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In Search of Growth

Talking With Robert Levitt, Chief Investment Officer, Levitt Capital Management
By SUZANNE MCGEE

Robert Levitt searches far and wide for growth that the United States rarely delivers anymore.

LIKE EVERY MONEY MANAGER, ROBERT LEVITT is waiting to see whether the U.S. stock-market rally gains ground or fizzles. But Levitt's clients, the affluent individuals who hire him to manage their separately managed accounts or invest in his hedge funds, have less at stake on the future course of the Standard & Poor's 500 than most of their peers.

"Global economic leadership has moved outside the United States, so that is where we are positioning our clients to earn the best returns -- we want to be where the economy will outperform, not where it has outperformed in the past," Levitt says. "Look at the automotive industry. The capital is no longer Detroit, but Shanghai."



Brian Smith for Barron's

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rapidly," he explains. "We made a lot of money owning Pakistani oil companies, such as **Oil & Gas Development** [OGDC.Pakistan], when the political situation stabilized a bit," he says.

Levitt, 48 years old, is based in Boca Raton, Fla., but scours the world for opportunity. In the past year, he has traveled to the Congo (for gold miners) and Nigeria (telecoms), and he is off soon to Russia: "This is not the time for American investors to stay quietly at home."

HIS CLIENTS HAVE ABOUT HALF the stock allocation of their separate-account assets (\$3 million minimum is required) invested abroad, from well-trodden markets such as Japan and Western Europe to the BRIC countries (Brazil, Russia, India and China) and so-called frontier markets like Pakistan. (That's more than twice the overseas holdings of most mutual-fund managers, according to Ibbotson Associates.) "Why rule anything out?" he says.

Levitt contends the goal is to seek out maximum economic growth. "In China, gross domestic product is likely to grow 9% again this year, and, if anything, the risk is that it will grow more rapidly." As Chinese consumers' interest in cars surges, Levitt has homed in on **Xinyi** (please see table on the following page for most tickers), a major Hong Kong-listed producer of vehicle glass. Another holding in China, where about 8.5% of the \$353 million of assets Levitt Capital Management oversees is invested, is online-retailing giant **Alibaba Group**. Although it recently reported lower earnings, Levitt stresses that the business is expanding. "If you are a medium-sized manufacturer in China, one of the best ways to get your products known is by opening a virtual store on Alibaba," he says.

Levitt focuses on the potential for high returns from companies more than on the higher risk levels associated with emerging and frontier countries. Often, he argues, the risks are greatly magnified by fearful investors. "Yes, there has been a lot of upheaval in Pakistan, and investors fled, but the environment there changes

Some of his holdings are truly global. **Naspers**, a South African company, has stakes in a Chinese social-networking company, South African newspapers (whose readership levels are increasing), as well as Brazilian magazines and central European e-commerce Websites.

As of late July, year-to-date gains for his LCM Globally Diversified Fund I hedge fund (\$1 million minimum), which is invested using the same strategy as his separate accounts, totaled nearly 9%; average annual returns over the last three years were close to 4%.

Table: LCM Globally Diversified Fund I

Levitt Capital Managements LCM Globally Diversified Fund I 561-893-9901			
	Total Returns*		
	1-Yr	3-Yr	5-Yr
LCM GDF Fund I	-6.22%	5.03%	8.83%
S&P 500	-21.05%	-6.23%	-0.15%

REPRESENTATIVE HOLDINGS

THEME: Global Growth Ticker

Alibaba	1688.Hong Kong
Naspers	NPN.South Africa
Apple	AAPL

THEME: Commodities

SLC Agricola	SLCE3.Brazil
BHP Billiton	BLT.United Kingdom
Teck Cominco	TCKB.Canada

THEME: Automotive

Fiat SPA	F.Italy
Soc. Quimica y Miniera	SQM.Chile**
Xinyi	0868.Hong Kong

*As of 7/30; three- and five-year returns annualized.

**Traded on New York Stock Exchange.

Sources: Levitt Capital Managements; Standard & Poor's

TO ADJUST FOR THE RISK ASSOCIATED with equity markets in the uncertain economy -- particularly markets like Pakistan -- Levitt has avoided chasing the equities rally. "Normally, we'd be increasing our allocation to stocks as our returns climb," he explains. Only about 52% of his clients' accounts are invested in stocks, with 48% allocated to fixed income or alternatives, including a very large position in long-term Treasury notes and bonds. Normally, in this kind of market, stocks would be 62%.

The stocks he buys fit into one or more cross-border themes, such as the shift in global economic leadership. He believes, for instance, that stocks of commodity producers are poised to outperform as consolidation continues. "Government-backed entities in countries like China are motivated buyers of these companies for strategic rather than financial reasons," he argues. Levitt thinks that as investors find fewer publicly traded alternatives to choose from, behemoths such as [BHP Billiton](#) and independent metals producers such as [Teck Cominco](#) will benefit, outperforming the market. Also in Levitt-managed portfolios is [Vedanta](#) (VED.UK), a London outfit that is one of the lowest-cost producers of aluminum, zinc, copper and iron ore.

Agricultural land is scarce, too, and highly prized by high-growth economies, Levitt argues: "You see food-importing nations like Korea and Saudi Arabia leasing land in grain-producing nations in parts of Africa, improving irrigation and fertilizing the land to produce higher crop yields." That investment theme has led him to companies like [Sociedad Quimica y Minera de Chile](#) (SQM), a Chilean producer of fertilizer that trades on the New York Stock Exchange. "It's also a big producer of lithium, which is a key ingredient needed for making the next generation of environmentally friendly cars," Levitt notes.

While Levitt isn't betting on General Motors' recovery, he's bullish on the future of the auto business. "It just won't be a Detroit-centered industry any more," he explains. [BYD](#) (1211.Hong Kong), a manufacturer of lithium-ion batteries, has begun making cars in the Chinese market. He's also invested in [Fiat](#) -- the Italian auto maker that has taken a 20% stake in Chrysler in exchange for small-car production technologies and is still hoping to acquire the assets of GM's German unit. Adam Opel hasn't given up on slower-growing economies such as Japan or the U.S. "Japan may be a demographic disaster, but that means that there aren't going to be that many eager competitors trying to take market share away from established Japanese companies like [Kirin Holdings](#) [2503.Japan]," he notes. And the brewing giant is venturing to China and Australia for growth. He sees similar opportunities closer to home, such as [eBay](#) (EBAY), [Apple](#) (AAPL) and Ontario-based [Research in Motion](#) (RIM) -- which appeal to him because they, too, are global.

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