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Interviewer (1): Gregg Greenberg

Gregg Greenberg

USAA's Bernie Williams sees a bear market ahead in commodities, but he's bullish on dividend stocks. He's here to tell us why. Welcome, Bernie.

Bernie Williams

Thank you.

Gregg Greenberg

All right, so why don't you like commodities right now, especially when the Fed seems committed to their easy money policies?

Bernie Williams

Well, two reasons. I think the fast, really fast growth in China is at an end. Their rapid industrialization is slowing down and they're going to emphasize more the consumer parts, so that's always been the marginal demand on commodities. The other reason is, there does seem to be a little bit of a secular trend in the U.S. to lower gasoline usage and so you combine that with, uh, the recent fracking and the revolution that's going on in the U.S. I don't think we're going to have an oil shortage anytime soon.

Gregg Greenberg

All right, that's energy. What about precious metals? The gold miners are down around 40% this year when you check out the GDX. Gold is down around 20%, so can you go bottom-fishing there?

Bernie Williams

I think you can. Gotta have long-term perspective. We do think gold is a good hedge against potential inflation and debasement of currencies. I think a miner's is a leveraged way to play on gold. They're down very sharply, but they've had some cost issues. We think they're starting to get those under control and I think the miners can work even if gold stays relatively flat from here.

Gregg Greenberg

All right. We talked about energy and then precious metals. What about AG [Agriculture] stocks? There is one commodity base stock that you like. That's Monsanto. Why?

Bernie Williams

Well, we've liked it for a long time. Monsanto is a leader in the genetically-modified organisms, so think of developing seeds for drought, okay? That's particularly important right now. They increase yield, okay? Per acreage? Uh, that's very important to Farmers. Farmers make more profit. We have more people to feed. I think it's a great company for the long term.

Gregg Greenberg

So it's not a straight commodity? They have a competitive edge.

Bernie Williams

Exactly. There's only a couple of companies doing this; Dow and Syngenta.

Gregg Greenberg

All right, and most of all you like dividend-paying stocks. You're not a fan of commodities, but dividend-paying stocks you like. Tell me why and which ones.

Bernie Williams

We like dividend-paying stocks for some investors who may have to draw down distributions for them. A dividend is more certain than a capital gain, but dividend-paying stocks are also, um, very, uh, high-quality stocks, so they typically have high free cash flow, high return on equity, so we can build a portfolio that'll yield roughly 3% and it will grow that dividend at a 10 or 15% rate. That compares very favorably to, say, a 10-year treasury or a 270. So a couple of examples might be Eaton, which is a diversified industrial. It's got about a 2-1/2% dividend yield, but it is cyclical in its leverage to an upturn. Another example might be Texas Instruments. They're a leader in the analog space and they've committed to returning 100% of their free cash flow now to dividends. They're yielding close to 3% right now. That's just two names, but again, focus on the portfolio, high-quality stocks, and a dividend that grows over time.

Gregg Greenberg

All right! Thanks a lot, Bernie.

Bernie Williams

Thank you.

Gregg Greenberg

And thank you for watching The Street.

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