



## Market Commentary

### Market Outlook (cont):

present. Investors, having cleared their tax losses into year-end, now get to start with a fresh sheet of paper - and they will see plenty of formerly expensive stocks selling at deep discounts, with their fundamentals intact.

Additionally, through all the panic selling and institutional programme trading that took the stock markets lower, business insiders (corporate executives & directors) have remained positive, snapping up shares in a voracious manner to send strong signals that this correction is indeed an opportunity.

Whilst mindful of the shape of the yield curve (an inverted yield curve typically precedes recessions), we do not see a recession on the horizon. Even if the yield curve did invert, it often takes a year or longer for the economy to turn (and the inversion also occasionally sends false alarms). We also note the change in tone from the Fed (recently suggesting a pause in interest rate hikes due to the flattening yield curve), indicating they too are keenly aware of its implications.

Finally, progress is being made between the US and China to reach an amicable agreement following threats of trade wars that are wreaking unforeseen havoc. In a world in which global trade has been woven into the collective fabric, nations are having to relearn the wisdom of Benjamin Franklin when he said that we must hang together, "*or surely we will hang alone*".

### Recommended Investment:

#### The North American Income Trust plc

The USA is the engine that drives the world's GDP and its stock market is the largest in the world, accounting for over 40% of the world's stock market capitalisation. Obtaining exposure can, however, be difficult for overseas shareholders, with investors having to complete complex US tax forms and often pay very high rates of withholding tax.

North American Income Trust (NAIT.L) is an investment trust that trades on the London Stock Exchange in sterling. As such it is very simple to purchase through a stockbroker and can be bought and sold throughout the trading day. Its objective is to provide investors with above average dividend income and long term capital growth through active management of a portfolio consisting predominantly of US equities.

The trust has delivered strong performance under the management of Fran Radano and Ralph Bassett of Aberdeen Standard Investments, having risen >90% over the last five years. The managers construct the portfolio with an emphasis on quality and value, targeting cash generative companies that are able to reinvest in their businesses as well as paying dividends. It is the quarterly dividends that we find particularly attractive. The trust currently yields 3.1%, more than 1.5x that of the index. The dividend is also growing at 8% a year, supported by growing revenue reserves (equivalent to >60% of the latest full year dividend).

The portfolio consists of over 40 equities, containing such blue-chip names as Chevron, Cisco, Proctor & Gamble, Pfizer and DowDuPont. In addition, the trust is able to write covered calls and put options as a means of both supplementing income (~20% of income) and managing the portfolio in terms of exiting or adding positions at target prices.

One feature of investment trusts is that they can trade at a discount or premium to NAV. Currently, the trust is trading at a 3% discount vs its 12-month average discount of 6%. In our opinion, downside discount



GIBRALTAR ASSET MANAGEMENT  
STOCKBROKERS & INVESTMENT MANAGERS

## Market Commentary

### **Recommended Investment (cont):**

risk is limited to an extent by the Board's commitment to consider share buybacks when the discount exceeds 5% for a significant period.

The fund is unhedged so in addition to USD investors, sterling investors looking to protect themselves from a further devaluation in the pound may wish to purchase a small allocation.

In summary, we believe this to be a well-managed fund with a good dividend yield providing exposure to the world's largest stock market. **Buy.**