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Thoughts from the JP Morgan Asset Management ETF Symposium

Earlier this month I had the opportunity (thanks to our business partners at JP Morgan) to come out to New York for their second annual ETF Symposium. The event was well put together and allowed me to continue our due diligence on JPM ETFs, learn more about ETFs in general, and listen to Dr. David Kelly (JPM's Chief Economist), Jamie Dimon (JPM's Chairman and CEO), and Tony Blair (former Prime Minister of the United Kingdom). Here are some of my takeaways from the event.

- Dr. David Kelly is someone whose analysis I frequently study, and his presentation and quips were spot on. While discussing the recent tax changes, he said that "it's like bringing a keg at 2am to a frat party. Completely unnecessary and the hangover will be worse." While the tax changes are beneficial, the government failing to appropriately cut spending is not. Because of the existing conditions, our economy is currently doing really well and is set to do so through the end of next year (as consumers will see the impact of tax savings in April and then go out and spend), but he does expect it to slow down in the coming years, starting in 2020.
- One comment he made that I had not really considered is that in this new age of technology, the buyers are informed of the market they are in, and the pressure is on sellers to not only produce the goods that buyers want, but be able to sell them at competitive prices. Per Dr. Kelly, this new paradigm is keeping inflation low.
- While he does think the economy is set to slow down (echoing our firm's belief as well), he believes that the next recession to come will see less stock market losses than the previous two (tech bubble and financial crisis). The economy is as stable as it has ever been, and with regulations in place, there shouldn't be any reason for as big of a crash as there was in 2008. Equity valuations are also near historical averages, whereas in 2000 they corrected to historical averages.
- His semi-optimistic annualized rates of returns for the next five years are: 5% for U.S. equities, 10% international, and 3% for the U.S. AGG. He added that despite the problems in Emerging Markets, much of the issues are confined to a small number of nations, and that historically investors have gotten compensated by taking on Emerging Market risk.
- I was very impressed with how well Jamie Dimon presented his address and interacted with audience members in his time spent with us. He was much more optimistic on the state of the U.S. economy (and the markets) than Dr. Kelly, citing that despite popular belief, the U.S. still remains the best economy in the world and that investors will continue to believe that as China and Europe sort out their issues. Business & consumer sentiment is up, small business confidence is up, the banking industry is very healthy, and the de-regulation that the current administration is looking to achieve will help the economy.
- An interesting comment that Jamie made with regards to Europe: while there are structural problems that need to be worked out, the individual companies that are based in Europe are great. It's important that investors separate the two.
- While there is a concern about trade and the deficit (things we hear about constantly), Jamie also pointed out that we are still lagging in cybersecurity and that we (as a country) need to stop talking in absolutes about health care and begin on working on fixing things that we all agree that need to be fixed.

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- Both Jamie and Tony Blair acknowledged the rapid (and inevitable) growth of China. One comment that Tony made is that Europe and the U.S. need to remain together and be on the same page as China grows. Ultimately, Tony thinks that Europe will change and figure out how to grow collectively in power.

With regards to ETFs, the biggest takeaway I got from the symposium is how complex of a vehicle an ETF is, and how firms like JP Morgan are working with the SEC to improve the regulation of them so they can create more active strategies within the ETF wrapper. Looking 5-7 years out, they believe that not only will ETFs pass Mutual Funds by AUM, but that the majority of strategies will be in an ETF wrapper. With the numerous ETFs on the market (roughly 2,000 put on by over 100 sponsors), it is important that portfolio managers do the necessary homework to understand exactly what the ETF strategy is looking to achieve and subsequently what the underlying investment strategy is. An interesting tidbit that was shared: of the 20+ ETFs that globally track the S&P 500, the dispersion in fees was 10bps while the dispersion in returns was 85bps.

Overall, this event gave me some new ideas while reaffirming some of the investment strategy decisions we are either close to implementing, or are actively researching. This is a very short summary that I put together – I'm always more than happy to hop on a call to further go into any details about this.

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