

JOURNAL REPORT | INVESTING IN FUNDS & ETFs

NATURAL GAS,
OIL AND GOLD



Nigel Koulajian
AlphaQuest

STRATEGY: Systematic macro
ASSETS: \$1.7 billion
LAUNCH DATE: 1999
ANNUALIZED NET RETURNS: 11%

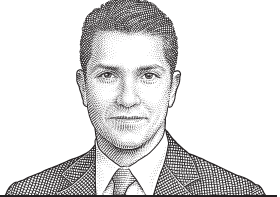
+ Nigel Koulajian runs a purely systematic shop, an industry term meaning he uses various proprietary programs that identify when the character of an asset's price movement is changing. Often, when prices are bouncing all over the place, that can indicate when a high is being formed, or now, as in the case of natural gas, crude oil and gold, when a rebound appears to be set to take off. That's what Mr. Koulajian's programs say is now happening.

"We are currently seeing an unwinding of short positions on natural-gas contracts which had been built up by hedge funds and other institutional investors," Mr. Koulajian says. "Price volatility is revealing larger swings on the upside and smaller movement on the downside, suggesting a bottom is forming on natural-gas prices and rising prices likely in 2019."

To Mr. Koulajian, this also indicates oil prices will soon stop falling and start rising. He expects gold prices will start moving upward, too.

The biggest risk he sees in the coming year: stagflation, where inflation and interest rates rise while GDP growth slows.

LEVERAGED LOANS



Hanif Mamdani
PH&N Absolute Return

STRATEGY: Multistrategy/credit
ASSETS: \$1.3 billion
LAUNCH DATE: 2002
ANNUALIZED NET RETURNS: 13.5%

— With the credit market having peaked and a bear market likely under way, Canadian

UNCOMMON
INVESTMENT TIPS
for 2019

Hedge-Fund Pros Weigh In

Among the suggestions: Think natural gas and Turkish banks, not leveraged loans

WITH INTEREST RATES RISING AND STOCK PRICES FALLING, 2019 is setting up to be one of the most challenging environments investors have faced in some time.

To get a sense of what some high-profile investors are thinking for the year ahead, The Wall Street Journal interviewed several hedge-fund managers with some of the most consistent long-term performances.

The managers have a variety of ideas, from being bullish on commodities and Turkish banks, to shorting U.S. leveraged loans and U.K. gilts. Their fears included rising global trade tensions, geopolitical risks surrounding the European Union and the euro, and a potential slide in investor confidence. Other hedge-fund managers say they fear the unrecognized costs of climate change. Here are four of the managers' outlooks.

BY ERIC
UHLFELDER

TURKISH BANKS



Carl Tohme
Jabcap EMEA

STRATEGY: Emerging markets
ASSETS: \$270 million
LAUNCH DATE: 2010
ANNUALIZED NET RETURNS: 9.96%

+ With emerging-markets valuations bouncing around like a pinball for years, Carl Tohme may have the toughest job of all our managers.

"We have been negative on Turkey since the beginning of 2018," says Mr. Tohme. "But we believe rate increases by the Central Bank of Turkey, which has doubled its benchmark rates to 24% in September, are beginning to address some of the country's financial challenges." This has helped the Turkish lira to rally back more than halfway from its 40% decline against the greenback in 2018.

Although he doesn't expect to see a V-shaped recovery, Mr. Tohme thinks the Turkish economy and market are on the mend, especially if energy prices stabilize and the Federal Re-

serve eases up on rate increases.

Because he believes Turkish banks will be recapitalized by the end of the first quarter of 2019, Mr. Tohme considers them to be trading cheap, below 0.5 times book value and around 3.5 times forward earnings, which prices in a projected recession in 2019.

He likes Akbank and Garanti Bank (the latter majority-owned by the Spanish bank BBVA). "These are well-regulated, conservatively managed, private institutions," says Mr. Tohme.

Mounting trade tensions worry Mr. Tohme, especially if they continue to fuel volatility across all markets. But if China and the U.S. begin to work out their differences, and if the U.S. holds off on further rate increases, Mr. Tohme thinks emerging-markets shares and their underlying currencies should outperform developed markets in 2019.

GILTS



Bob Treue
Barnegat

STRATEGY: Fixed-income relative value
ASSETS: \$661 million
LAUNCH DATE: 2001
ANNUALIZED NET RETURNS: 15.9%

— Relative-value trades are where managers look for financial instruments that should trade in lockstep with one another but whose values have deviated. Managers bet these spreads will close.

"Government bond yields should be higher than inflation," says Bob Treue. "But at the end of the year, the 30-year British gilt yielded 1.95% while an equivalently termed U.K. inflation swap was at 3.30%."

While the Bank of England's unwinding of quantitative easing should help boost yields on long-term U.K. government bonds, Mr. Treue says it isn't clear when this correction will occur. But he says the market will make it happen.

Mr. Treue is short the long-term gilt, believing its yield will rise and price will fall, and he is long inflation swaps, believing the inverse will happen. He has structured the trade as to currently earn money as he waits.

Mr. Uhlfelder writes about global capital markets from New York. He can be reached at reports@wsj.com.

IN TRANSLATION

TWO
METRICS:
GO AND II

Big changes are happening at the U.S. Bureau of Economic Analysis.

It means you'll be hearing more about two economic metrics: gross output and intermediate inputs. The two are related, but for economists, the latter has a meaningful use as an indicator of future economic activity. The BEA has been stepping up the speed at which it releases data on the metrics.

Gross output, or GO, measures an industry's sales to final users of its products, while intermediate inputs, or II, record the size of an industry's sales to other sectors. The former would include sales of dishwashers to consumers; the latter would include wooden planks used in construction.

One way to think about GO, II and gross domestic product is to envision an income statement from a public company.

"GO is top line and GDP is the bottom line," says Mark Skousen, a presidential fellow at Chapman University, in Orange, Calif.

The II data, meanwhile, tell you how the economy will perform in the future.

When the growth rate of II increases, you should expect economic growth to increase about one quarter later, says David Ranson, director of research at financial analytics firm HCWE & Co. It works vice-versa, too, according to an HCWE analysis. That makes II a leading indicator of economic activity.

Although the BEA is releasing II data more quickly, it still isn't fast enough to be useful in forecasting and isn't used in the Conference Board's widely followed Leading Economic Index.

The BEA says it plans an even speedier release of the data in the future, though it hasn't specified a date.

—Simon Constable

The Pros and Cons of Bond Funds vs. Actual Bonds

BY DAN WEIL

AS STOCK-MARKET volatility drives more weary investors into fixed-income markets, a big question looms: Do you invest in bond funds or individual bonds?

Unfortunately, there isn't an easy answer. But each offers some benefits.

In a time of rising interest rates, individual bonds can carry an advantage. That's because rising rates mean falling bond prices, which depress the value of bond mutual funds and exchange-traded funds. For 2018, U.S. open-end bond mutual funds and ETFs on average returned just 0.9%, according to research firm Morningstar Inc.

With individual bonds, if they are high-quality, investors generally can count on receiving the full par value if they hold to maturity. "Mutual funds are generally subject to more variability in a rising-interest-rate environment," says Karim Ahamed, an investment adviser for HPM Partners in Chicago.

In a falling-rate environment, individual bonds lose that advantage, because bond fund prices will tend to increase.

The Fed question

So, which path investors take depends in part on where they think interest rates are heading. The Federal Reserve has been raising rates since 2015. But with the economic outlook so uncertain and financial markets so turbulent, experts are divided. Some still believe the U.S. economy and inflation will be strong enough to prompt the Fed to lift rates further, while others say the central bank is more likely to at least pause this year. On Friday, Fed Chairman Jerome Powell said mild inflation gives the central bank greater flexibility to set policy this year.

Other advantages of bond

funds and individual bonds don't depend on the course of interest rates.

For one, individual bonds offer more predictability in certain ways. In any interest-rate environment, investors generally know exactly what their interest-rate income will be from an individual bond, while interest payments can vary widely for funds. Investors also know exactly what their capital-gains taxes will be on individual bonds if they sell any; capital gains for bond funds are unpredictable.

But some experts say bond funds are better for creating a diversified portfolio. "Mutual funds give broader diversification: You can get exposure to

many underlying bonds," says David Carter, chief investment officer at Lenox Wealth Advisors in New York. "This is especially important when investing in riskier bonds, such as high-yield or emerging markets." Illiquid trading conditions can make buying and selling individual bonds difficult in those markets.

Another disadvantage of individual bonds is that transaction fees can be high, especially when bonds are purchased in small amounts. The minimum denomination for a bond generally is \$1,000. Considering fees and diversification, a rule of thumb is that investors need a minimum of \$250,000 in at least 10 bonds

for the individual-bond route to make sense, advisers say.

Fees are an issue for bond funds, too. The average annual expense ratio for U.S. open-end bond mutual funds and ETFs is 0.74%, according to Morningstar. The trading cost for an individual bond is about the same as one year's expense fee for a mutual fund with similar bonds, Mr. Carter says. The difference, of course, is that you pay the expense ratio on your fund every year.

One approach for investors buying individual bonds is to construct a bond ladder—a portfolio of bonds of different maturities. As each bond matures, a new one is purchased, generally with the same length

of maturity. This is designed to lessen interest-rate risk and provide reliable cash flow.

RDM Financial Group-Henn Tower in Westport, Conn., uses bond ladders for its clients, says Michael Sheldon, RDM's chief investment officer. RDM's ladders are made up of investment-grade corporate bonds and municipal bonds. "When a bond ladder is constructed, we know the yield to maturity and cash flows that the bond ladder is likely to generate," he says.

ETF or mutual fund

However, investors who don't have access to sophisticated advice and research are probably better off in a mutual fund or

ETF. For investors who go this route, the next question is whether to buy an ETF or a mutual fund.

ETFs have the advantage of lower fees—an average annual expense ratio of 0.326%, compared with 0.785% for open-end mutual funds. With interest rates low by historical standards, limiting returns, it's particularly important to focus on costs, says Tom Fredrickson, a New York financial adviser.

But ETFs have some issues. "We are somewhat wary of bond ETFs, because if there is a large amount of market volatility, ETF investors may not get the price they expect when they go to sell a bond ETF," RDM's Mr. Sheldon says.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

Monitoring Money-Market Funds

Performance figures for these consumer-oriented funds are estimated annualized yields, which include earnings from the funds' investments and the effects of compounding. Funds open only to institutions, special-purpose and tax-exempt funds are excluded from these tables.

Largest Funds

Fund Name	Assets (\$millions)	Compound Performance (%)			
		4th- qtr	12-mos	7-day yield (%)	
Fidelity Govt Cash Reserves	145,108.6	1.90	1.52	2.03	
Vanguard Federal MMF	114,481.5	2.16	1.78	2.30	
Fidelity Government MMF	100,343.3	1.86	1.47	1.98	
Vanguard Prime MMF/Investor	98,961.7	2.28	1.95	2.43	
Schwab Value Adv MF/Ultra	28,874.3	2.26	1.93	2.43	
Fidelity Inv Money Market/Instit	26,739.3	2.34	2.04	2.49	
Vanguard Treasury MMF	23,057.4	2.16	1.80	2.29	
Edward Jones MMF/Inv Class	21,586.7	1.57	1.18	1.70	
Northern US Govt MMF	19,726.5	1.92	1.53	2.09	
Fidelity Treasury MMF	12,708.0	1.87	1.48	1.99	

Highest Seven-Day Yield

Fund Name	Assets (\$millions)	Compound Performance (%)			
		4th- qtr	12-mos	7-day yield (%)	
Fidelity Inv Money Market/Instit	26,739.3	2.34	2.04	2.49	
JPMorgan Liquid Assets MMF/Capital	230.2	2.31	1.97	2.47	
Invesco Premier Portfolio/Inst	1,374.8	2.30	1.96	2.44	
Federated Prime Cash Oblig/Wealth	9,303.5	2.28	1.94	2.43	
Schwab Value Adv MF/Ultra	28,874.3	2.26	1.93	2.43	
Vanguard Prime MMF/Investor	98,961.7	2.28	1.95	2.43	
First Amer Retail Prime Oblig/CIZ	418.7	2.23	1.93	2.39	
BlackRock MMP/Instit CI	457.6	2.24	1.90	2.37	
Dreyfus Prime MMF/CI A	187.9	2.21	1.89	2.35	
BMO Prime MMF/Premier	405.9	2.20	1.86	2.33	

Source: Money Fund Report (iMoneyNet.com)

* - Ranked by assets.

Highest 12-Month Yield

Fund Name	Assets (\$millions)	Compound Performance (%)			
		4th- qtr	12-mos	7-day yield (%)	
Fidelity Inv Money Market/Instit	26,739.3	2.34	2.04	2.49	
JPMorgan Liquid Assets MMF/Capital	230.2	2.31	1.97	2.47	
Invesco Premier Portfolio/Inst	1,374.8	2.30	1.96	2.44	
Vanguard Prime MMF/Investor	98,961.7	2.28	1.95	2.43	
Federated Prime Cash Oblig/Wealth	9,303.5	2.28	1.94	2.43	
First Amer Retail Prime Oblig/CIZ	418.7	2.23	1.93	2.39	
Schwab Value Adv MF/Ultra	28,874.3	2.26	1.93	2.43	
BlackRock MMP/Instit CI	457.6	2.24	1.90	2.37	
Dreyfus Prime MMF/CI A	187.9	2.21	1.89	2.35	
BMO Prime MMF/Premier	405.9	2.20	1.86	2.33	

Lowest 12-Month Yield*

Fund Name	Assets (\$millions)	Compound Performance (%)			
		4th- qtr	12-mos	7-day yield (%)	
Transamerica Govt MMF/CI A	219.4	1.70	0.72	1.66	
Federated Tr for UST Oblig/Cash Ser	507.8	1.26	0.85	1.38	
Federated Govt Oblig Fund/Cash Ser	216.5	1.27	0.85	1.39	
Federated Govt Reserves Fund/CIP	8,898.6	1.24	0.86	1.36	
RBC US Govt MMF/Investor	1,162.9	1.25	0.86	1.32	
BlackRock Liquidity:Treas Tr Select	41.1	1.26	0.87	1.37	
BlackRock Liquidity:FedFund Select	211.9	1.27	0.89	1.40	
BlackRock Liquidity:T-Fund Select	31.2	1.28	0.89	1.38	
AZL Government MMF	448.4	1.39	1.01	1.52	
Ready Assets US Treasury MF	52.9	1.34	1.05	1.31	

Average Yields (all retail taxable funds) 1.70% 1.33%

Largest Taxable-Bond Funds

Data provided by LIPPER

Total returns are for periods ended Dec. 31 and are preliminary; assets are through Nov. 30, and include all share classes.

Fund Name	Symbol	Assets (\$millions)	Performance (%)				
			Dec.	4th- qtr	1-yr	3-yr*	5-yr*
Vanguard Tot Bd;Adm	VBTLX	200,695.2	1.8	1.6	-0.03	2.0	2.5
Vanguard Tot Bd II;Inv	VTBIX	158,472.9	1.9	1.6	-0.1	1.9	2.4
Vanguard Tot II Bd;Adm	VTABX	112,112.5	1.1	1.9	3.0	3.3	4.0
PIMCO:Income;Inst	PIMIX	109,908.9	0.8	0.7	0.6	5.9	5.5
Met West:Total ReturnI	MWTIX	69,966.1	1.7	1.5	0.2	2.0	2.4
PIMCO:Tot Rtn;Inst	PTTRX	66,639.4	1.2	1.4	-0.3	2.5	2.6
Vanguard Sh-Tm Inv;Adm	VFSUX	58,263.8	0.7	0.7	1.0	2.0	1.8
Dodge & Cox Income	DODIX	55,716.7	1.1	0.3	-0.3	3.2	2.9
iShares:Core US Agg Bd	AGG	53,587.9	1.8	1.6	-0.1	2.0	2.5
Vanguard Sh-Tm B;ETF	BSV	50,696.1	1.0	1.5	1.4	1.3	1.2
DoubleLine:Tot Rtn;I	DBLTX	47,395.2	1.4	1.8	1.8	2.6	3.3
Lord Abbett Sh Dur;F	LDLFX	41,445.6	0.3	0.5	1.3	2.6	2.0
Fidelity US Bond Index	FXNAX	39,268.2	1.9	1.7	0.03	2.0	2.5
American Funds Bond;A	ABNDX	38,728.9	1.6	1.6	-0.1	1.9	2.3
Fidelity Str Adv Cre Inc	FPICX	37,480.6	1.4	1.0	-0.3	2.9	2.8
PGIM Tot Rtn Bond;Z	PDBZX	35,348.7	1.5	1.3	-0.7	3.5	3.5
BlackRock:Str Inc Opp;I	BSIIX	35,263.4	0.2	-0.4	-0.5	2.7	2.3
Templeton GI Bond;Adv	TGBAX	35,078.6	-0.9	1.7	1.4	3.5	1.6
Vanguard Int-T B;Adm	VBILX	30,871.4	1.8	2.0	-0.2	2.2	2.9
iShares:iBoxx \$IG Corp	LQD	29,908.0	1.7	-0.6	-3.8	3.0	3.3
Vanguard Int-Tm Inv;Adm	VFIIX	28,949.8	1.5	1.1	-0.5	2.6	3.0
JPMorgan:Core Bond;R6	JCBUX	27,874.5	1.7	1.7	0.4	2.2	2.6
Vanguard Infl-Prot;Adm	VAIPX	27,575.8	0.6	-0.5	-1.4	2.0	1.7
Vanguard ST IPS;Ins	VTPSX	27,059.0	0.2	-0.3	0.6	1.4	0.6
T Rowe Price New Inc	PRCIX	26,977.2	1.6	1.0	-0.6	2.0	2.4
Vanguard ST Corp Bd;ETF	VCSH	25,824.9	0.8	0.8	0.9	2.0	1.8
Fidelity Srs Inv Gd Bd	FSIGX	24,305.6	1.4	1.0	-0.2	2.8	2.8
WA Core Plus Bond;I	WACPX	23,721.3	2.2	0.9	-1.5	3.4	3.8
Vanguard HY Corp;Adm	VWEAX	22,729.4	-2.1	-4.4	-2.9	5.0	3.7
iShares:TIPS Bd ETF	TIP	21,828.5	0.5	-0.5	-1.4	2.0	1.6

* Annualized N.A.=not applicable, fund is too new