



### IAG TRACKER

**NOVEMBER 23<sup>RD</sup>**  
BofA Recruiting Event (Open  
to the first 45 paid  
members)

## Countdown to Thanksgiving!

As Thanksgiving quickly approaches and the semester begins to wind down, this special edition of the newsletter features our first Alumni of the Month Column. Tom Steiner was the club's distinguished PM last year and has contributed many invaluable ideas to IAG during that time. Currently, Tom works as an analyst at Credit Suisse's Global Market Solutions group. His current responsibilities include constructing quantitative financial analysis and financial engineering. Below, Tom shares his rather bullish views on the economy and his comments on our current portfolio holdings.

### Alumni of the Month Column

By Tom Steiner

These last few years have been a great teaching instrument for the people of our field. The changes in our global economy and the speed at which they have occurred have provided us all with a great opportunity to learn. I can say for sure that the environment taught me a few things.

So where do we stand today? For one the sense of normalcy is beginning to return to the economy, credit spreads have come down and are stabilizing at levels that are more reasonable, volatility is also coming down which is also a big positive. With housing and all fundamentals stabilizing, the rally that we have seen in equities has proven to be justified to an extent. This leaves us with one important fundamental to consider inflation.

If you remember, I spent much of last year with an inflation hedge in the portfolio harping on the all time lows and the potential for inflation concerns to come into the forefront in the short term.

However, I have come full circle on this view (remember what I said about those learning opportunities!). In the end, investor action and reaction to inflationary concerns remain largely linked to action from the central banks of the world. And these banks seem content to continue pouring money into the economy and cutting rates unconcerned about long term inflation in exchange for shorter term stability. In short, I still believe a significant inflationary period is in our future but that thanks to strengthening fundamentals it has been pushed further out into the future meaning that it may be far enough off the horizon that we need not be overly concerned about it.

With all of this in mind I offer these considerations to our PMs and to the rest of the group. In Nicu's portfolio the exposure that concerns me is that of the long term fixed income exposure. Considering what I mentioned regarding the tightening of credit spreads I am not sure that this is the most prudent step. Many in the fixed income space held the view opposing to mine and believed that inflation was not a concern and that rates would remain low. In many ways, low rates are already priced in and if anything higher rates (lower performance of the bonds themselves) are the only direction that would move the performance of this asset significantly. Also, consider the contradictory aspect of the commodities position to this holding. A spike in commodity pricing would likely lead to inflation which would lead to higher prices (inflation) and in turn lead to higher interest rates which would hurt the bond position. In other words, I have no problem with taking a position one way or the other on inflation but consider the conflict inherent in those two positions.



The only way I could see these exposures both being justified was if you were hedging specific names or some other trade which I don't see in the portfolio currently. Also, what's with all the cash? It's not 2008 anymore.

As for Ken's portfolio, few things stand out. One thing I like is the defensive nature of some of the names. After the kind of rally we have had in equities over the last quarter it is wise to look for lower beta names that will minimize fluctuation in valuation in the event of a correction. I am curious as to the justification for the VIX allocation however. I understand that relative to recent years volatility appears to be cheap. However, this goes back to what I said at the open. We were in a unique time frame. In fact the VIX is still somewhat elevated relative to normal levels. Look back more than three years and at these levels the VIX would appear to be at unprecedented highs. Understanding that this may be a hedge (I love that risk management) so if there is a trade there that I am not recognizing it my issue with the position may not be as strong. However, unless I am missing something, as a member of the club I would make sure that I understand why this is in the portfolio.

Overall, outperformance is outperformance and the PMs deserve to be commended for this but remember that gains turn to losses quickly in this market and we as investors

must remain vigilant and continue to review our exposures more regularly than we would in other times. We are not out of the woods yet in terms of a recovery but the light is at the end of the tunnel. Best of luck the rest of the way and good investing.

*The opinions expressed herein are solely those of the author(s) and do not necessarily represent those of Stern IAG.*