

# Is GE Pointing the Way?

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General Electric is arguably the best managed blue chip company in America. It is always of interest to witness their reshuffling of the companies they hold in their portfolio. No, we are not talking about an investment portfolio, but rather the operating companies they control and manage. They seemingly operate their company much the same as Warren Buffet does Berkshire Hathaway with exception that they sell from time to time. It is some recent sales that caught our attention making us curious to ascertain if there might be a message for the rest of us in their action.

Overall their approach is one that calls for buying in or initiating operations that have a growth rate above that of the economy as a whole while at the same time selling those of expected lesser returns. Last week they announced the sale of GE Insurance Solutions, a large reinsurer, for some \$8.6 B. Previously they had sold \$25B of other insurance companies. However their pending completion of the sale of Genworth Financial, a life and mortgage insurance unit, may be the most significant from our standpoint. It is reported that these sales will significantly cut GE's reliance on finance activities, which last year accounted for approximately 50% of sales and profits.

GE also announced that after their reorganization and recent sales, they expect in the future to have most of their sales growth to come from outside the US. Their June reorganization left them with 6 divisions in GE capital. Those are infrastructure, commercial finance, industrial, NBC Universal, health care and consumer finance. It appears from their actions that they are in the process of exiting much of the financial area (except the finance of their own products) and concentrating on other areas of endeavor, particularly overseas.

Our thought is this. Does this action in any way signal the top in the financial bubble that has been taking place since 1995? Keep in mind 30% of total profits in the US has come from this area compared to 18% historically. 40% of the profits of the S & P 500 come from the financial companies. We are swimming in a sea of debt that requires \$4.00 of such for every \$1.00 increase in GDP. For most of the last 50 years the ratio was \$1.20 to \$1.00. We believe it is quite likely that GE will sell additional financial entities over the next few years. If so, that will convince us that the "top is in." Any material decline in financing will likely cause a recession of unknown magnitude. Although probably a subject for a different day, isn't it interesting that GE expects most of their growth to come from overseas. Does that tell us anything about the US economic growth rate in the future?