

Big Update: **October 2015**



Bowden Investment Group

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WALKER
COLLEGE OF BUSINESS

Letter from the President

The month of October has been a busy one for the group. We made our first portfolio change by selling all holdings of Micron (MU). In the middle of the month, we also sold all shares of Chevron (CVX) and Walmart (WMT). Subsequently, MU and WMT have performed considerably worse than the market.

During our last meeting in October, we used a portion of the cash from those sales to allocate four percent of the portfolio to the Guggenheim S&P 500 Equal Weight Consumer Staples ETF (RHS). We feel that this ETF gives us good exposure to the consumer staples industry, which was previously underweighted. We expect the consumer staples industry to do well in the near future.

Another highlight of the month was a visit by Mr. Jim Morgan, Chairman of Krispy Kreme. In addition to his experience with Krispy Kreme, Mr. Morgan has an extensive background in investments. It was a special treat for us to get to discuss our portfolio with him. We also learned a great deal about Krispy Kreme, a stock we still hold in our portfolio. Mr. Morgan stressed the importance of the people at Krispy Kreme, and reminded us that the values that are central to a business are the key to running that business.

Looking forward, the members of the group are entering the final stages of our company analysis. We hope to add quality stocks to the portfolio next month, and submit the best reports any of us have ever written.

Thank you all for your continued support and interest in the Bowden Investment Group.

Sincerely,
Darrow Goff, President

Portfolio Analysis

October was a rough month for our portfolio. The industrials, technology, and energy sectors contributed most positively to our returns. The main drivers of the portfolio were strong returns from UFPI, AAPL, both classes of Alphabet stock, and HAL. Sectors with the most negative impact were consumer discretionary, health care, and consumer staples. Consumer discretionary was the only sector that yielded a negative return, despite solid performance from HBI because of a positive earnings report.

Going forward, we expect better performance aided by our recent transactions. Our most recent transaction was the purchase of RHS. When looking at the returns of equal-weighted indices of both consumer discretionary and consumer staples, the equal-weighted consumer staples index clearly outperforms the consumer discretionary index over the last year. The equal-weighted indices allowed us to view the performance of both of these sectors with a different perspective, being less prone to skewed returns than cap-weighted indices. After comparing performances of these two equal-weighted indices over multiple periods, we noticed a large difference in returns over the most recent year. We believe this may be indicative of future consumer spending behavior. Adding RHS and weighting to our consumer staples sector will allow us to benefit more from future consumer activity and improve overall portfolio performance.

-Aaron Martschenko, Portfolio Analyst



Economic Outlook:

Oil has remained steady with West Texas Intermediate (WTI) slightly below \$50 and Brent around \$50 for the month. This is the result of the continued supply glut, which appears to have no end in sight. Russia and OPEC (specifically Saudi Arabia) are still enmeshed in a market-share war. Representatives from both sides met in Vienna late this month to discuss raising the price of oil in order to preserve Venezuela’s economy. U.S. oil rig counts are gradually decreasing, but we don’t see this significantly impacting the global supply of oil in the short term. We believe the price of oil will remain around \$50 for the WTI and \$55 for Brent in the coming months. Our long-term outlook on oil is slightly bullish as we don’t see enough global economic growth to justify a significant increase in demand relative to supply.

China reported GDP numbers of 6.9% real growth and 6.2% nominal growth. This indicates significant year-over-year deflation. In order to combat this deflation, the People’s Bank of China cut interest rates. Chinese leaders are meeting the last week of October to discuss further stimulus policies, including dismantling currency control, lowering barriers for non-bank financial firms, as well as emphasizing Chinese innovation and population growth. We believe the Chinese economy will continue to contract over the next couple of years as further stimulus efforts work to curb the slowdown.

European Central Bank (ECB) officials kept interest rates unchanged; however, Mario Draghi indicated that the ECB would need to reevaluate its policies in December. This vagueness could suggest an extension of quantitative easing practices beyond September of 2016.

The Economic Calendar for the last week of October is significant for the United States, with the announcement of new home sales and GDP, in addition to the FOMC meeting. Positive signs in new household formation are reflective of a robust housing market and prosperous consumers, particularly from younger generations. Going forward, the United States is still on track for slow economic growth. We believe that wage growth will increase in the coming months as seen in historical trends, and as more part time workers move into full time positions. We believe the U.S. economy is fully ready for a Fed interest rate hike.

MacGregor Shepard & Dillon Hewitt-Castillo, Economic Analysts

Research Spotlight: Dillon Hewitt-Castillo



Dillon Hewitt-Castillo
Economic Analyst
JetBlue (JBLU)

JetBlue is an attractive stock to research given the expected growth in air travel from the young and newly professional millennial generation. This low-cost airline offers more amenities than most competitors and delivers their service with flying colors. They have received the J.D. Power and Associates award for “Highest Customer Satisfaction among Low-Cost Carriers” for 11 years in a row. I enjoy their services and believe this company has a lot of growth potential.

October Returns

Ticker	Return
AAPL	8.34%
CSX	3.14%
CVS	9.22%
DHR	12.10%
ESRX	7.14%
FL	-5.84%
GOOG	20.23%
GOOGL	18.46%
HAL	10.70%
HBI	10.68%
IJT	7.82%
IVV	10.99%
KKD	-5.91%
NVS	-1.44%
RHS	-1.28%
SYK	2.81%
TSN	.05%
UFPI	26.46%
VEA	8.99%
VFH	7.53%



Total	5.80%
S&P	8.60%

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

	Bowden Investment Fund	S&P 500 Index
YTD Return	-1.90%	2.70%