

*MoneyLife Show
Radio
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**MARKET CALL
WITH EDWARD
PAINVIN**

Edward Painvin, Chase CIO, provides an overview of Chase's investment approach, explaining the combined discipline that marries both fundamental analysis and technical analysis

Interview Transcript

Commercial Male1: The problem with most financial shows when it comes to calling the market is it's one guys' opinion, over and over again. But any veteran investor knows that there are two sides to every trade, a buyer for every seller, and vice versa.

Commercial Male2: Buy, buy, buy!

Commercial Male1: That's why MoneyLife brings you a wide range of experts.

Commercial Male2: I need people who, you know, can work well under pressure.

Commercial Male1: Each day you'll get the benefit of a new set of eyes on the market with different methods and decision-making tools. Every day you'll hear a different expert giving their take on the market on what looks good, what looks bad, and how they feel about some of your stock selections.

Commercial Male2: This stock is blowing up right now.

Commercial Male1: You never know who might show up to talk stocks. It may be a famous money manager or someone you've never heard of before. But you'll always get their straight talk.

Commercial Male2: Must you always be so blasted honest?

Commercial Male1: Their straight talk that is about what they see happening on the market and where to think about putting your money on the daily MoneyLife Market Call.

Chuck Jaffe: That's right, it's the MoneyLife Market Call and I am really excited for today, although this will probably fall into that realm of one of those money managers who you've never heard of. My guest today is Edward Painvin; he is the chief investment officer for Chase Investment Council. No, it's not Chase Bank, if you're thinking it is get that out of your head. Chase Investment Council is a well-regarded money management firm in Virginia. I have had discussions with its officers many times over the years; tried to get them on my past shows and I could not get it done.

But I love their methodology. You can get a very clear picture of what their funds do by going to their website, it is chaseinv.com. We will link that up to the MoneyLifeShow.com. And I am thrilled to be able to say, Edward Painvin, welcome to MoneyLife.

Edward Painvin: Well, thank you Chuck. It's great to be here.

Chuck Jaffe: Edward joins us right now on the Hightower Hotline. Hightower knows that most investors wonder how their interests stack up against other priorities at traditional firms. Hightower sets its priorities differently, in line with investors interests. To learn how it works, go to HightowerAdvisors.com. Hightower is an SEC-registered investment advisor.

Alright, now one thing I didn't say Edward, I should have pointed out that it being CIO at Chase you are also involved in Chase mid-cap growth fund, for those who are following along at home that's CHAMX and Chase growth fund, CHASX. And both of those funds and Chase in general has a very specific methodology. So let's assume that I'm the guy that's excited about your firm but everybody else is hearing about you for the first time. Talk to us about what makes something stand out for you; how do you parse out the investment world to say, "This is what we want to buy."

Edward Painvin: So Chase Investment Council is actually one of those rare firms that combines both fundamental analysis as well as technical analysis. Everyone knows that we need to look at these companies and how they're executing on their business model and how well they're producing earnings and revenues. But equally important for us is taking a look at their stock price and how that particular chart looks relative to the market and relative to the sectors and the industry groups. So we use a sort of combined discipline, a combined approach that marries both fundamental analysis and technical analysis, which we feel over the long term is the best way to produce our performance.

Chuck Jaffe: On this show, we at least once a week have a guest who's talking technical analysis. So let's talk a little bit about how that marriage occurs. Are there certain fundamentals that you're looking for and then you're looking to see where that stock fits on a chart someplace or are there certain technical that you really value more than others? What's that mix going to be? How does it come together?

Edward Painvin: So the process is actually very well balanced between all three disciplines that we look at. And actually I'll walk through some of them. On the fundamental side one that we do pay particular attention to is earnings momentum. So we're always looking at earnings revision from the sale side; these analysts on Wall Street, making sure that at least directionally we're seeing an upward trajectory to earnings revision for the companies that we own and for companies that are in our pipeline that we're looking to buy. We're also looking at the magnitude of those revisions, making sure that you know it's not only being increased by a penny on a \$4.00 earnings number, but that there's a certain degree, percentage of increase there.

And then lastly we're looking for when the company reports, to make sure that, in our opinion, there's upside potential. And upside potential not only in earnings but also in revenues because we feel like if there's revenue upside that it gives management teams greater flexibility going forward in terms of delivering earnings and not being overly pressured with managing margins. So that's on

the fundamental side, really looking at the earnings momentum we look for certain key drivers to whether these companies are gaining market share or introducing a new product, things like that.

On the technical side there's an element called relative price performance, which is way for us to measure how well a particular security is acting relative to the sector or relative to the market. And we track this on a daily basis and some of the components within that could be for example, how many times a stock will be up over a given number of days. It could along the lines of a pattern recognition, taking a look at a stock that's been consolidating for some time, but at the same time it's showing some relative strengths. That could be sort of a precursor to outperformance going forward. We're also looking at volume indicators and then some of the other proprietary indicators that we've developed here in-house, from a technical aspect that we incorporate into our process.

The last component is a valuation component instead of looking at individual ideas or holdings on a strict PE basis, we look at it on a PE to growth. And in fact some of the names that we'll talk about hopefully later on in your show, I'll illustrate how these are certain names that have a growth rate, looking out over the next two or three years, that is superior to its multiples. So in fact you're getting that growth rate for a discount relative to what the market is currently willing to pay for it. And that gives us some offensive characteristics as well as some defensive. So it's all those three components together: the earnings momentum; the relative price performance; and the P to growth rate that is sort of the key foundation, the key pillars of our process.

Chuck Jaffe:

We just got through an earnings period, so you look at earnings momentum, you're looking for that growth – are there certain sectors or certain stocks that really sort of stood out to you as this is where you're finding things right now that have the right kind of strength and are there others that you're looking saying, "Yeah, we maybe have to turn away from certain industries at this point,"?

Edward Painvin:

Yeah, it is truly on an industry basis. We are bottom-up manager so we do our best focusing on individual names, but there are pockets within this broader market that are in bull market and that's what we're responsible to do is identifying those areas. One area we have exposure in both of our strategies is in the commercial aerospace manufacturing side. And what we do is trying to find out what's going on with a particular industry. In this case, you know Boeing is obviously the gorilla in the space in terms of manufacturing.

And one of the names that we own is Precision Castparts, PCP is the symbol. What's unique about them is they do the manufacturing, they do the air foil, some of the landing gears for Boeing. And as you may know the production delivery schedule for the 787 Dreamliner is going from five planes this month all the way to ten by the end of next year. So we have visibility in terms of a production ramp that should help names like Transdigm, on the mid-cap side, and PCP on the large-cap; and these are thematic so you know you can have some volatility in the market place. But as long as passenger air miles, as long as these global carriers focus on more and more efficient planes, more fuel-efficient planes, you're going to get a fairly robust order schedule for planes. And so that's one

area that some of these companies have reported and the visibility and the backlog going into 2013 is quite impressive.

Chuck Jaffe:

What other industries stand out?

Edward Painvin:

Another one, which may not be obvious because we've seen a lot of volatility in the underlying commodity, that being crude, is what we're seeing in terms of off-shore and deep water drilling activity. We also have some exposure to a name called Ensco and they are a contract drilling company. What's interesting is when you talk to a lot of the national oil companies, their CAPEX plans for exploration and development continues unabated.

And Ensco is the number one provider of jack-up rigs world-wide. And they just recently had a call – they had a great numbers; they beat earnings, they beat revenues and they're contracted, in terms of all their rigs, they're contracted through 2012 and a large part of 2013. So again we have visibility through the cycle, primarily because there's very, very little supply of rigs out there that are available. And day rates continue to improve. So we have about \$9 billion in backlog, which will help them deliver on earnings and revenues going forward. So that's another area, within energy, because I know a lot of the traditional ENT names have disappointed because of – disappointing production. But if you can find those little industry groups, those little niches within those sectors, I think that's the way to do it.

Chuck Jaffe:

And again that was Ensco, which is ticker symbol ESV, if I'm not mistaken.

Edward Painvin:

Mm-hmm, that's correct.

Chuck Jaffe:

Now we are gonna put you to the test of our audience. *[Music playing.]* It's Hold It or Fold It Time with my guest, Edward Painvin; he is chief investment officer for Chase Investment Council. It is chaseinv.com if you wanna check out their funds, CHASX for the Chase growth fund. CHAMX for the Chase mid-cap fund. And again, more information available at chaseinv.com. Hold It or Fold It of course is where we take your requests and run them by our guest to see what they think. Now if we're not talking about your favorite stocks, well it's easy you just gotta send us those requests and at some point they'll make it into an interview. Your name, your hometown, and the ticker symbols you're interested in. Send 'em to at chuck@moneylifeshow.com. Go ahead, be greedy, send us a big list because the more, the merrier.

We're gonna start with a request we got from Jeff in Cleveland; he wants to know about Monsanto, it's MON.

Edward Painvin:

I think that thematically if you think about what's going on in the agricultural space, these guys are a key partner for a lot of the farmers who are looking to improve their yields in this day and age. There's a tremendous shortage of food production and Monsanto with its genomics, track record, their ability to create seeds I think is second to none in terms of the biological trace so they can put within the seeds and from what I understand they continue to gain share versus some of their competitors. So Monsanto I would definitely classify as a hold.

Chuck Jaffe: But it's a 'hold' not a 'buy' at this price point?

Edward Painvin: The valuation is keeping us back a little bit but potentially as we get some more multiple compression this will definitely be a name in our pipeline that we're looking at.

Chuck Jaffe: There ya go. So that's a hold on Monsanto, ticker symbol MON.

Male: I'm just taking my time before making the move.

Chuck Jaffe: Well you might be looking for a better price. Next up we're gonna go to a couple of technology requests. The first one comes from Rick in Indianapolis; he wants to know about Riverbed Technology, RVBD is the ticker.

Edward Painvin: So Riverbed I would most likely fold this particular security. I think what's going on in the enterprise and carrier space in terms of CAPEX for networking is a little bit challenging. There's a lot of pricing pressure along the likes of Cisco coming in and really compressing margins. So on that particular name I would not be inclined to own that particular security.

Chuck Jaffe: That would be a fold, a sell on Riverbed Technology, RVBD.

Male: Oh, it just gets worse and worse.

Chuck Jaffe: Also in the technology space, Gordon in Downy, California wants to know about Microchip Technology, it's MCHP.

Edward Painvin: Yeah, Hi Gordon. On Microchip I would hold onto the position. This is the cleanest semiconductor, cyclical store you can have. And I say that because it has about 50,000 customers and they do microcontroller, as you know, which goes into everything from toll roads to ABS brakes to dishwashers. So they're really exposed to nearly every segment of the economy so once we do get an upturn, these guys have the potential to participate. And in the meantime, they historically have paid dividends. So this may be a great way to get a call option on a cyclical upturn while at the same time being somewhat defensive with your divided yield.

Chuck Jaffe: That's a hold on Microchip Technology, MCHP.

Male: No one is gonna unload today, you hear me? No one.

Chuck Jaffe: Next up we're gonna move to a request from Steve in Springfield, Missouri. He wants to know about Mead Johnson Nutrition, it is MJN.

Edward Painvin: Hi Steve, on Mead Johnson I would be inclined to exit the position and the reason is because you know I mentioned a lot about thematic that are important when you're in an uncertain economic period, and the main driver with Mead Johnson is the birth rate. And globally, whether it's in China or the U.S. and some of the more developed countries, the birth rate is definitely declining. And so that has an impact on the products that they sell; that and the fact that what's very important for us is also, not only the multiple, but the earnings revision. Like I said previously, and the earnings division for this particular security have been

going nothing but straight but down and the stock is still trading about 19 times the out year number. So again, very expensive for decelerating and negative earnings revision. Thematically, we're not very excited about this space right now, so again I would exit the position.

Chuck Jaffe: That's a fold on Mead Johnson Nutrition, MJN.

Male: Put that on the pyscho list.

Chuck Jaffe: Last up in the limited time we've got left, Mary in Norcross, Georgia wants to know about Archer Daniels Midland, it's ADM.

Edward Painvin: Yeah, hi Mary. Again along the similar lines to what I previously talked about in terms of our approach to securities, we tend to favor those where we have positive earnings revision, at least for the current quarter, for the out quarter of the out year. And ADM is one of those scenarios where it continues to experience negative earnings revision so we're staying away from this name as well.

Chuck Jaffe: Okay, so that would be a sell on Archer Daniels Midland, ticker symbol ADM.

Male: What about my dreams? What about my money?

Chuck Jaffe: Well, if you wanna have your dreams and protect your money, go someplace else. And if you're looking for a fund that takes all of the things that we've talked about into consideration, you might want to check out the Chase Investment Council Funds. You can get more information at chaseinv.com. Again their ticker is CHASX for the growth fund, CHAMX for the mid-cap fund.

Edward Painvin, he is chief investment officer for Chase Investment Council. Edward, this was terrific. I hope you'll come back and talk with me again soon.

Edward Painvin: Most likely; thank you so much for the opportunity.

Chuck Jaffe: There is just a little bit more of MoneyLife to go today. Stick around we'll be right back, you don't want to stop now; that would be like not getting my thoughts right before Election Day. Whew, that would not be good.

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