

Opportunities for International Equities

Bloomberg Radio, *Taking Stock*, Michael McKee and Dave Wilson

Interview with Mark Bogar, Portfolio Manager, The Boston Company Asset Management

Announcer: *Taking Stock*, with Carol Massar and Michael McKee, on demand via our Bloomberg Radio Plus app. Free for iPhone and Android devices.

Michael McKee: Oh, send the word that the Yanks are coming, or the Yanks' dollars are coming. That seems to be the theme for a lot of people these days is invest overseas. With the way things are going in the United States today, you might want to consider that. Katherine was talking about the fact that we're seeing 1.5% declines across the major indexes.

By the way, I'm Michael McKee. Carol Massar, I mentioned, is off today, but we are fortunate to have Dave Wilson sitting in with us for the program here.

And we are welcoming Mark Bogar to the show. He's an analyst and portfolio manager at the Boston Company Asset Management. He is from Boston. And he's an international small cap investment manager.

I want to ask you about that. But first, this story literally just crossing as we're sitting here. You're from Boston. It says, "giant icebergs are washing up on the shores of Cape Cod."

Mark Bogar: Well, that's a new one. We had the ice surf, as well, earlier in the year. So, it's tough times up there.

Michael McKee: It's been a tough winter for you. Been a tough couple of weeks for stock investors as people have started to question whether or not we're going to continue the rally. And I know people are looking overseas. I do want to point out today, 1.5% declines on the major indexes. But you look at the Russell 2000 is only off 1%, and it is about the only index, there's maybe two or three minor indexes, that is still up for the year. So, people are still, in general, wherever you buy it, seeing small cap value.

Mark Bogar: Yes. Well, small cap, as you know, internationals, where my focus is, but international small cap is an interesting asset class in terms of you can always find something interesting, in my opinion. Currently, the UK is a strong domestic situation. On the export side, Japanese export. We've seen the weak currencies. We're seeing the continued weakness in the euro today.

But you get a lot of great niche businesses that are market leaders. So, you can find leaders in brakes, leaders in auto parts, across the world that can have strong growth, even with some of the weak currencies out there. So, it continues to be an interesting part of the market.

Dave Wilson: You know, one point that gets made when you think about U.S. small caps is that they are much more tied into domestic economies than the larger companies. That might work in their favor, at this point, when you consider what's going on with the dollar. But you figure, in terms of international small caps, that equation would get stood on its head. To what extent is that an issue, in terms of picking the sort of stocks that you're focusing on?

Mark Bogar: It actually, it is an issue, and it's not an issue. In terms of there are plenty of global plays, whether you're based in the UK, Japan, Germany. There's a lot of global leading industrial, auto, tech companies that can take advantage of the strong dollar and translate that back to better profits at home.

And then on the domestic industries, you do want to concentrate on the countries that are the strongest right now. So, as I mentioned, the UK is an area that home prices continue to go up. Hotels continue to fill up. Revenues (are) going up there.

So, you can pick and choose. The opportunity set is quite wide between the currencies in the domestic countries that you can find interesting pockets most times.

Michael McKee: How do you invest? Do you go out and buy individual companies? Are you buying sectors? What are you looking for?

Mark Bogar: We typically go out and find the company. We typically are relatively sector neutral. Currently today, we do like technology. We think is an interesting spot, partially from that currency standpoint, but also, we continue to see a slow global recovery. So, in a global recovery, technology should do well. Consumer should do well. Consumers should do well with lower oil prices. So, we build it up from the bottom up. Pick the stocks. Pick the stories. What we find those market leaders and niche markets that can continue to lead the stock market up. And we're still continuing to find a lot of those names today.

Dave Wilson: So, how do you handle currency risk? I mean, clearly, it is working against U.S.-based investors, at this point. How's it play out in terms of your own funds?

Mark Bogar: It plays out. We don't typically hedge in the fund. So, we play it by let's own more exporting names. So, as the currency weakens, and I do think the dollar's poised to stay strong. I don't see the dollar weakening anytime soon. I think we've also had the bulk of that rally. But even again today, we're seeing the euro weak, the dollar strong.

But the way you can play that in a fund, though, is to own the export name. So, own the technology, own auto, own industrial. And you can get a lot of that exposure, and so your local dollar returns are going to be strong. So, we've seen Europe is up double digits this year in the local currencies. Japan, I believe, is still up close to 10%. So, you can get that strong local return, even with the currency.

Michael McKee: If you're looking at various countries are you also looking at political risk? I know in Europe, it would be, I guess, the euro. But other places around the world, how do you factor that in when you're looking at small caps?

Mark Bogar: Yes. We typically factor that in with the upside required. So, what's the political situation and how severe is it, and am I getting enough risk, am I getting enough upside if I'm going to take on that risk? So, an example of that would be at the end of the year, the Greece situation reared its head again.

So, the question is on the table, is the euro going to break up? Is it not? I think in that particular situation, three years ago, I was much more worried about Greece, because we could have had the contagion moving to Italy, moving to Spain and really causing a real problem for the euro area. But these days, Italy's in much better shape, Spain's in much better shape. Unemployment's coming down. Auto sales are picking up.

So, I think you can kind of carve Greece off, and it can be a minor issue. So, if that's the case, and particularly, let's say, in the fourth quarter last year, you saw banks getting hit. Financials getting hit on worries around Greece. That was more of a buying opportunity. Because then you've got the commensurate upside to compensate for the risk of Greece that I think is relatively small.

Michael McKee: So, unfortunately, we're going to run out of time here. But Mark Bogar, thanks for coming in today. You can ride one of those icebergs back up to Massachusetts, I guess. He's from the Boston Company, specializes in international small cap investment.

As I mentioned, speaking of small caps, the Russell 2000 down 1% today, compared with the major indexes, which are all down about 1.5%. So, doing a little bit better than some of the others.

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