Editor's note: The Investment Panel feature appears regularly in our Financial Quarterly publication, spotlighting area investment professionals and their views on the markets and investments. In this issue, we chat with Jim Burns, Vinayak Rao, and Brian Schmidt.

We interviewed them separately, but asked the same questions. Burns talked via telephone, while Rao and Schmidt communicated through email.

Burns

James (Jim) Burns, president of J.W. Burns & Company in DeWitt.

Rao

Vinayak Rao, portfolio manager at Strategic Financial Services in Utica.

Schmidt

Brian Schmidt, financial planner with NFP United Advisors, LLC in Endwell.

Business Journal: What is your view on where the financial markets are headed in the coming months?

Burns: Stocks have started 2012 very impressively, which largely reflects a shrinking of the gap between the cautious sentiment on the part of investors and a very robust business environment on the other. Strong corporate earnings and relatively sub-par price performance has pushed stock valuations to essentially multi-decade lows. Stocks are, to put it bluntly, cheap. We see multiple expansion in 2012 as a potentially powerful driver that can propel equity prices higher worldwide. At the same time, this year has thus far experienced very

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Cover Story

New Sensis CEO expects growth

Editor's Note: The Newsmaker Interview portion of *Financial Quarterly* features a conversation with a CEO of a major Central New York company every quarter. The story discusses key financial issues affecting the newsmaker's business and industry.

BY KEVIN TAMPONE
JOURNAL STAFF

DeWITT — After acquiring Sensis Corp. in August, Saab made its new subsidiary the global head of its aviation business.

Two Saab units in Sweden now report through Sensis, and the DeWitt–based company is also responsible for Saab's North American radar business. Those actions should be a good indicator of Saab's intentions, Sensis President and CEO Marc Viggiano says.

"They didn't buy it to close it. They bought it to grow it," he says. "This is foreign direct investment in the U.S."

Viggiano took over as president and CEO in August after Jud Gostin, who founded the company in 1985, stepped down.

Saab AB, a defense and security company based in Sweden, paid $150 million in August for Sensis, which now operates as Saab Sensis Corp. The deal could be worth up to $190 million if Sensis meets certain earnings targets in the next few years.

Sensis provides sensor technologies, radar systems, modeling, and simulation for defense, civil aviation, airport, and airline customers.

Viggiano was previously senior vice president and director of corporate development at Sensis, where he was responsible for leading the company's strategy and business development. He also served as chief operating officer and, before joining the company, worked in advanced sensor systems at General Electric's Aerospace Group.

The acquisition by Saab will lead to more work, more exports, and more jobs at Sensis, Viggiano says.

Saab's global presence will mean greater access to foreign markets, he notes, adding that he has long been focused on exports. Saab has more than 30 locations around the world and has been doing business globally for years.

"We've really just begun to scratch the surface of tapping the potential of everything that Saab can do for us here in Central New York," Viggiano says. "It makes doing business around the world a lot easier for us."

Looming cuts in U.S. defense spending shouldn't hurt Sensis' domestic sales, according to the company. About 75 percent of its business is in aviation with the remainder in defense.

And Sensis specializes in work like upgrading and extending the life of existing systems that will be valuable in the confines of a smaller Pentagon budget, Viggiano says.

"We probably have as much potential for growth on the defense side as anywhere," he says.

Saab has been in the U.S. since 1950, but several years ago company leaders decided they needed to do more in the North American market, Saab North America President Dan-Ake Enstedt says. The firm needed a stronger local presence and more people here, he says.

Viggiano

The U.S. represents more than 40 percent of the world market for defense and homeland security, Enstedt notes. And the strict requirements for work here can help a company like Saab with sales elsewhere, he adds.

Saab's long-term goal is generating $1 billion in U.S. sales. The company is about halfway there now and Sensis will play a key role in helping reach that total, Enstedt says.

The company's expertise in radar and air-traffic systems was a perfect fit, as those were two areas of focus for Saab already. In the future, Enstedt expects Sensis' work to expand into other Saab business areas like command and control and homeland security.

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Survey Says:

■ U.S. workers' confidence about retirement savings rose in 2011.

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■ Charts provide data on the regional housing market (**Page 8**) and airport-passenger traffic (**Page 12**).

PANEL: *Schmidt: "The recent market spurt was needed and is certainly well received…"*

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muted volatility within global markets. We believe market performance is unlikely to remain as smooth as it has been and investors should prepare to use future market declines as buying opportunities.

Rao: In November 2011, we expected continued volatility in the equity markets with a bias to the upside supported by solid company fundamentals and attractive valuations. This view was decidedly contrarian as market participants were positioned defensively in response to the eurozone crisis and an uncertain domestic economic outlook. Over the course of the past three months, the market has rallied impressively with a return of approximately 7 percent.

Strategic's investment process emphasizes valuation as a primary input for our single-security and asset-allocation work. Currently, we believe equity markets are valued fairly to slightly extended after the recent rally. We expect some profit taking as investors recognize that market valuation has been reset higher (although still depressed by historical standards) in light of less robust corporate profits in the fourth quarter. Structural macro-economic issues in Europe, the United States, and even China, remain in place despite some recent improvements in the headline numbers. In addition, the political status quo threatens recovering investor sentiment as election-year gamesmanship is played around critical issues such as unemployment benefits and the debt ceiling. Our best-case scenario calls for stocks to take a breather to digest recent gains over the coming months. The market should be range bound with risks slightly skewed to the downside.

Despite near-term caution, Strategic believes that stocks are positioned to outperform bonds and patient investors could be rewarded handsomely over the longer term. Future performance is never guaranteed though.

Schmidt: The recent market spurt was needed and is certainly well received by the investing community. The Dow Jones Industrial Average approaches a four-year high and investor confidence appears to be rising on positive economic news related to job creation. Please forgive me for being Debbie Downer, but I am not sure as to why we should be more confident now than we were in the weeks leading up to 2012, or in 2009 for that matter. The housing market remains a real concern and the impact that declining home values have on lenders' balance sheets could be the elephant in the room. We still have significant volatility in Europe, which has a direct impact on the global market and our markets. We have low levels of GDP growth and have not made meaningful advances in addressing our debt. Until we take some serious steps towards addressing these underlying issues, I fear that whatever appreciation we experience in the markets is not based on sound fundamentals and therefore is potentially short-lived.

Business Journal: How will election-year politics affect the markets and the economy?

Burns: Recently the Federal Reserve announced it would keep interest rates low through 2014. If this isn't a political statement, then I really don't know what is. From my vantage point, the economy is muddling along, and this extended period of near-zero interest rates will eventually lead to a significant bout of inflation. But that is probably a little ways off. In election-year politics, it appears to me that Obama Administration and the Federal Reserve are saying to investors, "We are going to do anything and everything to maintain appearances that can make investors and voters feel reasonably optimistic when they head to the booth in November." So in the short run, presidential politics should be good for the stock market and most asset classes. Essentially, the Federal Reserve is saying to investors: "If you want to be very conservative with your investable assets, go ahead, but we're not going to pay you a damn thing." The federal funds rate is basically zero and the Federal Reserve is attempting to push investment money into riskier assets, such as stocks, and thus drive a positive wealth effect for the economy.

Rao: A U.S. election not only has the general public excited, but it also has implications for the markets and the economy.

A look at the 23 election years since 1920 tells us that 68 percent were positive for the stock market, in line with non-election years. So it seems election years do not have an outsized effect on market performance. On average though, stocks have seen greater strength when Republicans have been elected.

Election-year politics this year should result in a continuation of the "status quo," with neither party willing to compromise on key issues. Additional concrete steps are required on the fiscal front to foster economic growth. Reining in the budget deficit through lower spending and laying out clear policies that boost business investment, encourage hiring, and lead to a recovery in the residential housing market would go a long way towards a more structural long-term recovery. In recent times, the Federal Reserve has been willing to fill in for the lack of fiscal action from the government through accommodative monetary policies — an unsustainable course of action in our opinion.

Schmidt: Markets generally do not like uncertainty, and we have enough of that to go around, without the elections. To say that the volatility of the markets will be due to the election, I think would be convenient but inaccurate. Washington demonstrated its capability to affect the markets in a meaningful way with its inability to get a debt resolution passed to protect the credit ratings. Washington continues to come up short and whether or not the country experiences a change in leadership may not directly impact the markets, until there is change in how it conducts business.

Business Journal: Provide specific recommendations for investments that clients should be making right now.

Burns: As I discussed in the November Financial Quarterly, I continue to believe that investors should focus on developing a total-return portfolio composition with a focus on companies that can deliver earnings growth as well as dividend growth. I continue to like the stocks I recommended then. In particular, ConocoPhillips (Ticker: COP) and Target Corp. (Ticker: TGT).

Also, as the economy continues to muddle through, we at J.W. Burns & Company believe that companies with durable, competitive advantages will stand out. Two companies we like in particular are Cummins Inc. (Ticker: CMI) and Ford Motor Company (Ticker: F). Cummins makes engines for trucks, buses, and RVs, as well as for heavy equipment that can be used in natural-resources mining. We believe in 2012 that truck sales will increase significantly at companies like Paccar Inc. as aging fleets are replaced and inventories restock. Cummins' dividend has more than tripled over the last five years.

Ford is quite obviously the healthiest of the Big Three automakers, and its global expansion plans are moving along very nicely, especially in South Africa. Trading at about seven times earnings, the stock price is too low for a company that we believe will be growing its earnings at more than 12 percent per year over the next three years.

Rao: For most of the past year, strong performance at the corporate level was overshadowed by macro-economic concerns. Given that the equity markets have now rallied more than 20 percent since their October lows, as some of the big-picture concerns have eased, the easy money has been made, and selective stock picking has become more important. However, value can still be found in selected segments of the stock market.

While we prefer to approach the discussion of investment recommendations within the context of a portfolio perspective, we understand that specific stock picks are more likely to garner the reader's attention. Currently, we believe Google, Inc (Ticker: GOOG), the online search behemoth, deserves a look. The company is a leader in desktop-based online advertising, and we expect robust growth over the coming years in the space. The continued shift of advertising dollars from traditional media to online channels in the developed world and increasing penetration in emerging markets should continue to drive Google ahead. Google should further benefit from other growth avenues such as mobile advertising through the proliferation of Android mobile phones and display advertising though enhanced YouTube monetization. Other initiatives — such as Mobile wallet, Google Offers, and Google + — should provide incremental benefits over the next five years. We continue to see Google as a 15 percent-plus grower, trading at an attractive valuation for its growth profile.

Note: Strategic owns Google in at least one of our equity strategies. Strategic does not make a market in Google.

Schmidt: I will spare my typical disclaimer language this time. If you have read my positions, you know how I feel about generic investment advice; it is just that. That being said, value to me remains the appropriate investment philosophy for the times. Investors are encouraged to find high-quality, dividend-paying equities. Fixed-income instruments will be adversely affected when interest rates do rise, and investors will need to find alternatives to typical solutions. The more sophisticated investors (institutions) have relied on alternative investments in the past, generally found in the form of REITs. While REITs remain an important tool, I see more investors looking to the business-development company (BDC) for further diversification. The BDC format provides real access to institutional investment managers and is available to the investing public.

Business Journal: What do you see as the greatest risks investors need to be aware of and seek to avoid in the coming months?

Burns: The first risk is complacency. Thus far in 2012, as we speak, there have been no days in which the Dow Jones Industrial Average has finished down 100 points or more. So, these smooth, unanimated-like days in the stock market can cause investors to believe the coast is clear and increase their equity exposure without emotionally preparing for the volatility. The second risk is headline risk, in particular from Europe, but also potentially from Iran. All of our work indicates the west's economic embargo on Iran has started to have a significant impact on their economy. The Strait of Hormuz could be the flashpoint for a U.S.-Iran conflict, which would drive up the price of oil sharply. It appears to me that the regime in Tehran almost wants a confrontation with the West, so investors should maintain a reasonable exposure to energy stocks to hedge this risk.

Rao: We believe investors should be wary of chasing returns in the near term and willing to take profits when valuations become extended. As an example, in the fixed-income space, we recently took profits on behalf of our clients in Treasury Inflation Protected Securities after a return of more than 10 percent in 2011.

When equity markets are driven too much by investor sentiment emanating from bigger-picture macro-economic issues, heightened volatility is the order of the day. Emotion-based, short-term tactical decisions expose investors to the risk of being whipsawed and making ruinous longer-term investment decisions. We advise investors to allocate investment capital prudently for the longer term within a customized framework of well-defined risk and return objectives so that portfolios are positioned properly for the inevitability of the occasional stock-market sell-off.

Schmidt: Being short sighted. Ask yourself how you responded after getting your third-quarter statements in 2011? Many people experienced declines north of 10 percent and became concerned about their European exposure or whether or not it was time to retreat from equities. Here we are now into the second month of 2012 and you hear the sentiment turning from pessimism to optimism. I applaud the positive thinking, but from a planning standpoint, if you were uncomfortable with the volatility in September, you should be now as well. Collect some of the gains you made during the last two months, and reposition your portfolio so it aligns with your overall investment objectives. It is easy to get distracted during periods of market gains. Great example: a client called asking about the Facebook IPO. I asked a few questions: 1) if it made sense to buy this IPO or buy it on the exchange when it was listed; 2) had he identified when he would want to sell? 3) how did this equity position fit in with his investment objectives? After a few minutes of conversation, we agreed it was more the pent-up anticipation and the hope of capturing Google in a bottle than it was an investment decision that made sense for him. ❑