The Perspectives Podcast
Growth Town, USA
Episode Two

with
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Lance: As a kid, I would spend time with my dad on Saturdays when he would go into the office, and I was a cutter, I worked on the docks, I worked maintenance, so from a very young age, the company was something I hoped that one day I would be involved with.

Candace: That's Lance Ruttenberg, the CEO of American Textile, a business that's been in his family for three generations.

Lance: The founding five brothers spent sixty plus years making anything that could be cut and sewn and used in a home. Indoor/outdoor furniture covers, bedding, protective covers. At one point we made flags, we made appliance covers.

Candace: For years the company was quite small, but it's since grown into a multi-million dollar business and Lance attributes that growth to focusing on what they do best.

Lance: That was the protective bedding.

Candace: And also where they do it.

Lance: We just never put ourselves in a position where we were entertaining the idea of leaving Pittsburgh.

Candace: We'll find out why staying put in Pittsburgh has paid off for them in just a minute. You're listening to The Perspectives Podcast. I'm Candace Browning, head of BofA Merrill Lynch Global Research. My co-hosts are Michael Hartnett, Chief Investment Strategist for BofA Merrill Lynch Global Research.

Michael: Hi, Candace.

Candace: And Chris Hyzy, Chief Investment Officer for Merrill Lynch and U.S. Trust.

Chris: Nice to be here, Candace.

Candace: What we want to talk about is America's economic revival, where it's happening, and what it could mean for you and your financial future. And to help tell that story, we're going to return to Lance Ruttenberg and how American Textile has stayed relevant and growing in the 21st century.

Lance: One of the hardest things we were faced with as we got larger was finding people interested in cutting and sewing. I guess it's become very much a lost art and that led us to looking for a partner that we still have today that does much of the cutting and sewing, much of the labor intensive piece of the manufacturing in El Salvador that allowed us to now focus on sales and marketing and finance and information technology and distribution. And our wages are five, six, seven times what they were back then because we rely on much more skilled employees.

Candace: Chris, you've been following Pittsburgh's economic revival for several years. Why is it still a good place for a firm like American Textile?

Chris: Lance talked about not having the ability to find the labor, that was specific to cut and sewing in the manufacturing process, but when you consider what manufacturers need today, it's about automation in the manufacturing process. It's about the ability to create a smaller supply chain, so now that they're a global company, they can more efficiently distribute across the globe. And within Pittsburgh, specifically, home to 17 universities and colleges that talent pool is there.

Candace: What are some of the other cities in America where we're seeing this economic revival take place? Michael?

Michael: Well, you've got a number of fast growing cities in America. I mean, if you look at the list of the fastest growing cities by number of new residents, they tend to be in areas that have pretty good climates, as far as I can tell. San Antonio, Phoenix, Dallas, Fort Worth, Los Angeles, to name a few. You've also got a number of cities that are very attractive to millennials. You know, it's the job opportunities, it's the, I think, desire for that sort of work/life balance. You know, there's lots of things to do outside of work, so areas like Colorado Springs, San Antonio, Denver, Orlando, and of course, Honolulu, look very attractive to millennials. And what's exciting about the story is that it's not the traditional big four or five that are getting all the people right now, it's really spread, you know, right across the country.

Chris: And it used to be that the big city was the area of social gathering, a big social community, whether it was the pubs or the restaurants or leisure activities in general, but these smaller cities are now that social enterprise and all of the cities that you mentioned. Also Austin, I was there recently as well, one of the highest job growth cities in the entire United States led by technology and somewhat healthcare, and then obviously exposure to natural resources.

Michael: You think of a town like Austin, it's clearly got a great university, it's this interesting part of the country but why I would go to Austin is to go to a music festival. I mean, it clearly is culturally a lot of fun as well and I think that a lot of these mid to larger size towns, I mean what you've got now is just so much culture there that's just fun to be around, whether it's theater, whether it's music, whether it's art. And I think you found in a lot of these areas because they became very cheap, it attracted a lot of artists.

Candace: So we've been talking about these pockets of growth in smaller American cities. But when you look at the country as a whole do you still see that growth?

Michael: Yeah, there's definitely growth. I mean, this is where the growth is. You know, it's been a slow recovery in America but if it keeps going for another year, it'll actually be the longest period of economic growth since the Civil War, and as you know, we've already just seen the longest bull market of all time. So it's definitely had length, the problem it's had is that it's been quite soft and fragile for much of this period. You know, the fiscal cliff, the debt crisis, the European problems, the Chinese problems, so it's been pretty soft. And also there's been some stuff within the U.S. that hasn't truly recovered, like the housing market, you know small businesses until recently. So it's had some missing ingredients to it, but it's now starting to go up the gears and certainly, I think, for an economy that really has been in first and second for much of the past nine years, it's really now up into a third or fourth gear, I think. So it's looking pretty good right now.

Chris: What's interesting about that is when you look at this cycle versus what some may remember going back to the 1990 cycle that was more dominated by the outgrowth of tech in probably one part of the United States, you know, Silicon Valley, basically. But when you look at the outgrowth and redevelopment of some of the cities out there in the United States like Pittsburgh, like Cleveland, obviously Florida has come back, Orlando with its manufacturing, these urban redevelopment growth centers is really why this cycle is probably a lot longer than people think.

Michael: I mean, it's also been an incredibly polarized recovery and I think what you hint at is that investors have found it very, very difficult to embrace the idea that America is coming back, and part of that is because you know initially the recovery was really you know in Wall Street rather than Main Street, you know on the coasts rather than in the middle of the country, but certainly for educated people rather than lower incomes. So it was really polarized and it still is, so what you need to see is these areas of the economy, the market, the world even, they need to start accelerating.

Chris: You take that, you drill down to it a little bit further, up until this year, or maybe half of last year, it didn't feel like we were recovering. It was a fit start type of recovery, because there were many parts of the demographic that were left behind. What we're seeing across America, across the globe, right now, is you're seeing new industries created everywhere and its initial movement is always thought of as like well, now we just lost all these hundreds of thousands of jobs in these areas and what are we going to do about it, when it fact it should be more about what is the future and how is the growth on top of growth. And that's what you invest for. That's what you look for.

Candace: What are some examples of that? You know not only what are the new companies, you know, smaller growth success companies, and also what are some companies that have kind of re-engineered and restructured themselves?

Michael: Well, I think in the U.S., the areas where you do have genuine growth is technology, it's healthcare. I think certainly up you know until this year, you've got a lot of small-cap manufacturing companies that have begun to do a lot better because of the weakness in the dollar, but I think the real feel good factor will come when people start to see their house prices go up. I mean, you know there are areas of the country, the Pittsburghs, the Louisvilles, etc. that are very, very affordable, which is great if you want to move there, but I think for the people that live there, they need to see house prices sort of pick up to really feel a lot better about life.

Chris: Yeah, when you think about what really grows America, it's the ability, it's the talent pool, but the talent pool has to come from somewhere and that's education, and where you see good colleges, growing colleges and universities, you see growing communities. And when you get back to investing, that's where you see the outgrowth of new industries. So even if something was displaced ...

Candace: So what would be a good example of that?

Chris: A great example would be that is the rust belt which has an abundant number of natural resources at their doorstep, whether it's steel, energy, natural gas, etc. The farm belt, they're turning into technological prowesses and that is driving reinvestment, that is driving public/private partnerships and you need those areas, particularly those areas that will give you that growth on top of growth across the cycle for someone to maybe move to a Louisville or Pittsburgh and start a new business because of the community, because of the colleges, because of the education, etc. So it’s a very different feel in America right now as it relates to what private enterprise is doing.

Michael: Well just to add on to Chris’s point, I mean there’s always a push and a pull, and the pull to the middle of America right now is certainly factors such as housing affordability, which is terrifically important because of the coasts have become very expensive. There’s a cost of living pull as well.

Candace: So let’s go back to Pittsburgh and hear from Mike Ressler, who benefited from that combination of good universities and affordable housing to launch his own startup.

Mike Ressler: Initially I had graduated early from Carnegie Mellon, but I stuck around, I found a job pretty easily here in Pittsburgh that was very interesting, doing some pretty cutting-edge stuff. So I stayed for the job. I was able to actually purchase a house here in Pittsburgh pretty quickly and easily. Turned that into a rental property, which then actually funded my startup experience in 2010. Right, if I didn’t have that rental property, I wouldn’t have been able to not have a full-time job. So that was one of the reasons why I was able to start that here in Pittsburgh, and really have this career path that I’ve had.

Candace: After exiting his startup, Mike stayed in Pittsburgh, to become the Chief Technical Officer of Diamond Kinetics. The company uses technology in a very affordable way to analyze the pitches and swings of amateur baseball players to help improve their performance.

Michael: And so what steps did Pittsburgh take to keep him there and you know make the city so attractive to startups?

Chris: Back in the early 2000s Pittsburgh began this effort to really revitalize the city, make the hospitals environment a much more world-class environment, long-term municipal costs, bringing them down, encouraging growth in health care, and their world-class universities and utilizing the best technology they possibly could. And last but not least, public and private partnerships.

There has to be some attractive element that gets reinvestment dollars from the private sector, mixed with the public sector, to create that community redevelopment. Trying to create this public-private partnership and develop that riverfront area. They have the three rivers. And as we all know, you know water does bring people; it does bring enjoyment into this community feel. And then it also kind of filtered into things like greening the city and promoting clean and safe neighborhoods, encouraging diversity.

Candace: Let's get back to what we were talking about earlier and the broader U.S. economy. So Michael what else should be looking for to foster continued growth?

Michael: The thing that will really break it away is if the banks start lending, because again, it's one of those things where you know you go back to what has been the missing link of this boom story in the U.S., it's the lack of lending, the lack of house price appreciation, and the lack of small business confidence. The small business confidence is back. Full stop. I mean, you know small business confidence in the U.S. right across the U.S. is the highest it's been, I don't know, for decades.

(Source: NFIB, "Small Business Optimism Index," Sept. 2018)

Candace: Is it possible that we could actually extend this and not have a recession?

Michael: Of course it's possible. I mean, it's possible for one very good reason, which is it's the longest recovery, almost the longest recovery of all time, but it's also the slowest and therefore, you haven't created a tremendous amount of imbalances that can you know knock it into recession. But you've also got to remember it's a cycle you know. These things go up and down and there will be a time when the U.S. economy will slow down. We know that.

Chris: And you know, the word recession scares a lot of people, but the word recession has another word in it called recess, and recess, for me anyway, back in grade school was pretty fun. For investors, that is a time to reinvest and average into your plan that you're doing and invest in some industries and parts of the world, including the United States, and other areas that have gone through this recess or recession and now you have much greater value in investments for the long haul.

Candace: And so on that note, where would you be investing, in what types of assets? If you take a two to five year view.

Michael: Well, I think if it's going to come good, then what will also occur if you get that lending, if you get that housing, is you're going to get a little bit of inflation as well. And if you get inflation, then one of the great trends of the past ten years will reverse, which is that the underperformance of value stocks versus growth stocks and you'll find historically that the value stocks over time will do better relatively versus the growth stocks. (Sources: BofA Merrill Lynch Global Investment Strategy, "The Longest Pictures," Oct. 11, 2018, page 47; Ibbotson; Fama-French)

The other area that will do well is the small-cap stocks relative to the large cap, because again, they're much more sensitive to pricing conditions and they do much better when there is a little bit of pricing power.

Chris: Yeah, I agree with Michael on the value versus growth end. And there's been huge divergence there so that has to close in what we believe. I would say this, a mix of growth in value is really important because that's what ultimately drives an economy. Equities over time—with a vibrant growing economic backdrop, some population growth, low interest rates despite the fact that they're grinding higher—is the asset class that builds long-term wealth.

Candace: Well, that's great. With that, let me wrap it up.

Candace: You've been listening to The Perspectives Podcast. My co-hosts are Michael Hartnett and Chris Hyzy. I'm Candace Browning. For further insights, listen to other episodes in The Perspectives Podcast series. Thanks for listening.

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