



Christopher Cuesta is optimistic on the US economy. PHOTO: CHRISTOPHER PEARCE

Trump's tax cut dividend now 'beginning to show'

Monday fundie Small loans point to success, says micro cap investor.

William McInnes

US-based micro cap investor Christopher Cuesta believes that Donald Trump's changes to company taxation have been a huge positive for the American economy, and the full effects are yet to be felt.

Mr Cuesta, a firm believer in the President's tax and deregulation policies, points to how businesses are beginning to reinvest as proof the reforms are having the intended effect.

"I'd say, right now we're at the early days of the second derivative effect of the tax cuts," he says. "Now you're starting to see that expansion. The NFIB

optimism index was 10 points away from the prior all-time high. That's starting to translate into real capital spending and mergers and acquisitions

"The leading tracker is small business loans. Small bank loans were up 9.2 per cent year-on-year this last month. These small businesses are now putting those good feelings into action by borrowing capital. The knock-on effect is just beginning to show."

In August the NFIB Small Business Optimism Index reached the second-highest level in its 45-year history. The index hit 107.9, just below the 108 record in July 1983.

"When you look at the US economy and how well the market is doing, with the major indices hitting all-time highs this month, it would be very hard for politicians to say that this isn't working," says Mr Cuesta.

While some market analysts believe

Continued p23

From page 15

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the US economy is about to come off the boil, pointing to the flattening yield curve as a sign recession is near, the fund manager is more optimistic on the outlook.

"There's so many positives in the US," he says. "Corporate profits are at a record high. You can point to a few things and say, 'This might be a bit troubling,' but right now the fundamentals are really strong.

"This is one of the most complex business cycles we've been through and this causes a lot of confusion. When we talk to small businesses in the US, they say they're only in the early stages of spending. You don't see a recession on the back of those powerful numbers. I don't think we'll have one soon, but you never say never."

With a natural curiosity to find new ideas and undiscovered companies both in the US and internationally, Mr Cuesta has gravitated to micro caps, where often companies are overlooked simply because of their size.

An alumnus of New York's Fordham University, which counts President Trump and New York Governor Andrew Cuomo among its former students, Mr Cuesta says it was there his interest in finance and investing began.

"I went to business school at Fordham," he says. "I had a professor there who advised us to start studying for the CFA exam and that's when I became really interested in finance and stocks. Whether it be currencies or markets, I had a strong curiosity about it all."

Mr Cuesta completed the CFA or Chartered Financial Analyst certification (less than 20 per cent of the candidates who begin the program finish) and went on to work for Salomon Smith Barney and Van Eck Global before joining Thomson Horstmann & Bryant (THB) in 2002, where he is now the

chief executive. He is also a portfolio manager overseeing mid, small and micro cap strategies.

"Micro caps have no research stock and I can add value there and that's exciting," he says. "It's hard to imagine, how much can a large cap analyst actually add? How fulfilling can it be to be the 51st person covering Apple?"

"Just from a personal standpoint, you want to be fulfilled. You want to be the first one to find that hidden asset and that's what gets us excited. I feel thankful for the part of the world where we work because there's a large opportunity set and there's always something interesting to find."

One of those finds is Australian machine learning company Appen, which THB bought in 2016 for its International (ex. USA) Micro Cap Fund. Since the end of that year, Appen has grown 383.8 per cent, more than almost any other stock on the ASX 200.

"Our quantitative model first flagged Appen by recognising the combination of strong revenue growth, operating margin expansion, reasonable valuation [and] well-capitalised balance sheet," he says. "Once we reviewed the company we quickly recognised the strong secular tailwinds driving their business, world-class clients and market leadership position they had.

"Appen's growth can be attributed to the continued penetration of artificial intelligence, machine learning and voice recognition into all parts of the economy. Cars and personal voice assistants like Google and Amazon are some examples."

Another interesting prospect is French catamaran manufacturer Fountaine Pajot, which plays on micro trends in the boating industry for more leisurely activity.

"You don't think about marine being a big growth area, but they're seeing a consumer shift towards more catamaran-style boats," Mr Cuesta says.

The THB International Micro Cap Fund or THB US Micro Cap fund are distributed in Australia through Brookvine.