

Big Update: **October 2013**



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Letter from the President:

It's one of my favorite times of year. The leaves are turning, the Cardinals made it to the World Series, and best of all, earnings season is upon us once again. For the members of the BIG this means tuning into conference calls, updating models, and scouring press releases in search of quality information that will lead to positive returns for the BIF.

October was an active month. We liquidated the fund's entire stake in Family Dollar, and trimmed our holding of Google to a more moderate level after it rose above \$1,000. In their stead the BIG added three Exchange Traded Funds to keep from holding cash during what has been, minus the debt-ceiling fiasco, a bullish month for the market. Members of the BIG are in the process of compiling reports based on stocks they believe are buys, and I'm looking forward to hearing my fellow members' presentations and the evaluation process that will follow.

The CFA Challenge Team visited the headquarters of Krispy Kreme Inc. earlier this month, and I'd like to extend my gratitude to Mrs. Sherri Gilette and the CFA Institute of North Carolina, as well as the folks at Krispy Kreme, for allowing us the opportunity for an on-site visit. It was a positive experience and the information gleaned from the visit will certainly be valuable in our analysis.

I would also like to thank all of you again for your support of the Bowden Investment Group.

-Jack Bishop

"If I see further, it is only because I stand upon the shoulders of giants."

-Sir Isaac Newton

Economic Outlook:

We continue to see positive news coming out of the United States. The first Tuesday of November, Election Day, two important economic numbers were released: 10-and 20-city Case-Shiller Home Price Indices and Q3 Consumer Confidence. According to the Case-Shiller Home Price Index, US home prices have appreciated almost 13% year-over-year, the largest increase since pre-recession in 2006. Over the summer, the housing market was gaining positive momentum as the economy continued to recover, data pointing toward the overall strength of the economy, and positive growth in the future.

Home refinancing has slowed dramatically, and banks have scaled back employees in their respective mortgage lines of business. The refinancing business is good for banks as they collect fees. It's also a positive for the economy as consumers increase their long-term discretionary funds. The home purchase spread between conforming and non-conforming loans is tight. Banks are willing to loan money to those who have good credit.

As the economy continues to recover, the Fed's latest meeting extended its policy of no action for the foreseeable future. The Hawk vs. Dove battle is ever more apparent as Bernanke's reign comes to an end. The next stage of Quantitative Easing seems to be somewhat straight forward as Yellen has been pro-stimulus since 2008. There does, however, need to be some disconnect between asset purchases and interest rates. The \$85bn of assets being repurchased monthly along with an anchored yield curve holding the 10yr UST at 2.5% (fair valued at 4%), does not provide sustainable market levels going forward. Only time will tell if and when the Fed deems the economy strong enough to begin a taper, but we don't expect any action from the December meeting.

- John Granzow

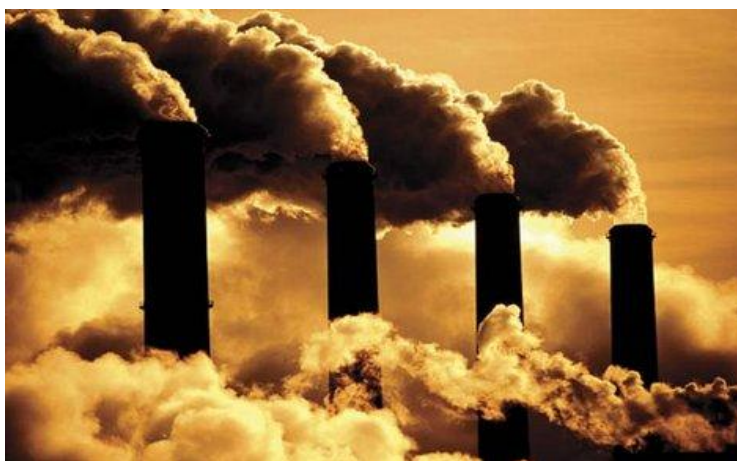
Industry Outlook- Energy:

The United States now leads the world in energy production. Rapid technological advances in fracking (extracting oil out of deep underground shale) have led to the expansive increase in domestic natural gas production. As a result, the United States' dependence on foreign imports of oil and natural gas liquids has fallen substantially. However, some industries within the energy sector will start to feel the negative effects of the U.S. energy renaissance.¹

The Oil Drilling and Gas Extraction Industry (NAICS 21111) includes companies that explore and produce crude petroleum, natural gas, and hydrocarbon liquids. The recent surplus in the supply of crude oil and slowing economies of emerging markets (specifically China) has caused a downward trend in the price of oil. Therefore, analysts' consensus of revenue growth over the next five years will be a miniscule at 2%. Natural gas however is proving to have promising growth potential. An increase in the domestic supply of natural gas has kept prices relatively low, and that, paired with increases in demand from energy producers who look for cheaper alternatives to coal, continues to increase revenues for natural gas producers. The future of the industry is contingent on several factors: the prices of oil and natural gas relative to other energy producing materials; the ability and timeliness of established energy producing firms to transition to less expensive inputs; and, the ability to sustain a high demand for domestic energy. Outlook for the industry looks promising with, annualized revenue growth of 2.2% over the next five years.¹

The U.S. Coal Mining Industry (NAICS 21211) has struggled recently. The emergence of natural gas as a substitute for coal in electricity generation has had negative effects on the profitability of mining coal. Also, the same slowing emerging-market economies that have had a negative effect on domestic oil prices have also caused a slower demand for exporting coal. Therefore existing stockpiles of coal are high, decreasing the demand to mine. Coal is more expensive as an input for energy production than natural gas, and it is much more harmful to the environment. Therefore, in the long run, I believe the use of coal for energy production will become obsolete. Industry revenue is expected to shrink 5.8% annually.¹ However, I believe that in the short term, as international emerging markets' demand for the production of steel increases (which necessitates burning coal) and energy-producing firms are slow to adopt less expensive alternatives, the market will experience a short-term increase in demand for coal.

-Jack Brown



¹ Conti, John J. "Annual Energy Outlook 2013 With Projections to 2040." U.S. Energy Information Administration Office of Integrated and International Energy Analysis. 2013. Accessed October 31, 2013. www.eia.gov/forecasts/aeo.

¹ Crompton, James. "IBISWorld Industry Report 21111 Oil Drilling & Gas Extraction in the US." IBISWorld. Accessed October 31, 2013. <http://0-clients1.ibisworld.com.wncln.wncln.org/reports/us/industry/ata glance.aspx?entid=108>.

¹ Kruchkin, Agiimaa. "IBISWorld Industry Report 21211 Coal Mining in the US." IBISWorld. Accessed October 31, 2013. <http://0-clients1.ibisworld.com.wncln.wncln.org/reports/us/industry/default.aspx?entid=108>.

October Returns

Ticker	Return
AAPL	9.79%
ABB	7.97%
APA	4.30%
CSX	1.24%
DEO	0.40%
DHR	4.00%
ESRX	1.17%
FDO	-3.61%
GML	4.41%
GOOG	17.66%
IBM	-3.22%
KORS	3.26%
NOV	1.10%
PETM	-4.60%
PTEN	13.56%
SLYG	6.26%
SLYV	-0.68%
SPY	6.15%
SWHC	-1.82%
SYK	9.28%
TUP	3.80%
VHF	3.68%
WMT	3.77%
XOM	4.16%
Total Fund	4.35%

For an up-to-date view of the BIF, click [here](#).

Bowden Investment Fund

YTD Returns

	Bowden Investment Fund	S&P 500 Index
2013 YTD	23.60%	25.30%

Recent Fund Activity

Bought

SLYV
SLYG
SPY

Sold

FDO
1 Share GOOG