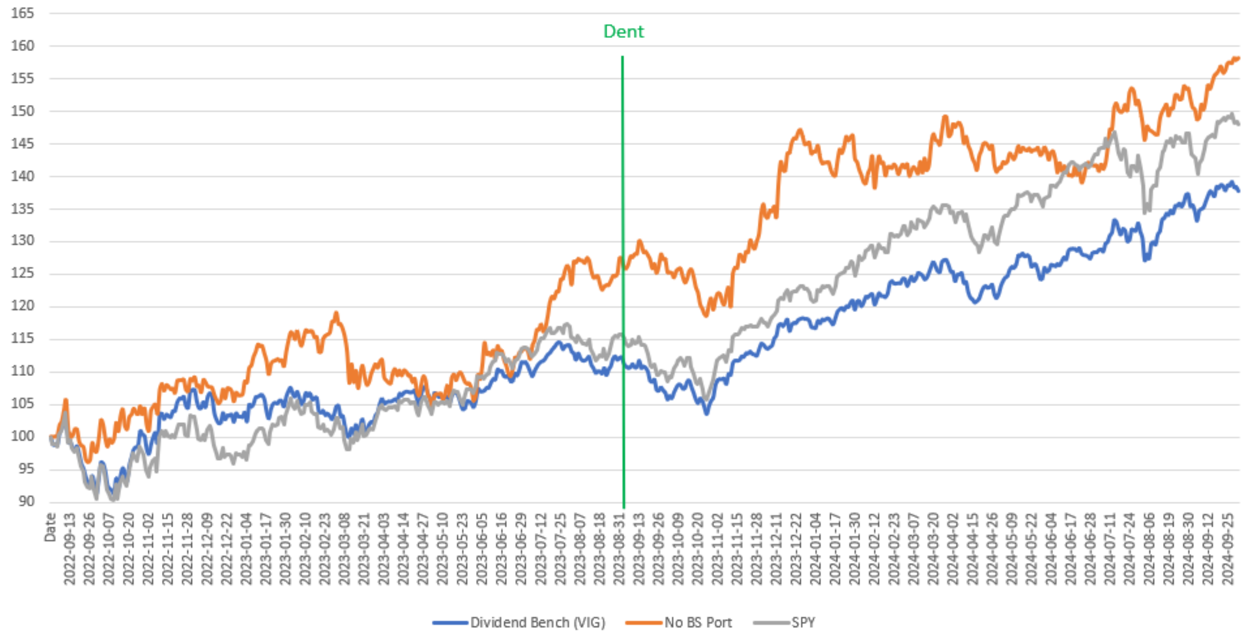
October 7, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



Trades: No trades This Week

Current Portfolio October 7, 2024

Ticker	Name	Return	Days Held	Sector
CBKM	Consumers Bancorp, Inc.	3.12%	136	Finance
CGECF	Cogeco, Inc.	0.96%	59	Telecommunications
EFIN	Eastern Michigan Financial Corp.	9.09%	69	Finance
FMC	FMC Corp.	2.93%	59	Non-Energy Materials
FUSB	First US Bancshares, Inc.	24.02%	185	Finance
HY	Hyster-Yale, Inc.	3.73%	52	Industrials
MCEM	The Monarch Cement Co.	30.73%	388	Non-Energy Materials
RSKIA	George Risk Industries, Inc.	22.42%	150	Technology
SUN	Sunoco LP	4.51%	52	Energy
VLO	Valero Energy Corp.	7.28%	17	Energy

European Holiday

One of the spread trades I have been homing in on is Europe versus U.S. stocks.

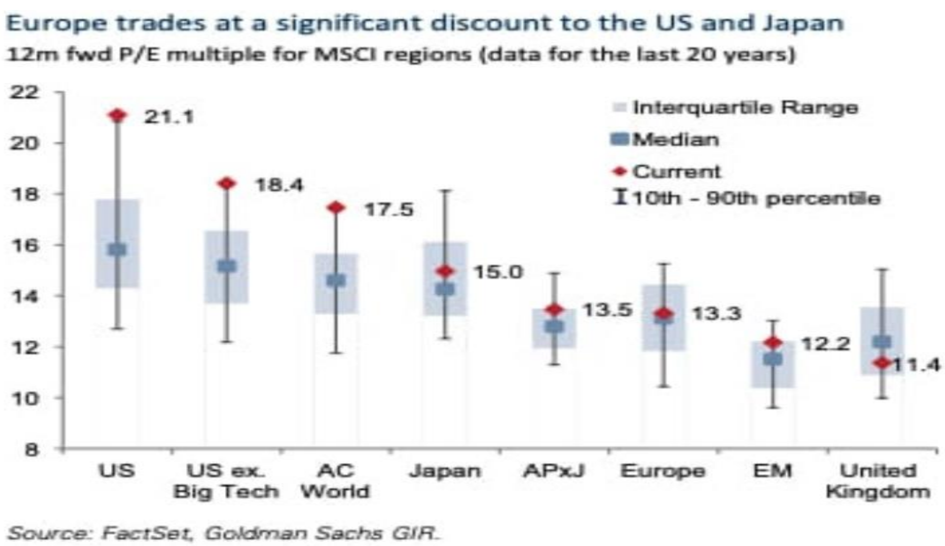
Europe is cheap, both in absolute terms and relative to other markets worldwide, especially the U.S.

Of course, what is cheap could get cheaper. Thus, this is *a long-term* idea.

Eventually, the valuation gaps narrow, and the returns relative to the risk profile become *exceptional*. Right now, it's all *potential*. Past performance is irrelevant here.

But, when it happens, it will be as fun as a European holiday. No crowds, though!

Europe as an investment theme is <u>unloved</u>. It's a dog with fleas. Here's an interesting chart from a recent Goldman Sachs report that clearly highlights the valuation differences.



As the chart shows, the U.S. is in nosebleed territory. Bob Uecker seats! Europe's valuations are about at the median. The red diamond is touching the dark blue square. The United Kingdom is below the median.

Here's a snippet from the rest of the Goldman Sachs report, a total *snoozefest* to read, that provides a glimpse of the sentiment toward Europe.

"The European growth outlook has certainly dimmed.
- Jari Stehn

Europe's longer-term outlook is... concerning, as the region is facing several structural challenges that I am worried it lacks the political capacity to tackle.
- Jean Pisani-Ferry

Despite worries about the rise of political nationalism and extremism in Europe, external factors… are likely to continue pushing the Union toward more—not less—integration over the medium term.
- José Manuel Barroso

Whether the deep valuation gap between Europe and the US marks a temporary or more structural shift is a valid question. But the risks facing the region look fully priced in given the magnitude of the European equity risk premium today.
- Helen Jewell"

WHAT'S INSIDE

INTERVIEWS WITH:

José Manuel Barroso, former President of the European Commission and Prime Minister of Portugal, Chairman of International Advisors at Goldman Sachs

Helen Jewell, CIO of Fundamental Equities at BlackRock

Jean Pisani-Ferry, Senior Fellow at Bruegel and the Peterson Institute for International Economics

Jari Stehn, Chief European Economist at Goldman Sachs

SNAPSHOT: EUROPEAN MACRO ASSET VIEWS
Michael Cahill, George Cole, Lotfi Karoui, and Simon Freycenet, GS Markets Research

BRUSSELS AFTER PARIS: EU POLICY SHIFTS
Filippo Taddei and Alexandre Stott, GS Europe Economics Research

THE UK-EU RELATIONSHIP: A LABOUR RESET
James Moberly, GS Europe Economics Research

EUROPE: BE SELECTIVE IN A TRICKIER MARKET
Sharon Bell, GS Europe Portfolio Strategy Research

...AND MORE

The commentary certainly leans pessimistic. I love it. I want to see pessimism—*lots* of pessimism.

The next question, then, is how to play this trade.

First, I have not made any allocations to my taxable account. Like Christmas, however, I am making my list and checking it twice.

The two largest exchange-traded funds (ETFs) in the space are a Vanguard fund (VGK) and a Blackrock fund (EZU). This is no surprise, as these are the two largest ETF sponsors in the market. However, I'm a bit surprised EZU charges over five times the fee of VGK.

Both give broad exposure. The third biggest fund by assets is the JP Morgan fund (BBEU) that intentionally eliminates a lot of small cap exposure. I think that's a mistake because smaller stocks have plenty of juice as valuations normalize.

Broad is good. So is value. So is small. So is momentum.

Unfortunately, the investment options for European ETFs are sparse. However, here's how I am drawing up my list.

70% --The **Vanguard FTSE Europe ETF (VGK)** is 1,290 stocks at 0.09% annual fee. That compares to 0.94% for the industry. Broad exposure at a cheap price? I'm in. Broad exposure should be the biggest allocation. If you want to own Europe, you need to *own* Europe. Here, I pegged it at 70%. There is no need to get cute or slice the market too thin.

15%—The **iShares MSCI Small-Cap Europe ETF(IEUS)** fees are at 0.42%. On a big rebound, I would expect small stocks to outperform sooner rather than later. That seems to happen everywhere. The sum of the allocation will get a bit more smallcap exposure while still being broad-based with a low fee overall.

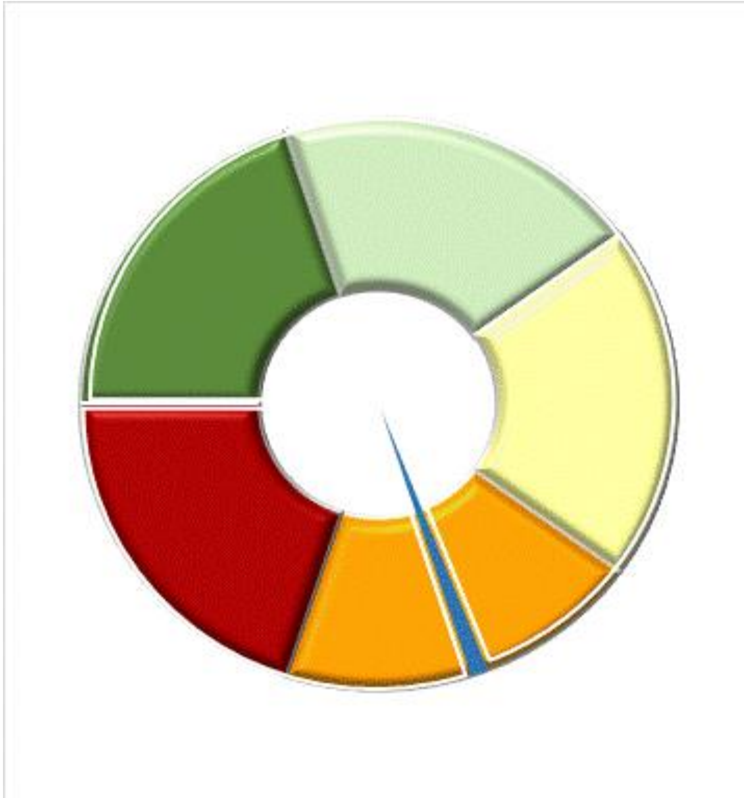
15% -- The **WisdomTree Smallcap Europe Dividend Fund (DFE)** yields nearly 4.5%. The United Kingdom represents the largest region at 38%. For argument's sake, we assume the U.K. is in Europe. The U.K. itself is one of the cheaper markets globally (see chart again from Goldman Sachs), so I view this as a net positive. The fee here is 0.58%. It's not super cheap but reasonable considering the yield relative to domestic investments. The fund's yield pays for itself.

As I said, the investment options are sparse in the European region. There's one ETF that is “momentum-esque," the **Pacer TrendPilot European Index ETF (PTEU).** This is a simple and effective strategy, but the price is outrageous at 0.65% for something a five-year-old could do with a crayon on the back of the napkin.

That said, I'd simply watch the ETF, not buy it, just to see when the market is in “buy” mode. ETFs list their holdings daily, so you will know when the trend is up and in "buy" mode, defensive mode, or "sell" mode.

The trend is your friend in U.S. markets and in Europe. Paying attention to the trend will provide a good reference as to when markets switch from bullish to bearish mode. It takes about 30 seconds and is worth the effort.

From here I'm waiting for the markets to get a bit oversold. Then I'll start buying these funds in the proportions listed above.



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