



MarketWatch

MARINE BANK
Trust & Investment Management

Conference Call Summary

Joe Terril, Terril & Company, Featured Speaker

Our thoughts on the world economy have not changed dramatically in the last ninety days. We believe that the world economy is growing, will continue to grow and is not getting ready to fall into recession. Global economies are supported by low-interest rates, low unemployment and low inflations expectations.

FedEx recently spooked the markets, blaming some disappointing earnings on a slowdown in international traffic. However, as Amazon continues to bring as much of the freight traffic in-house as it can, it is causing issues for FedEx and UPS. Consequently, we believe that FedEx's earnings issues are more related to losing Amazon's business than a slowdown in the world economy.

Further proof that China and the United States will come to an agreement on international trade would be helpful to the world economy, but it is not going to make or break it. Similarly, while it would be beneficial if Brexit was resolved, it will not make or break the world economy. These macro events are unsettling for markets but will not drag global economics into recession.



We remain relatively bullish on the world economy. Investment markets around the world have moved on from the idea that the world economy is about to collapse and are endorsing the belief that the world economy is going to be okay. As a result, we have seen a nice rally in the markets since our last call a month ago. We anticipate selectively more upside in companies around the world, particularly basic value stocks that are in the business of selling basic products such as chemicals, airlines, energy and pharmaceuticals.

We are closely observing interest rates. At this time last year, people were anticipating world interest rates to move higher and, in fact, interest rates in the United States did move somewhat higher. Now it appears that central bankers around the world have put any additional increases in interest rates on hold until they see the data that shows world economic growth is still growing. We believe, towards the end of this year, we will be back to seeing central banks around the world begin to make modest increases in interest rates and our portfolios are structured for this scenario.

ClientQuestions

Joe, is the strength of the dollar important to the economy and our investments? Would a major fall in the dollar hurt us?

Response: A strong dollar does not necessarily help the economy, but it does not hurt it either. Confidence, more so than strength, in the dollar is important. Around the world, too much of an emphasis is placed on whether other currencies are cheaper, with the belief that cheaper currencies result in a cost advantage. As a result, some people do not want the dollar to get stronger. They worry that it will hurt their ability to be cost effective selling their products around the world because people have to pay more money since the dollar is higher in price.

However, it is important to keep in mind that with a strong dollar, people can buy their raw materials and means of production much cheaper. A strong dollar does not really hurt your ability to compete around the world. Rather, a strong dollar is a vote of confidence in your currency, which actually helps. If people lose confidence in a currency and the value begins to fall, it can be very inflationary, as evidenced in third world countries like Venezuela.

Why are some companies attempting mergers and getting bigger, while others are spinning off subsidiaries to get smaller? Is one way or the other better?

Response: One approach is not necessarily always better than the other. It depends upon the industry, individual companies and prices at that time. For example, Bristol Myers is attempting an approximately \$75 billion acquisition of Celgene. We believe that this acquisition is a good idea, assuming it is executed properly. The two companies would be better off together because of the cost savings in research, development and marketing. However, that does not mean that it is guaranteed to be a success because they must combine the cultures of the companies, which can be difficult.

On the other hand, Dow DuPont is splitting into three different companies making themselves smaller, the idea being, that their markets are more mature and, therefore, they need to concentrate on cost controls. They believe that the markets will pay more if they are individual companies where an investor can say they want exposure to just one part and not the other parts. Similarly, Gap recently announced that they are going to spin off their Old Navy brand. Most analysts like Old Navy but not Gap. Therefore, if Gap will spin it off and make it an individual company, then they will pay more because they can invest directly in Old Navy. The combination of what they will pay for Old Navy independently is much higher than what they would pay for it if it was part of Gap.

We own companies with nice cash dividends. Is this because they have little growth opportunities?

Response: No, not at all. With interest rates as low as they are, we currently like owning companies that have nice cash dividends.

The thinking that a company has no ability to grow so, therefore, they are going to pay all the money out that year in dividends to shareholders is not true. Many of these companies have 4% and 5% growth potential, as opposed to some of the glamour technology companies that have no cash dividends and no positive cash flow, yet people perceive them to have 30% and 40% growth potential. Most studies show that, in the last 50 to 100 years, almost half of the total return of equities comes from cash dividends that are paid to shareholders. We believe that right now, with the very nice dividends, those stock prices are going to trend to trade higher as interest rates tend to stay unchanged before they go back to moving higher.

We believe that it is a misperception that, just because they pay a nice dividend, they cannot grow. It simply means they are generating so much money that they are capable of paying dividends. This is a positive thing, and we believe, ultimately, it is reflected in the stock price. Not only do we have companies paying good dividends, but many are raising the dividends on a consistent basis.



Monthly conference calls with time for your questions about the state of the markets are just one of the many personalized services offered by Marine Bank's Investment Management Team. This **MarketWatch** update is a summary of our monthly call.



Our next monthly conference call will be:
April 17th 2019
May 15th 2019
June 19th 2019
at **10:30 a.m.**

To participate, dial
1.866.210.1669

When prompted, enter code **8558354#**

Email your questions to Annette in advance:
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John "Joe" Terril
President of Terril & Company, a St. Louis based, independent wealth management firm. Terril & Company has been overseeing retirement plans, IRAs and individual investment portfolios for over 37 years, an important keystone of Terril & Company's philosophy remains ensuring no conflicts of interest exist between the company and its clients.