed fundamental research on a variety of oil and gas related companies such as Pioneer Resources, Oasis Petroleum, Suncor, and several midstream pipelines, I believe now is not the time to begin acquiring shares of energy related stocks. Oversupply issues can last a lot longer than the consensus believes it will.

Now for the best part...

The Best Part – Equities We Like
Every quarter I highlight a company or two which we like with a few notes on the reason.

Google Inc.(symbols: Googl, Goog)
Google lagged the market sorely in 2014. I believe investors are distracted by Google's more experimental arm with such concoctions as Google glasses, self-driving cars, and high-speed Internet access. But overall company revenues continue to grow at a 20% clip from Google's core search business. YouTube is on fire with growth of 50% in revenues and 100% in earnings due in part to the secular tail wind of increased advertising in the online video space. While recent spending and a strong dollar has hurt Google's earnings, the vast majority of the spending is on future growth projects such as data centers, hiring, and research – rather than on the more speculative news making ventures as the market may believe. If any of Googles "moonshots" work out, they would just be the icing on the cake. We invest in the company based on the valuation of the known revenue and earnings growth components of the company.

American International Group (symbol: AIG)
The stain from a government bailout during the great recession keeps the stock price of this insurance goliath depressed. I calculate the price to tangible book value ratio at around .75 or lower. The company has paid back the government from the bailout. Performance has been solid recently and the companies goals are to increase ROE to 10% while reducing the companies risk profile. With the companies share buybacks taken into account, I expect the diluted earnings yield from AIG to be between 12-15%, not too hard to take from a company trading at such a discount.

News About the Fund Strategies

I am excited to announce the opening of our third fund strategy in March 2015. Fortunato 3 is a dividend and income strategy seeking a current 6% return for investors. The strategy invests in dividend stocks, preferred stocks, bonds, and closed and open-end bond funds. As always, I am "drinking my own cocktails" by investing my own funds in the strategy. This fund strategy should provide nice ballast in volatile markets while providing steady income.

Fees and Costs

The three fund strategies have some of the lowest expenses of any fund and I consider it a competitive advantage. FAM pays all its own operational costs including audit, accounting, administration, tax and filing fees. None are passed on to investors. There are two components to beating the market indices. The first is to have low frictional costs (ie low fees and costs). And the second is to generate superior returns. Low frictional costs will assist in superior long term performance.

Alignment with Investors

I have a substantial percentage of personal assets in the three Fortunato Asset Management strategies. Fortunato 1 charges no management fee to qualified clients, only performance fees – which are ¼ of returns over 6% annualized (subject to high-water marks). I am very bullish on the long-term future of Fortunato and plan on managing fund strategies as long as I am able. Our interests are completely aligned.

Final Thoughts

Thank you for investing with Fortunato. It's a pleasure to serve you. If you should need a confidential financial evaluation or consultation, please remember that this service is included with your Fortunato investment. While financial planning is not my expertise as an investment adviser, I can help you evaluate the performance of current investments, recommend allocation options, set retirement goals, and consult on a variety of other investment related topics.