

Presentation to CFA Society Virginia



The Global Economy: Lessons from the Past, Experience from the Present, Projecting the Future

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Agenda

- U.S. Presidential Elections & the Economy
- Europe
- Home Bias

U.S. Presidential Election & the Economy

What Is At Stake?

- **Back-drop:**

- Significant technological innovations and penetrations of industry, allow for productivity to expand and even accelerate at times
- Globalization and free trade allow for innovations to be shared and experienced across borders
- Rapid industrialization across the globe have led to increased competition for exports and allowed imports to expand significantly
- Geo-political realities (conflicts, turmoil, oppression, economic crises) have encouraged immigration (both legal and illegal)

- **Outcome:**

- Rapid loss of competitiveness in industries that in many instances continue to dominate the U.S. landscape and which the U.S. dominated the global stage for nearly half a century
- Slow to stagnant growth in household “real” wages
- Loss of jobs due to technological impacts on traditional industries as well as global competition
- Anxiety amongst workers at most levels and significant concern for job security
- Increase in domestic violence/terrorism often times from (or perceived to be from) “radicalized” immigrants with certain beliefs and coming from certain regions
- Increased calls for populist measures such as:
 - Better/Fair trade deals that “level the playing field”
 - Better wages
 - Limiting/decreasing immigration and greater scrutiny of immigrants from certain regions

Who Should We Vote For?

Presidential Elections of 1928



Secretary of Commerce Herbert Hoover



New York Governor Al Smith

Rapid Technological Innovation and Implementation

Figure 17: Dwellings With Electricity, 1920 to 1930

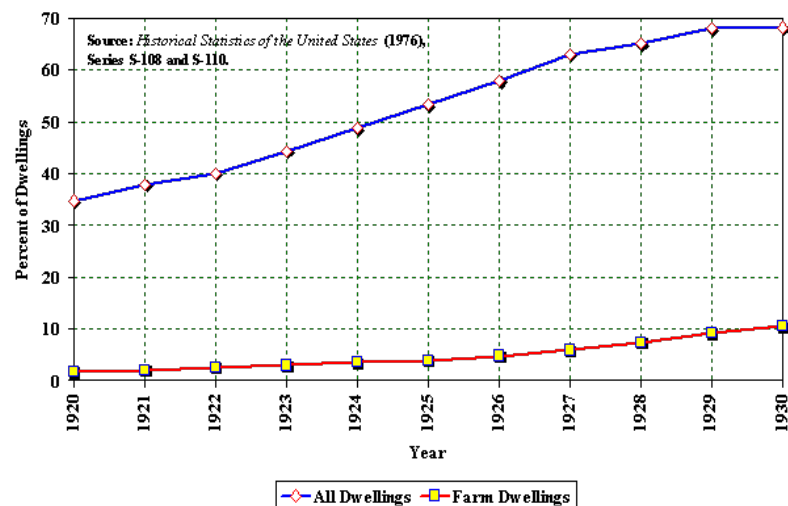
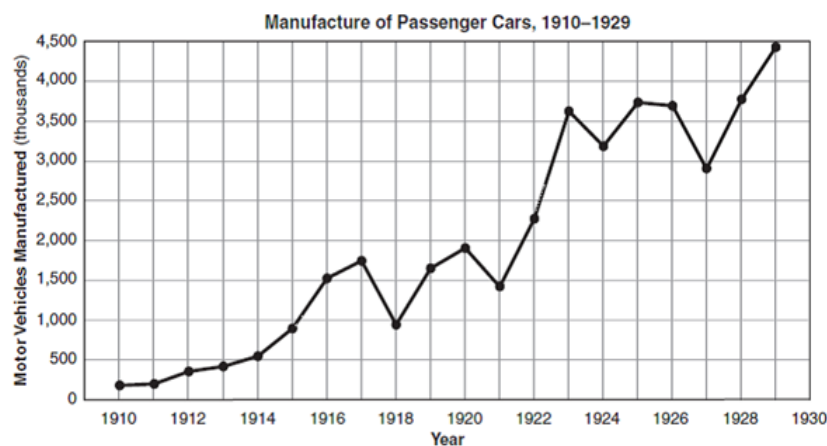
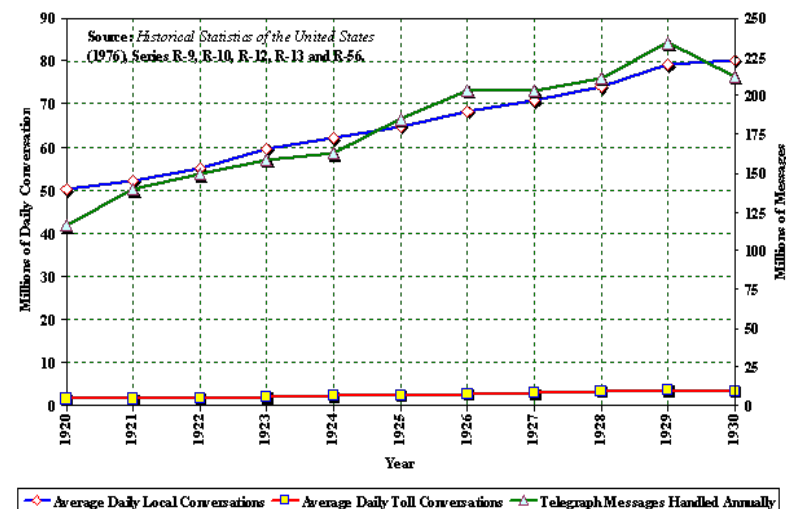
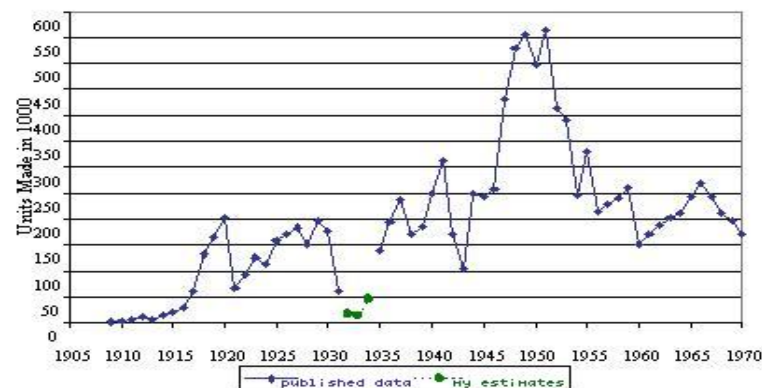


Figure 18: Telephone Conversations and Telegraph Messages, 1920 to 1930



Source: Historical Statistics of the United States, Colonial Times to 1970, Part 2, U. S. Department of Commerce (adapted)

Figure 2. Tractors Produced in the U.S.
1909 - 1970



...Significantly Increased Productivity & Trade...

**TABLE 2:
SELECTED AGRICULTURAL PRODUCTIVITY STATISTICS, 1915-1929.**
(Annual Averages)

Period	Labor-Hours Per Unit							Per Acre Yields			
	Wheat 100 Bush.)	Corn 100 (Bush.)	Cotton (Bales)	Hay (Tons)	Milk (Cwt)	Beef (Cwt)	Hogs (Cwt)	Wheat (Bush.)	Corn (Bush.)	Cotton (Lbs.)	Hay (Tons)
1915-19	98	132	299	10.4	3.7	4.5	3.6	13.9	25.9	168	1.25
1920-24	90	122	296	10.2	3.6	4.5	3.5	13.8	26.8	155	1.22
1925-29	74	115	268	9.8	3.3	4.3	3.3	14.1	26.3	171	1.22

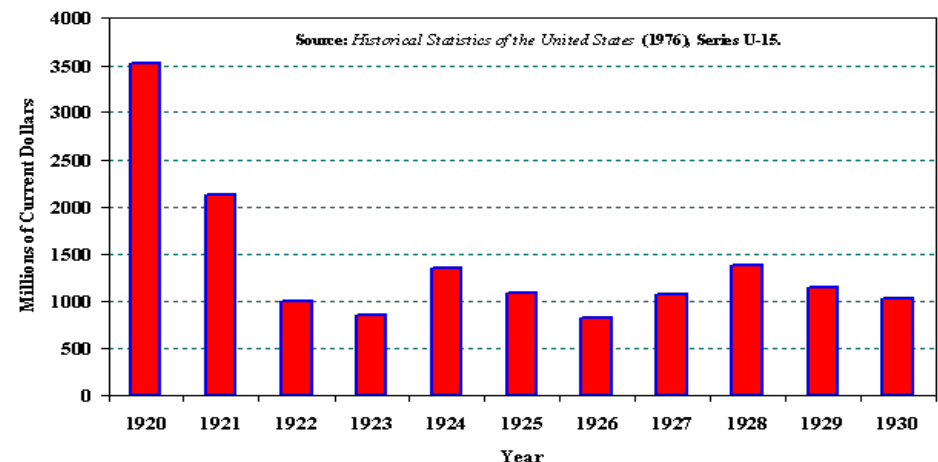
Source: *Historical Statistics of the United States: Colonial Times to 1970* (Washington: U.S. Government Printing Office, 1976).

Table 3: Average Annual Rates of Labor Productivity and Capital Productivity Growth.

Period	Average Annual Labor Productivity Growth	Average Annual Capital Productivity Growth
1899-1909	1.30%	-1.62%
1909-1919	1.14	-1.95
1919-1929	5.44	4.21
1929-1937	1.95	2.38

Source: Devine (1983), Table 2. The average annual percentage rates of growth are calculated as instantaneous rates of change.

**Figure 28: The United States Trade Balance on Goods and Services,
1920 to 1930**



...Which Led to Stagnant Wages...

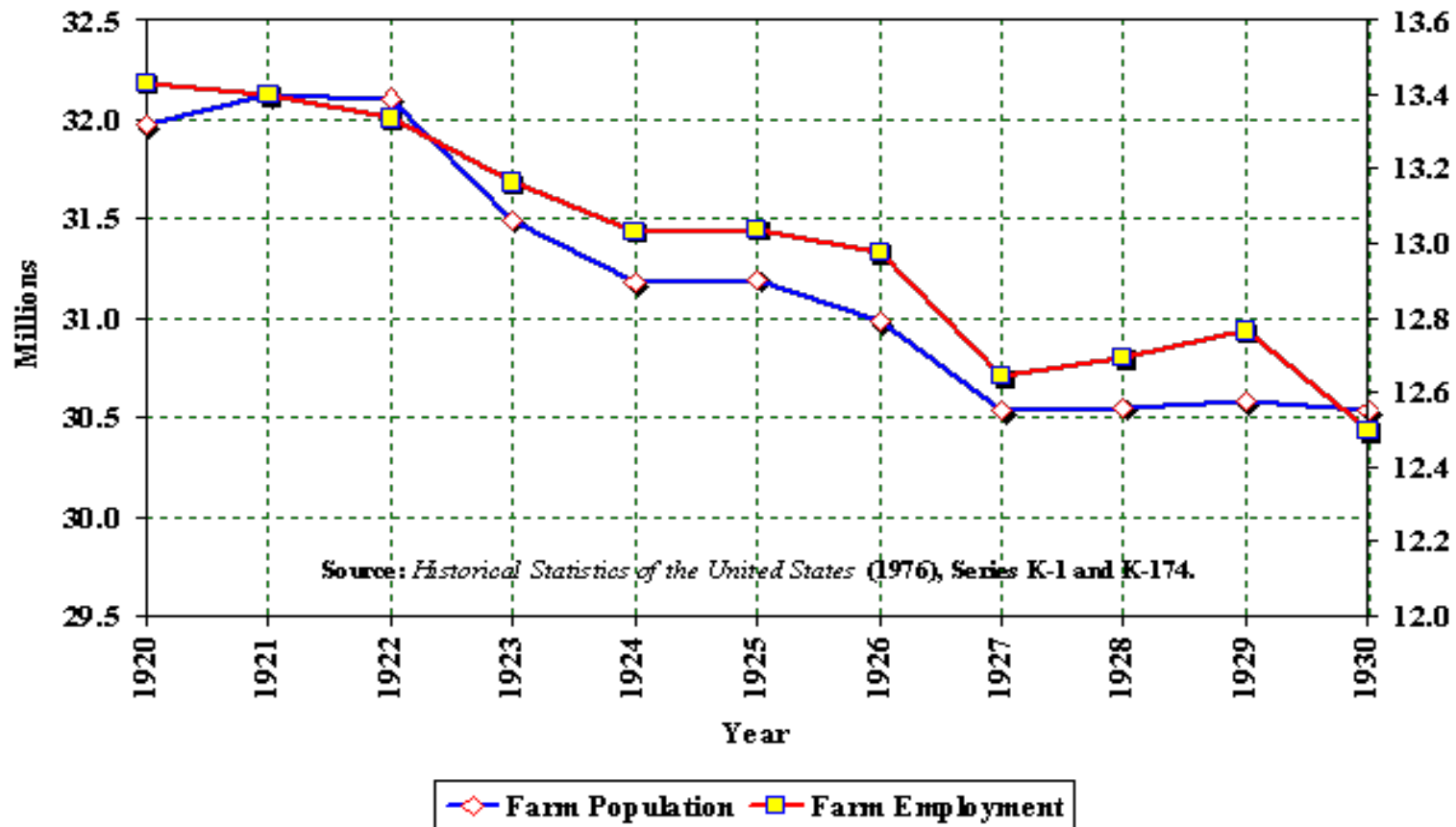
Table 1: Real Average Weekly or Daily Earnings for Selected Occupations, 1920 to 1930.
(1929=100)

Year	(1) Weekly: Skilled and Semi-Skilled Male Production Workers Workers in 25 Manufacturing Industries	(2) Weekly: Unskilled Male Production Workers Workers in 25 Manufacturing Industries	(3) Weekly: Female Production Workers Workers in 25 Manufacturing Industries	(4) Weekly: Bituminous Coal- Lignite Mining	(5) Farmworkers Daily Wage Rate
1920	29.16	22.28	15.14	--	2.82
1921	26.19	19.41	14.96	--	1.96
1922	28.73	20.74	16.19	--	2.04
1923	30.93	22.37	17.31	25.51	2.36
1924	30.61	22.45	16.78	23.47	2.40
1925	30.57	22.41	16.78	25.64	2.30
1926	30.60	22.47	16.72	27.51	2.32
1927	31.09	23.22	17.14	23.85	2.32
1928	31.94	23.89	17.15	24.46	2.30
1929	32.60	24.40	17.61	25.11	2.30
1930	29.93	22.47	16.40	22.61	2.21

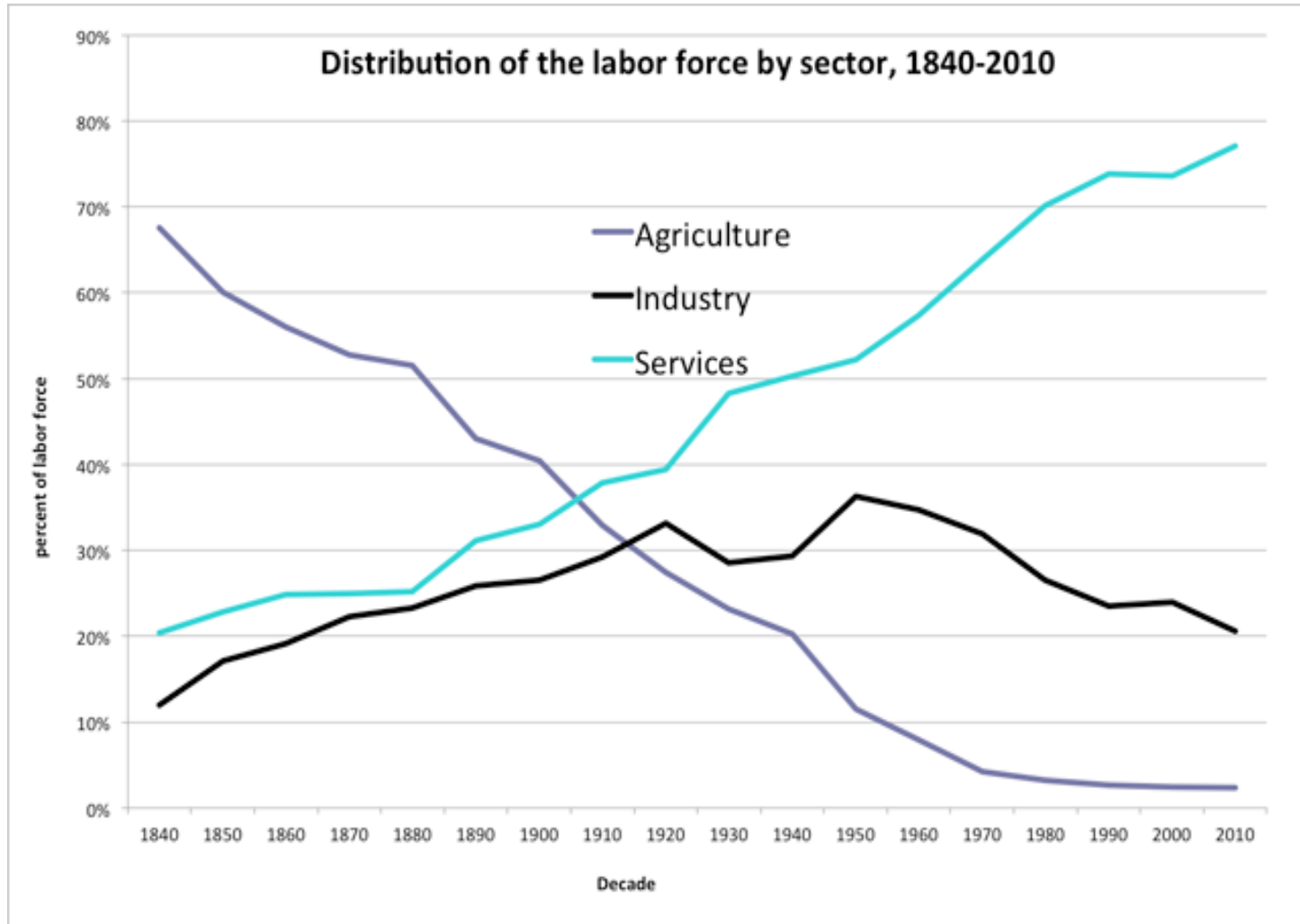
Source: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington, DC: USGPO, 1976). Col. (1): Series D844. Col. (2): Series D841. Col. (3): Series D838. Col. (4): Series D811. Col. (5): Series K181. All dollar figures were deflated by the Consumer Price Index from series E135 set to 1929=100.

...and Lower Employment in Agriculture...

Figure 9: Farm Population and Employment



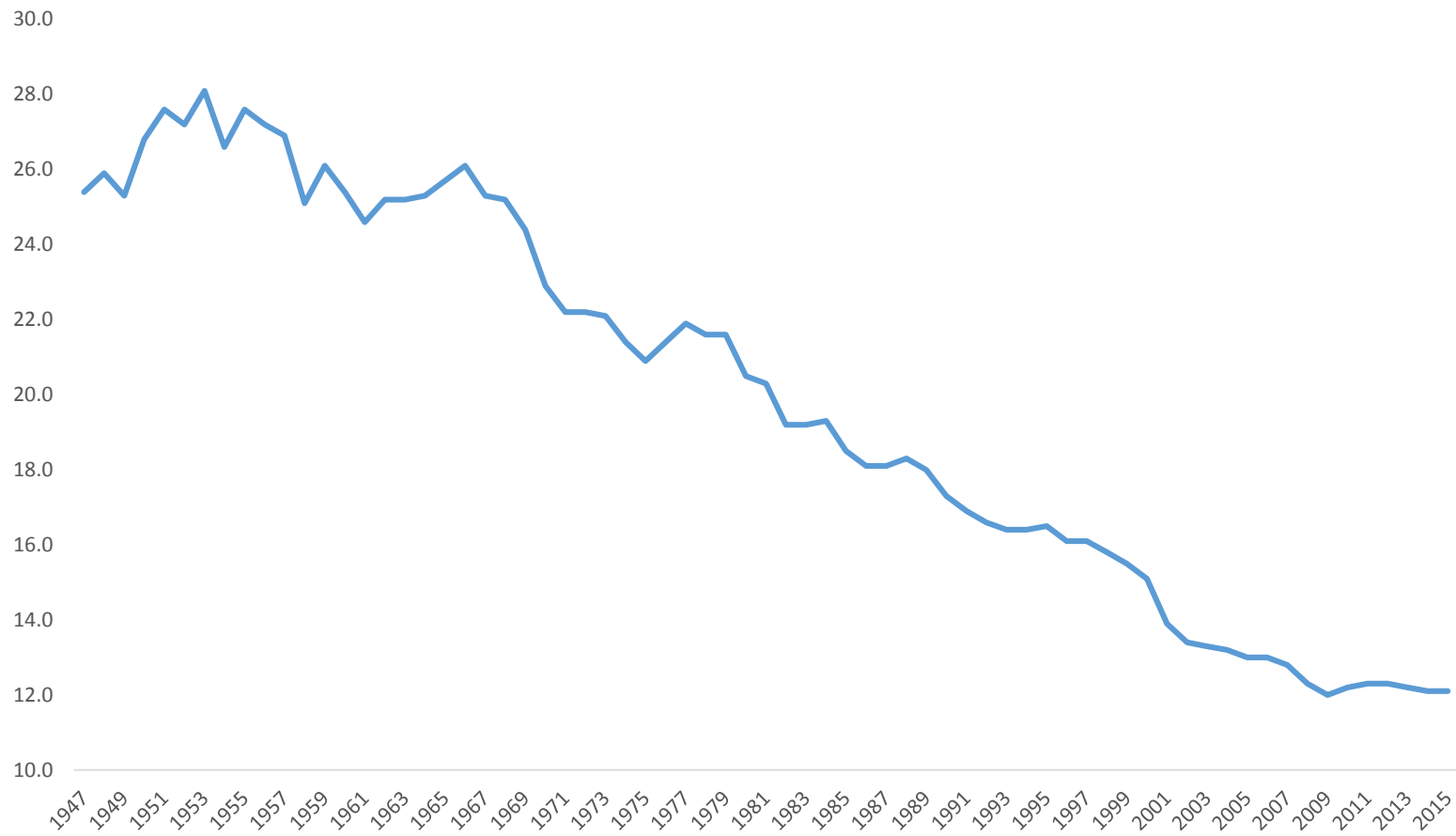
...and Shrinking the Agricultural Sector Further



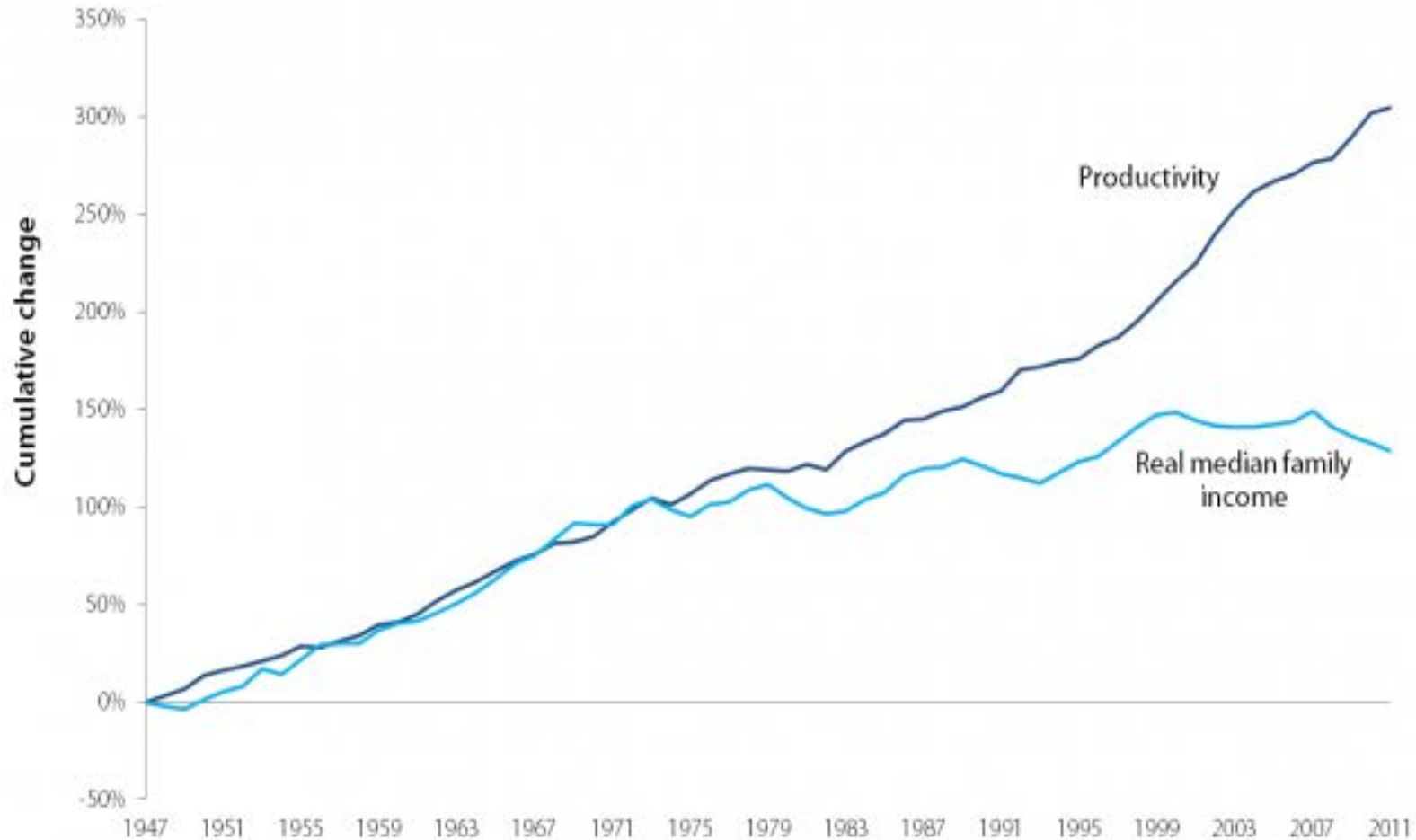
Source: Federal Reserve, Census Bureau

Agriculture Yesterday, Manufacturing Today

Manufacturing Share of U.S. GDP(Value-Added)
Source: BEA



And Today's Wages?



Source: Authors' analysis of Current Population Survey Annual Social and Economic Supplement *Historical Income Tables*, (Table F-5) and Bureau of Labor Statistics, *Productivity - Major Sector Productivity and Costs Database* (2012)

The Blame Game?

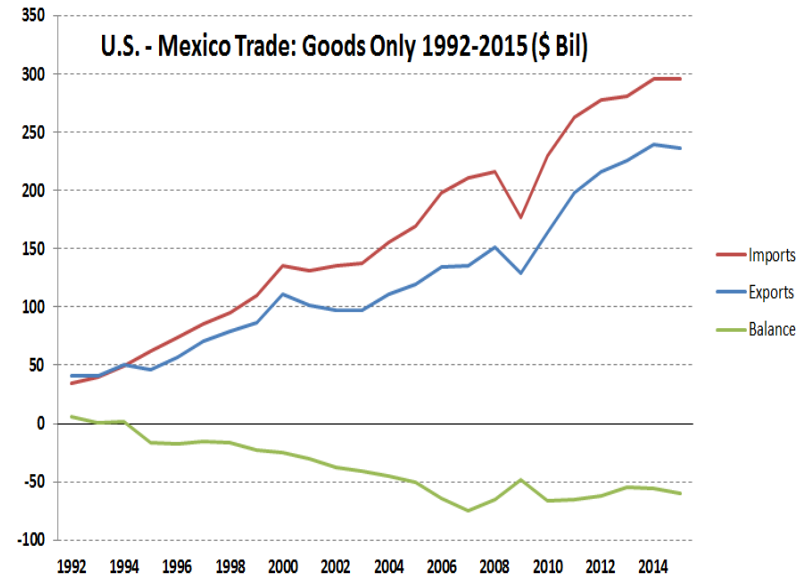
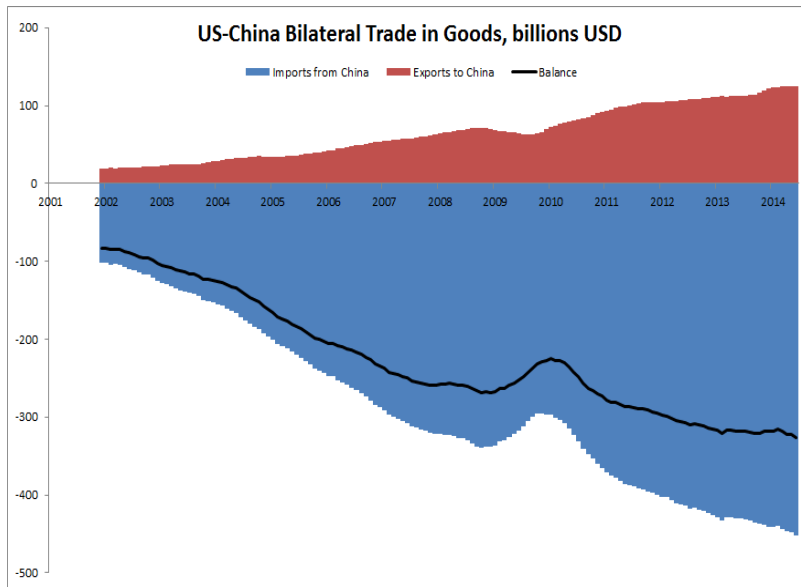
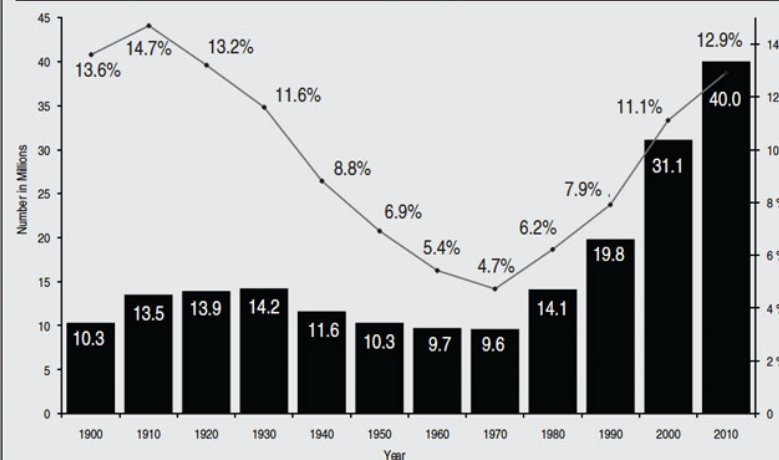


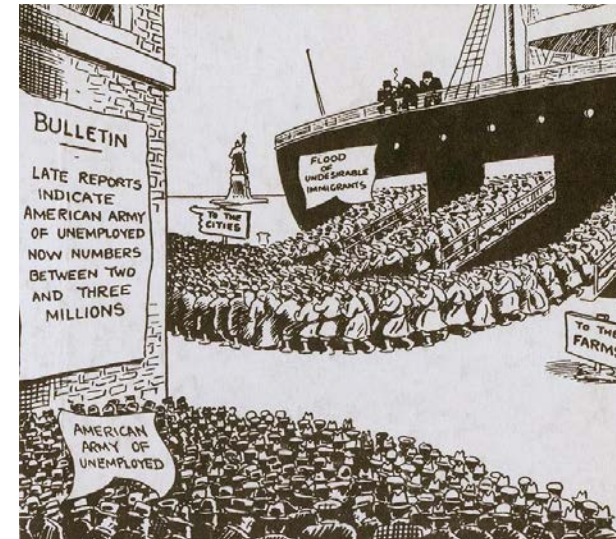
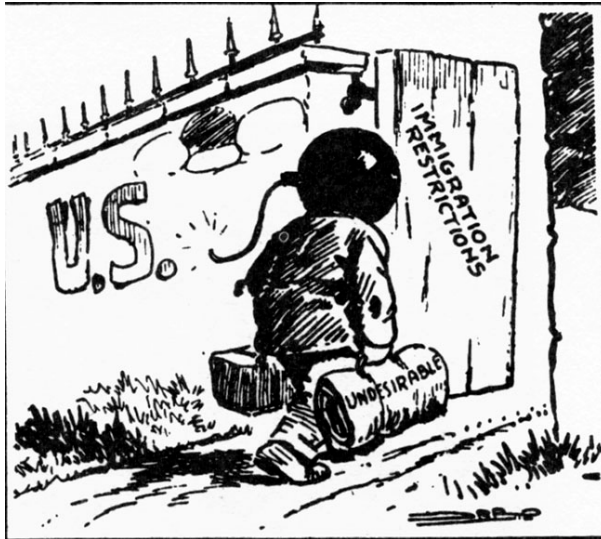
Figure 1. Immigrants in the United States, Number and Percent, 1900-2010



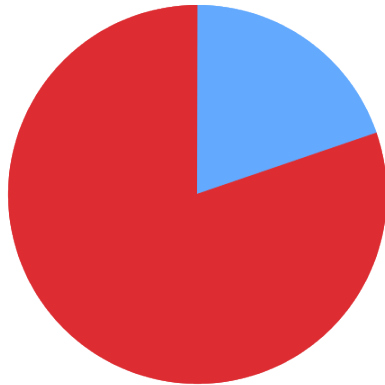
Source: Decennial censuses, 1900 to 2000; American Community Survey, 2010.

Source: Census Bureau

The More Things Change the More They Stay the Same



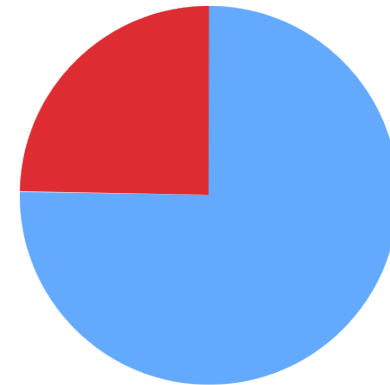
Trend in Immigration from Europe



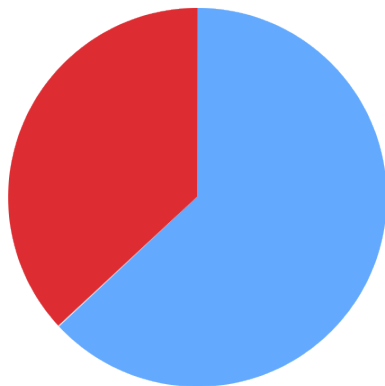
1881-1890



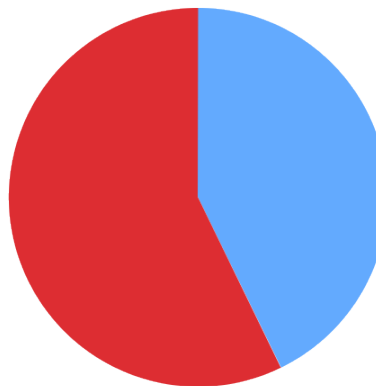
1891-1900



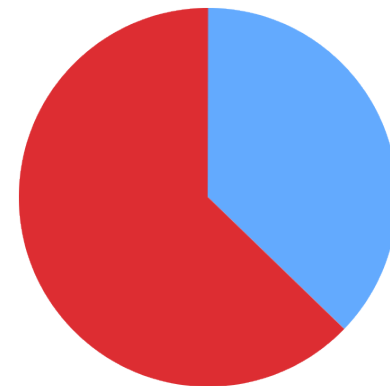
1901-1910



1911-1920



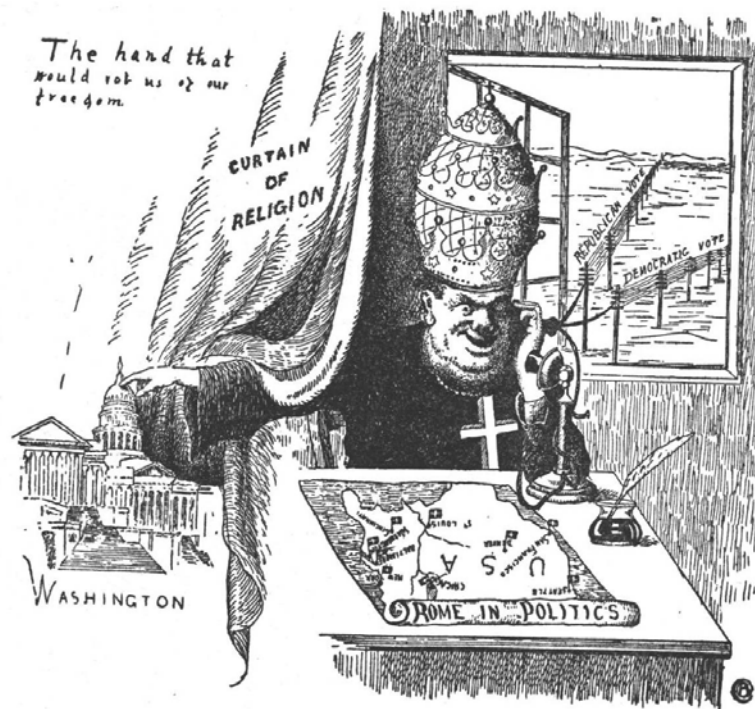
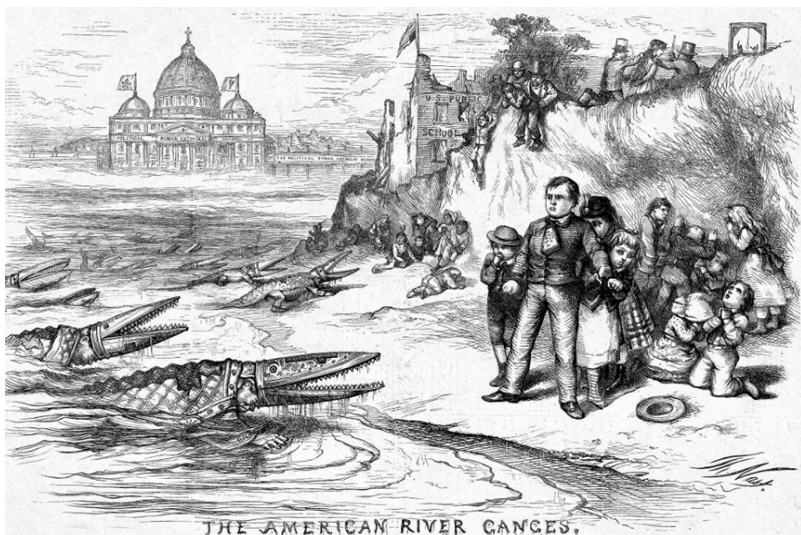
1921-1930



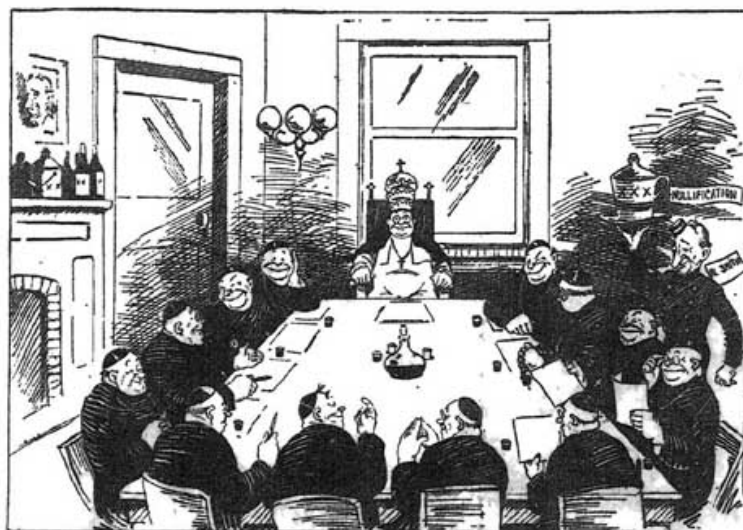
1931-1940

Source: MinnPost, Census

Anti-Catholicism Played a Big Role in Anti-Immigration Movement



SHALL HE BE ALLOWED TO RULE AMERICA?



Results

- Immigration Act of 1924
- Agricultural Marketing Act of 1929
- Tariff Act of 1930



We've been here before

We've seen this in the past

We've already done that

We know the consequences

Europe

Globalization is as Much About Labor as Capital

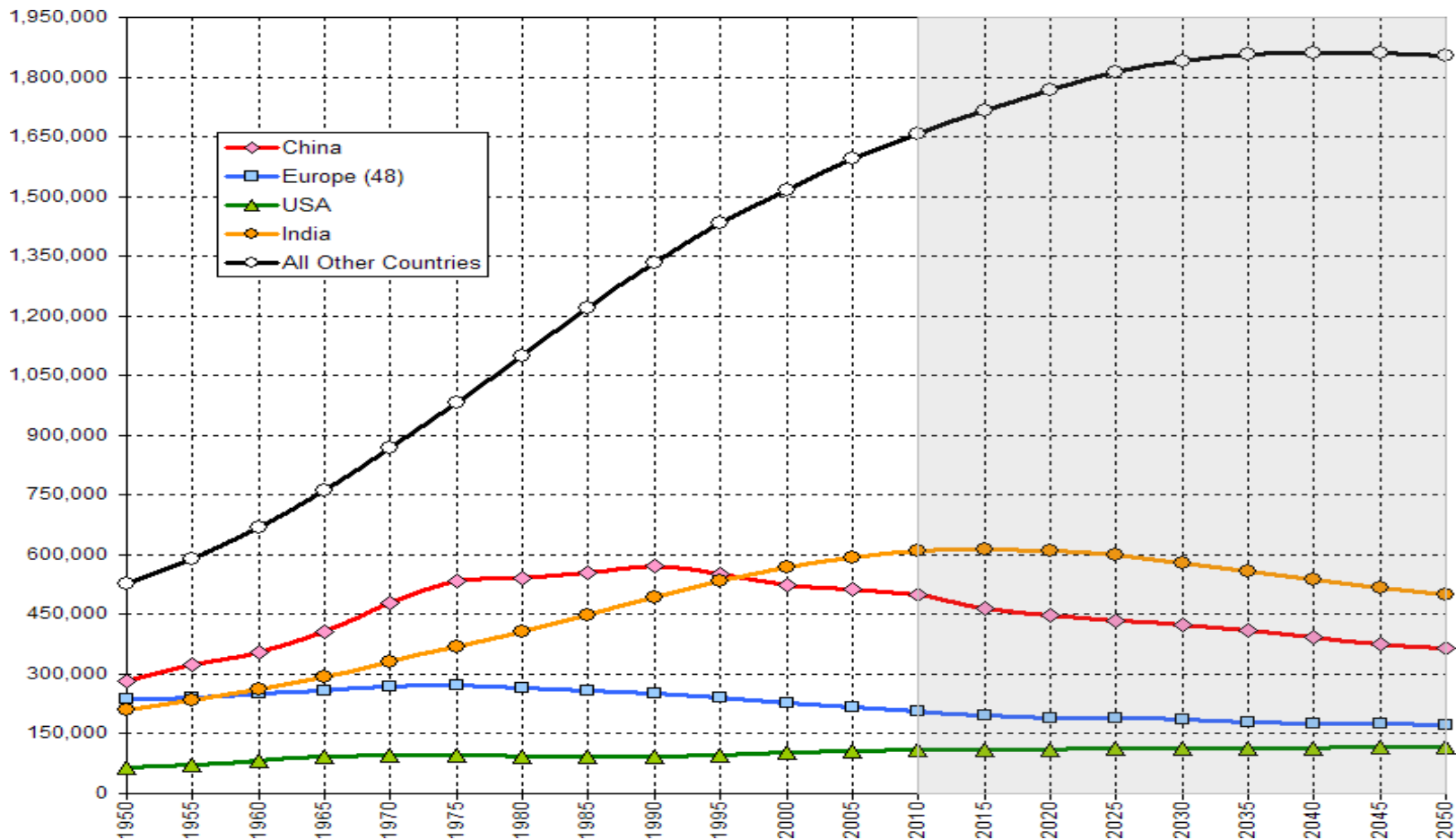


The E.U. as a concept, is about the free movement of:

- Goods
- Services
- Money
- Labor

The European Story in Four Charts

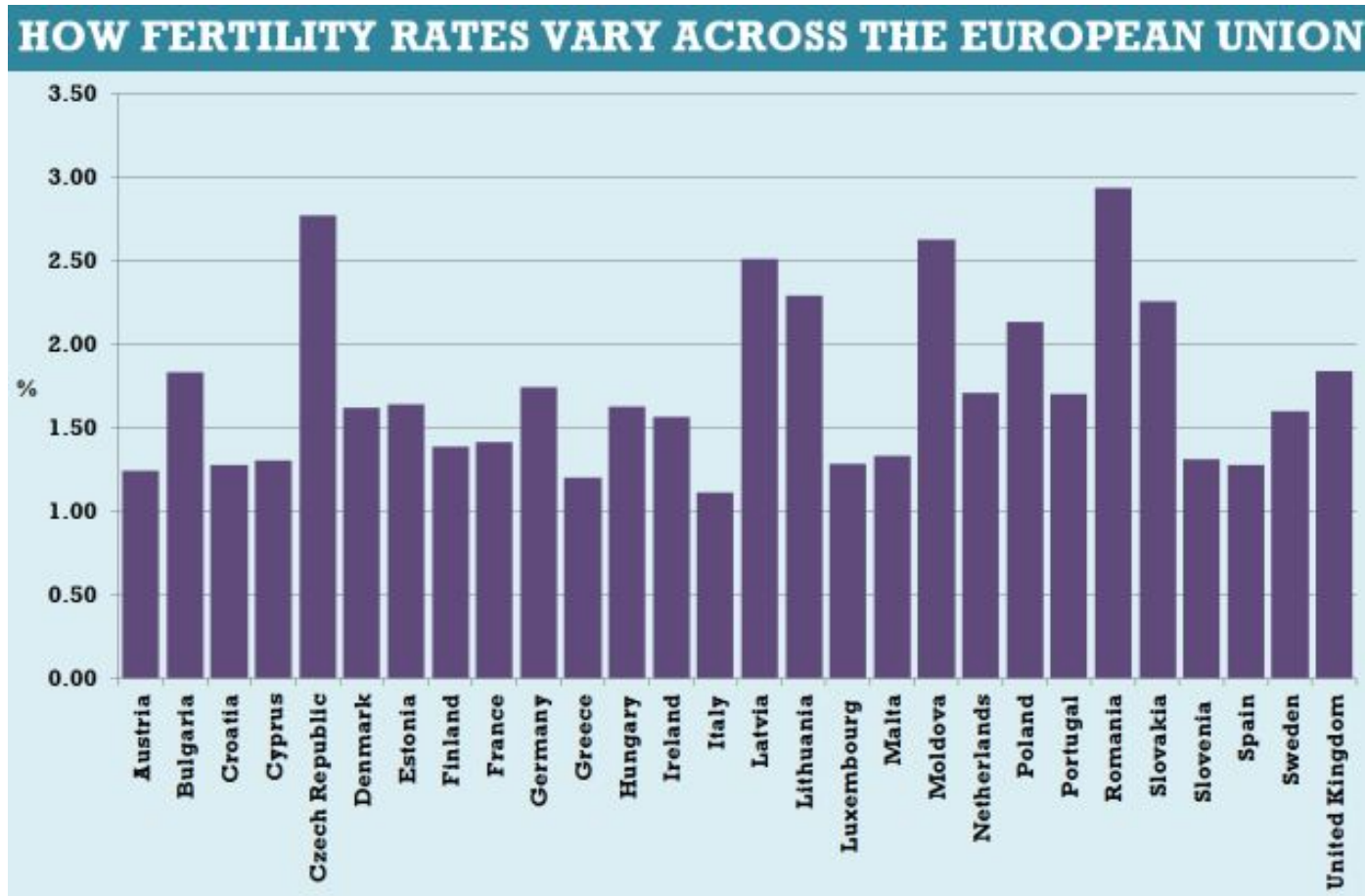
1) Working age population



Source: UN.

The European Story in Four Charts

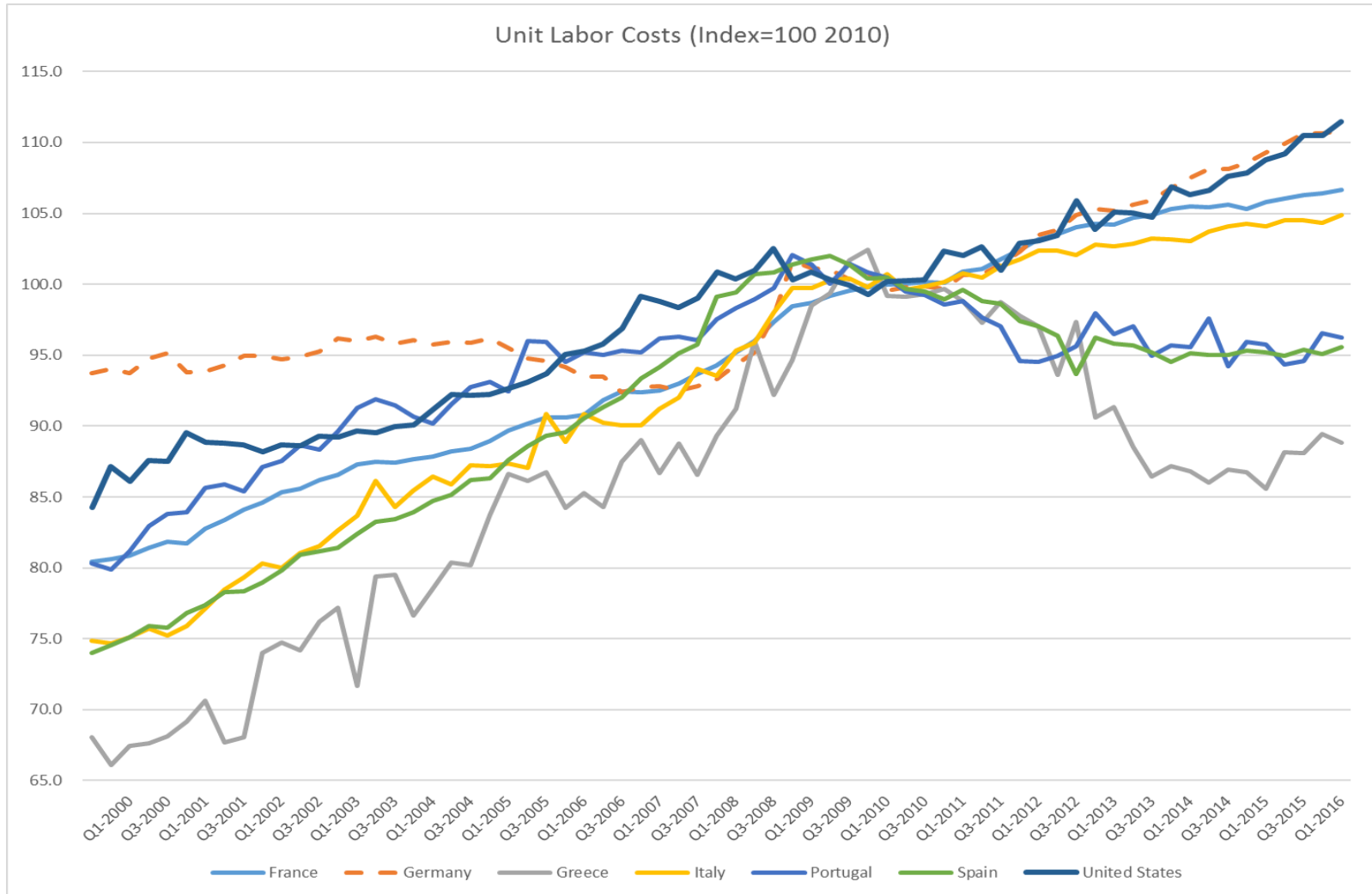
2) Fertility



Source: UN.

The European Story in Four Charts

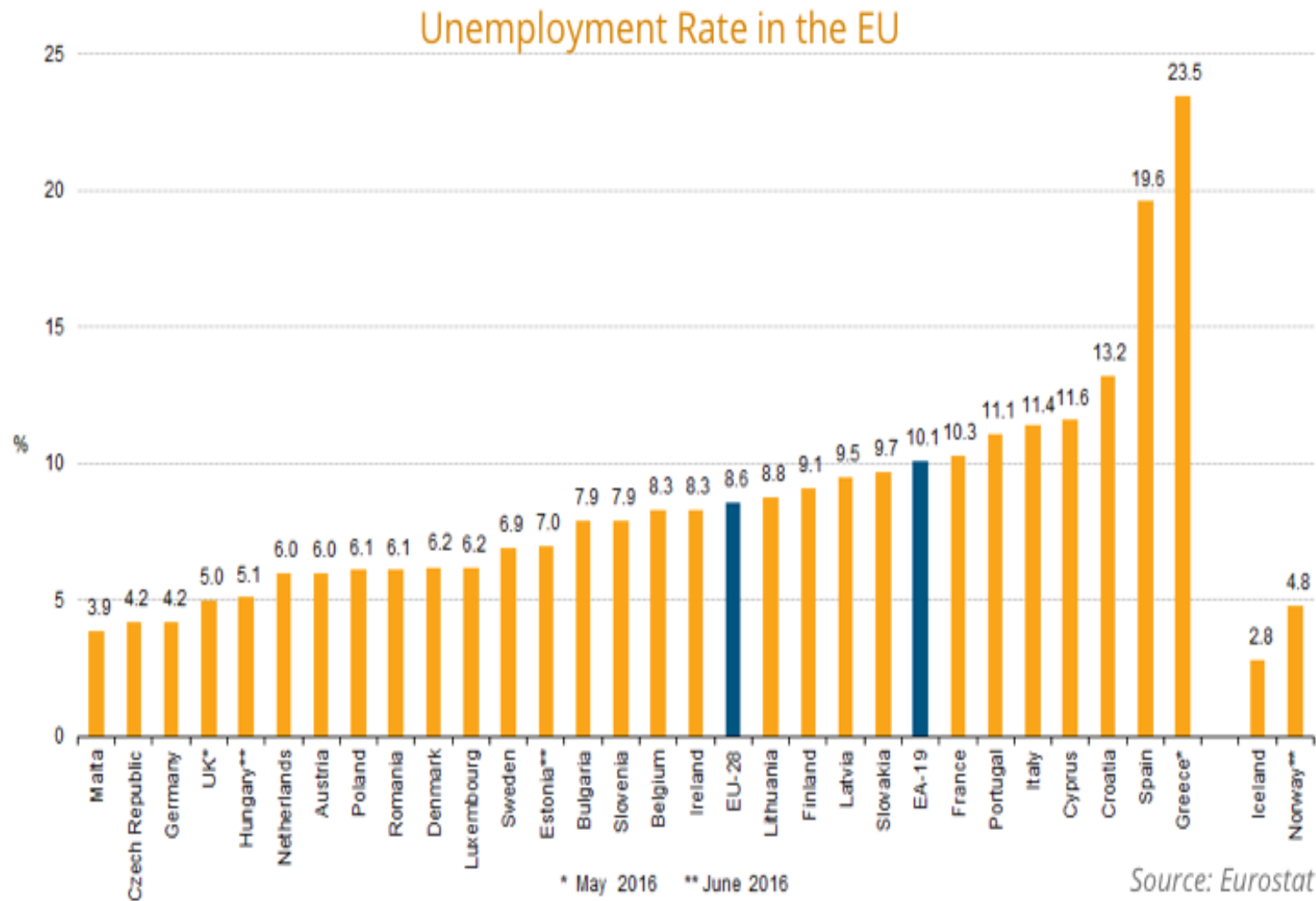
3) Cost of Labor



Source: OECD

The European Story in Four Charts

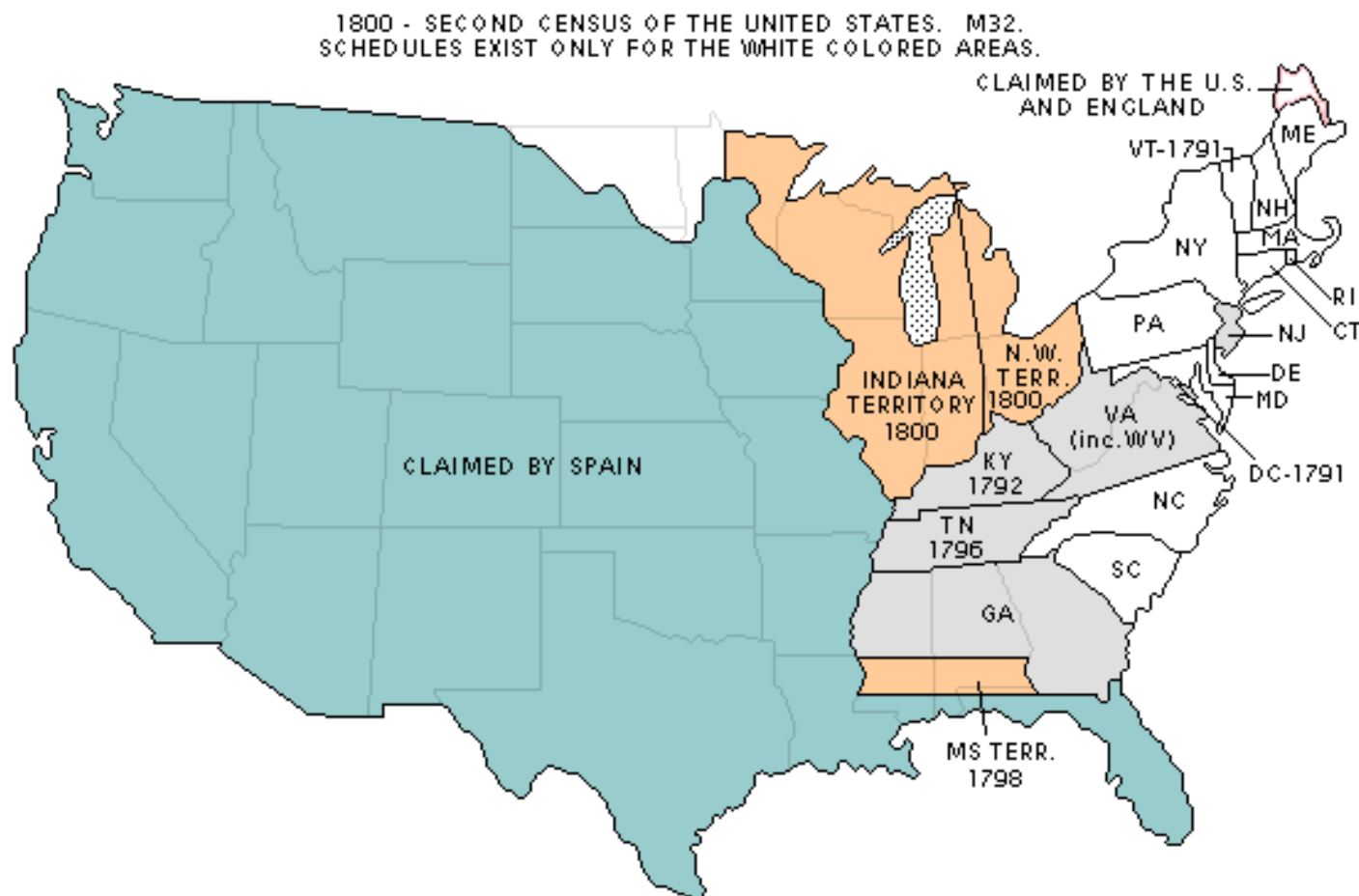
4) Unemployment Rate



Europe 2000

- 13 Sovereign entities
- 18 different languages spoken as the primary language of commerce, education and politics
- A history of border disputes
- A common currency but significant lack of trust in the banking system
- A very weak central government
- Complex and varying legal and regulatory infrastructure at the sovereign level

The United States in 1800

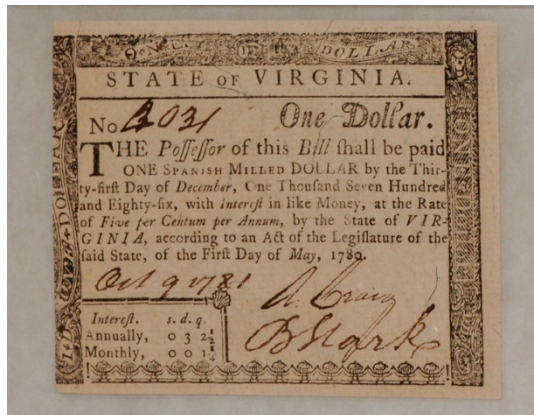
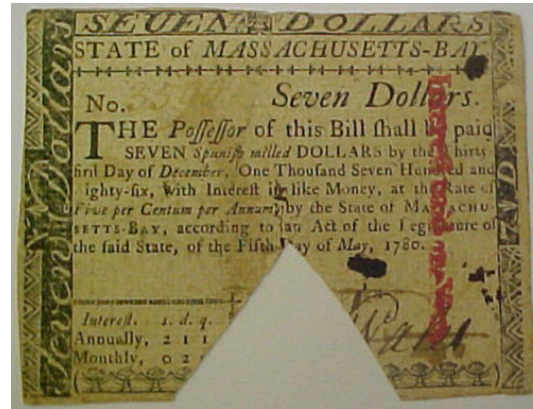


© 2000 The USGenWeb Census Project, www.US-Census.org

A History of Border Disputes



U.S. Dollar in Various Bank Notes



How Weak was the U.S. Government?

- Between 1790-1812: Federal Budget ~ 1.5% of GDP
- Between 1940-2016: Federal Budget ~ 20.0% of GDP
- California Budget 2015 ~ 1.0% of U.S. GDP
- E.U. Budget 2015 ~ 1.1% of E.U. GDP



Source: Cato Institute, E.U., Eurostat

Any Idea Who This Guy Is?



?

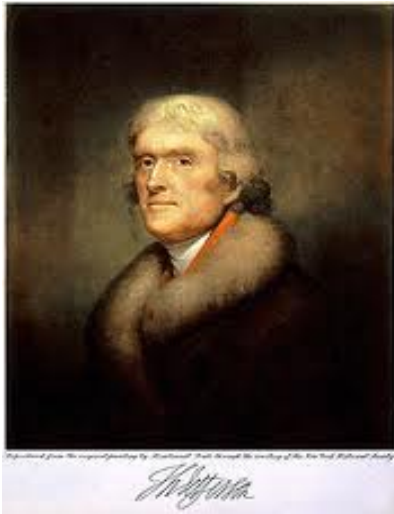
Any Idea Who This Guy Is?



Jean-Claude Juncker

- Former Minister of Finance and Treasury Luxembourg
- Former Prime Minister of Luxembourg
- Chaired the EU's Council of Economic & Financial Affairs
- Key Architect of the Maastricht Treaty
- The Second President of the European Commission

Lessons for Europe from America's Past

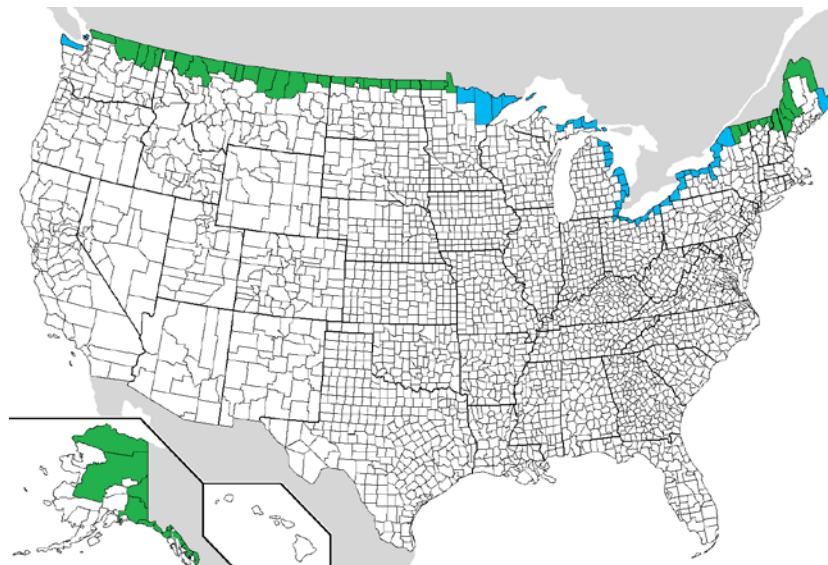


- Born April 2, 1743 in Shadwell in the British Colony of Virginia
- Ambassador of the United States to France 1785-1789
- 1st United States Secretary of State 1790-1793
- 2nd Vice President of the United States 1797-1801
- 3rd President of the United States 1801-1809
- Died July 4, 1826 in Monticello in the Commonwealth of Virginia



Home Bias

Do Borders Matter?

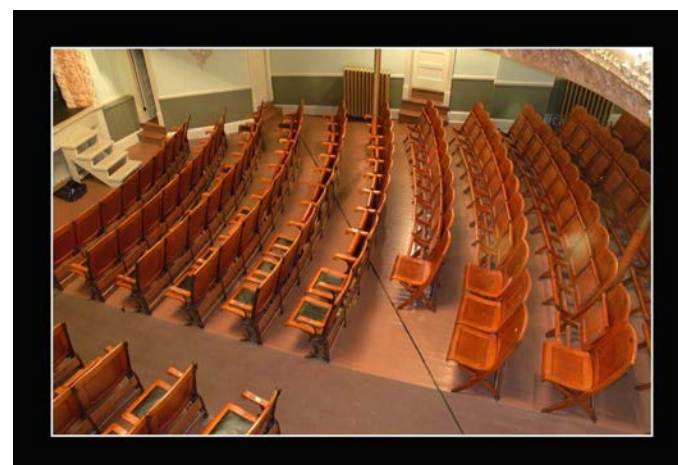
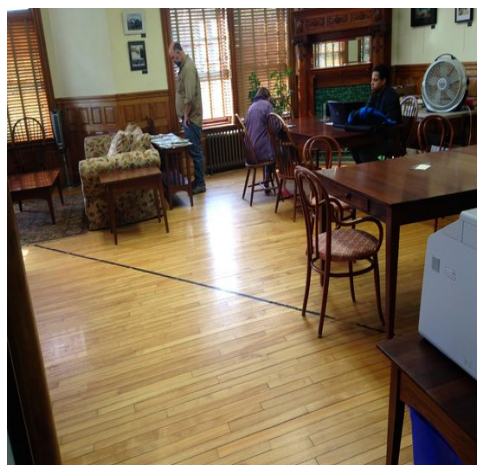


Stanstead, Quebec

Derby Line, Vermont

Do Borders Matter?

Haskell Free Library and Opera House



Do Borders Matter?



Fidelity U.S. Balanced Fund	% Allocation
U.S. Equities	60.37%
Bonds	34.67%

International Equities	3.12%
------------------------	-------

Cash & Net Other Assets	1.84%
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Fidelity Canada Balanced Fund	% Allocation
Canadian Equities	42.30%
Canadian Bonds	44.40%

Foreign Equities	6.00%
Foreign Bonds	4.20%

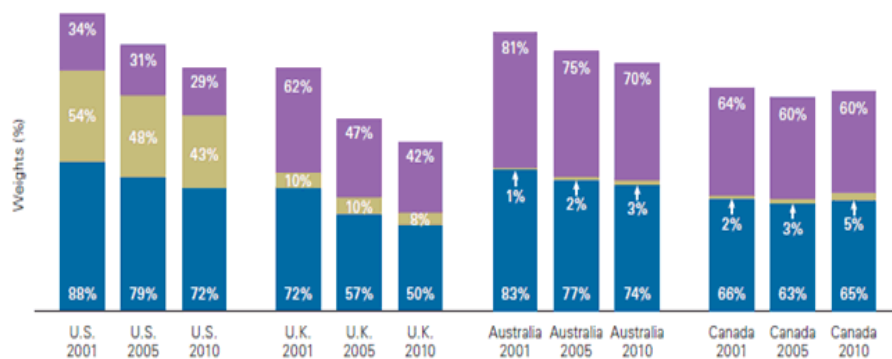
Cash & Other	3.20%
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Asset Mix as at 31-May-2016

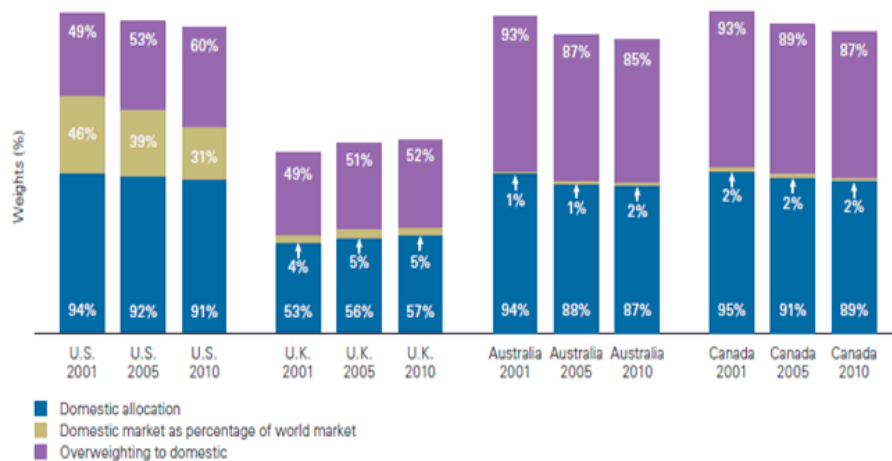
Home Bias Remains Prevalent Across the Globe

Figure 3. Trends in home bias

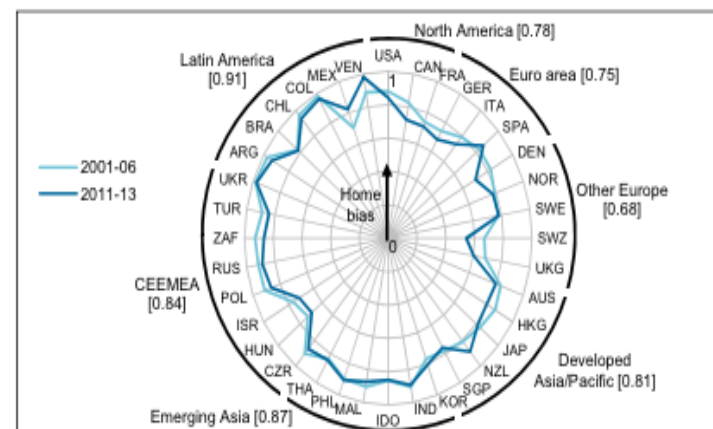
a. Evolution of equity home bias



b. Evolution of fixed income home bias



High and persistent home bias in equity holdings around the world
Estimates of home bias benchmarked to market capitalisation [Index 0-1]



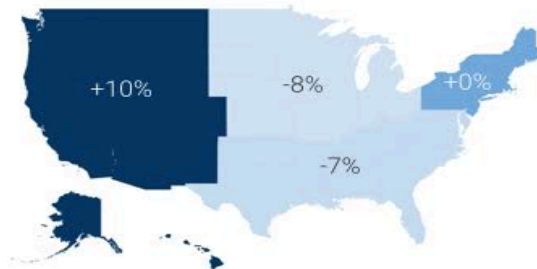
Source: CPIS, IMF, GFD, WB, Goldman Sachs Global Investment Research.

Regional Bias Remains Prevalent Across the U.S.

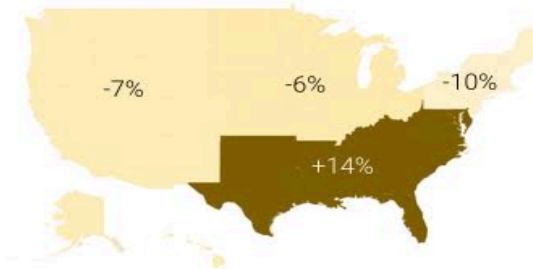
Investing Close to Home

How likely an investor is to own stocks in a given industry vs average

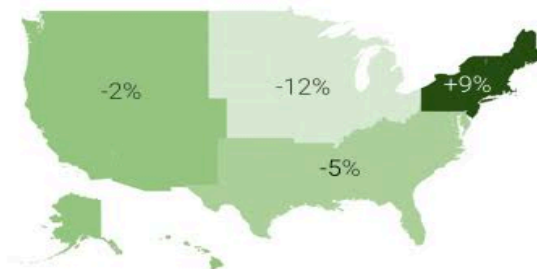
TECHNOLOGY



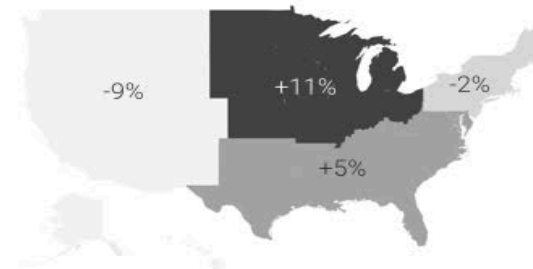
ENERGY



FINANCIALS



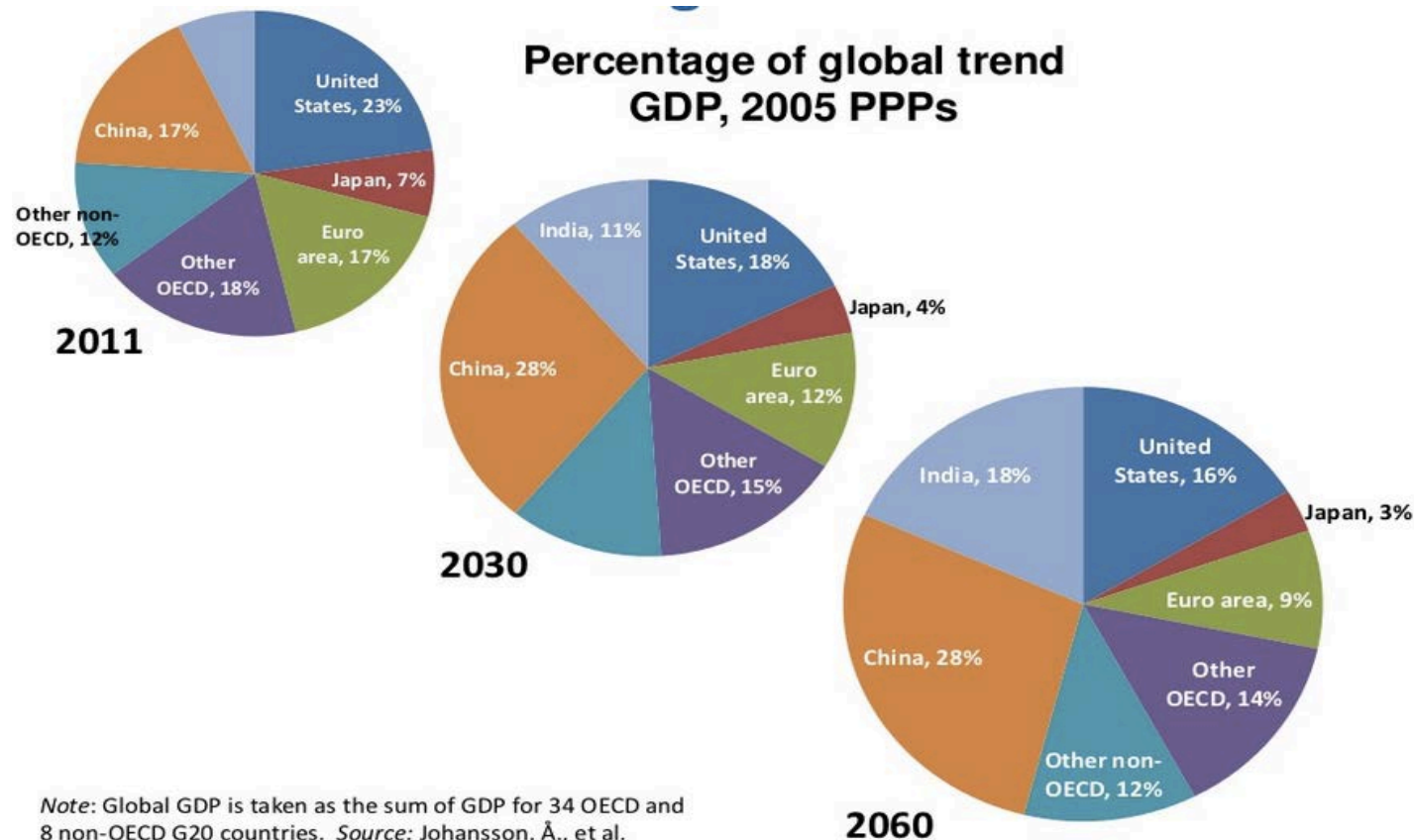
INDUSTRIALS



Source: openfolio.com

Need to be Global in our Perspectives

21st Century: The Century of China and India. At least the first half!



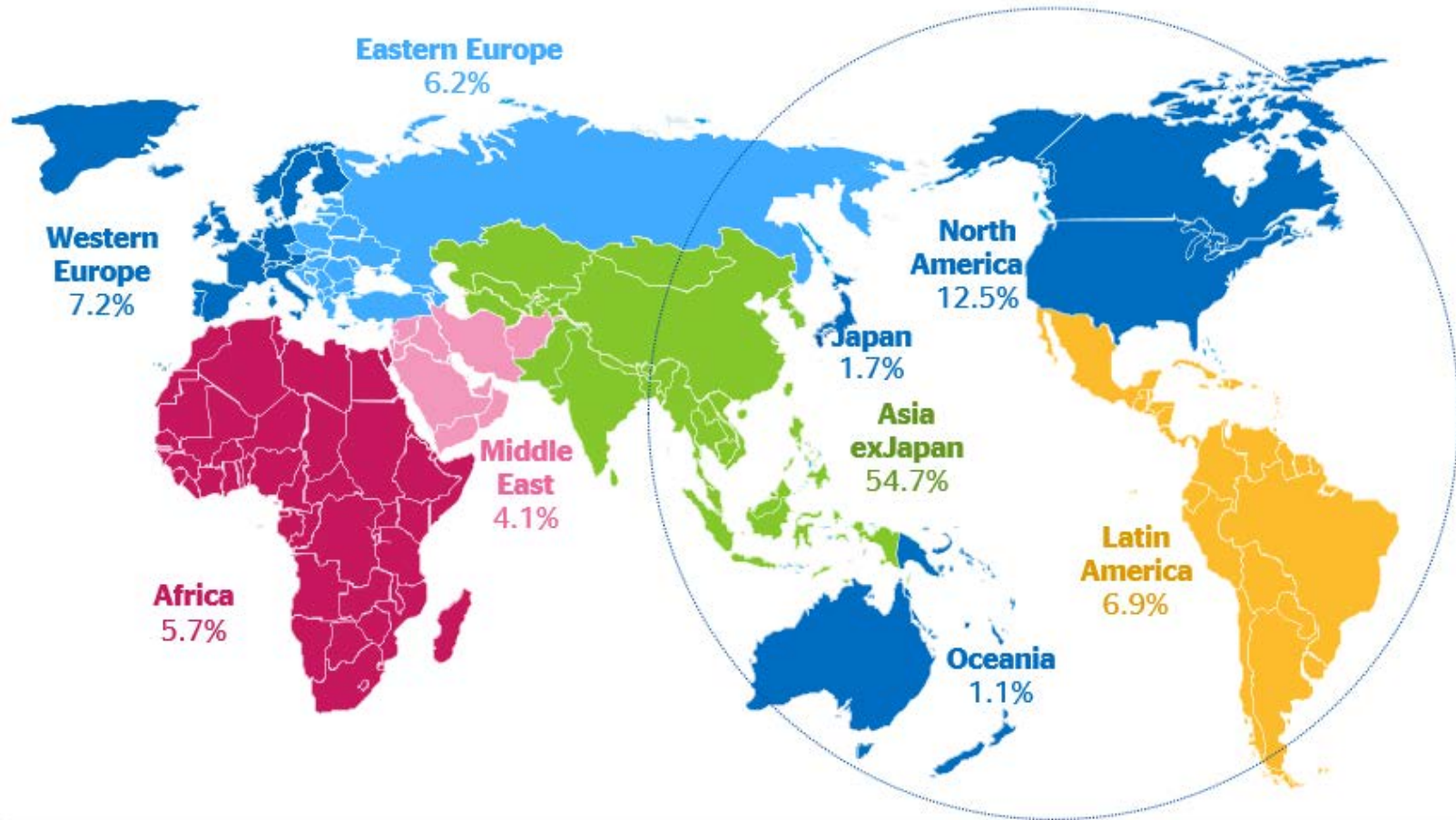
Need to be Global in our Perspectives

21st Century: The shifting of the center of gravity of global activity



Need to be Global in our Perspectives

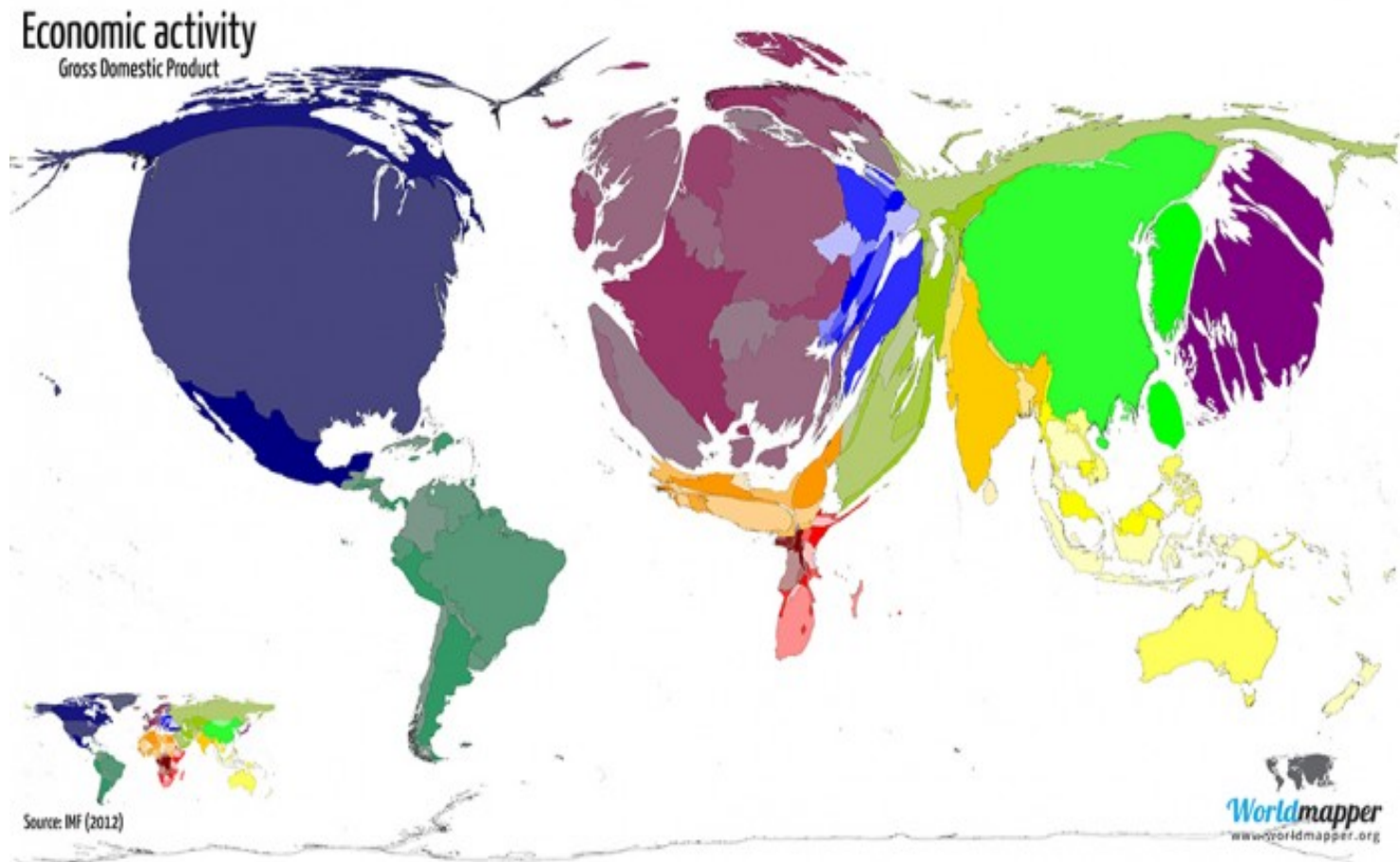
Contribution of regions to world growth in the next ten years (%)



Source: BBVA Research

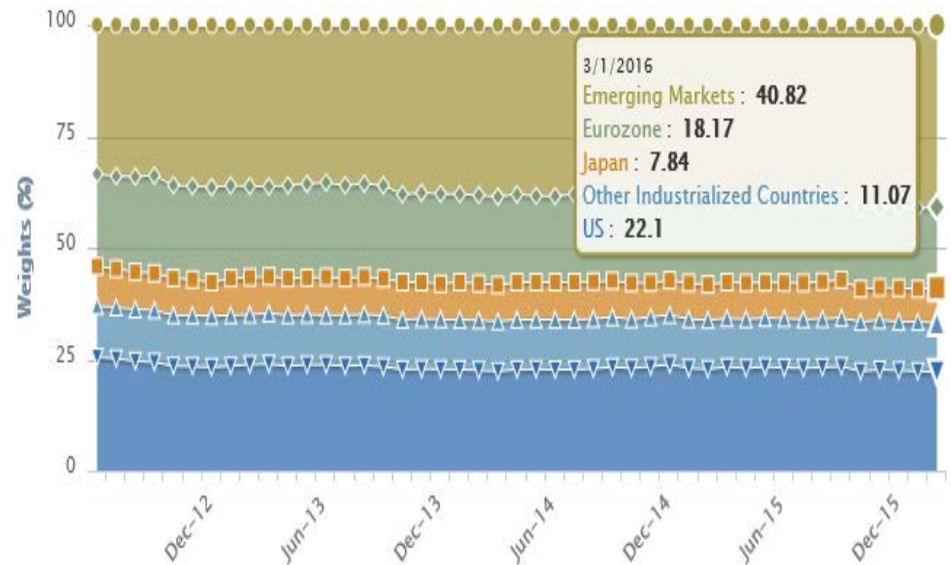
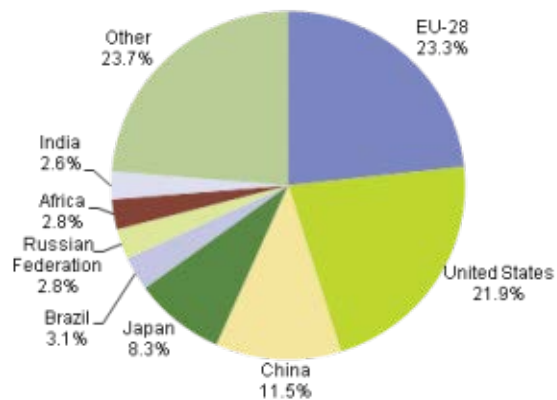
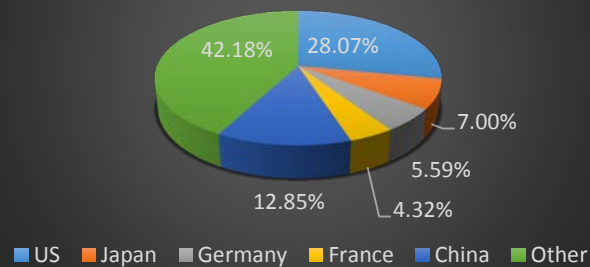
Need to be Global in our Perspectives

Portfolio's should reflect the true size of opportunities and not be biased towards geographical size or location



Asset Allocation By Country/Region

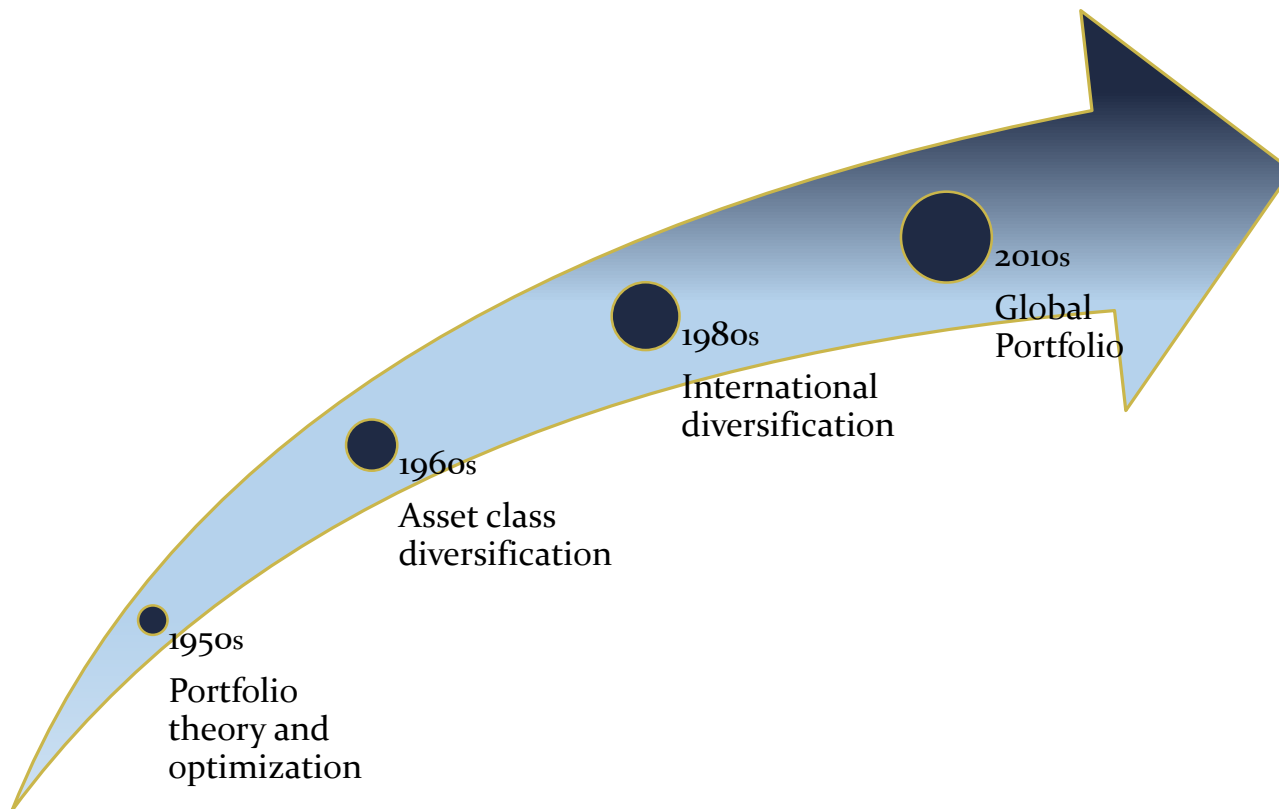
**MSCI-GDP Weighted ACWI
(Jan. 2016)**



Source: MSCI, PIMCO, ACIMA

Global in Perspective

Preserve, protect, and grow “global purchasing power” of clients financial assets given the determined constraints and opportunity appetite



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