Notes from the Trading Desk

Tandem Investment Advisors

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Market Movers & Shakers

Well another week appeared to be in the books of this boring bull summer. The VIX printed an all-time low with an 8 handle on Wednesday, and the major indices slowly climbed higher on weak volume… Thursday introduced an interesting wrinkle in the weeks slow meander nowhere. A slew of notes were released on Wednesday evening and Thursday. The markets quickly reversed course and headed lower during lunch on Thursday. QQQ traded down 250 bps off its intraday high. However, the market reacted in the manner we have all come to expect — buyers stepped in and bought the dip. The QQQ closed down merely 63 basis points and the SPY closed down a measly 9 bps. This market cannot be moved and it cannot be shaken it seems. Energy performed well this week, up 1.9% — it was easily the leader, beating out Fins and REITs (both of 50 bps). Health Care was the real laggard, down 130 bps, while Industrials, IT, Materials, and Utes all closed lower as well. See performance for various indices below.

	WTD	MTD	QTD	YTD
Dow Jones	1.2%	2.3%	2.3%	10.5%
S&P 500	0.0%	2.0%	2.0%	10.4%
Nasdaq	-0.2%	3.8%	3.8%	18.4%
Russell 2000	-0.4%	1.0%	1.0%	5.4%

Bullish Investor Sentiment came out last Friday (the 21st) with an interesting read of 60.2. For reference, over the last 30 years, the average print is 45.9, the standard deviation is 8.1, the highest print was 63.1, and the lowest print has been 21.1.Looking at 30 years of data, the sentiment survey has released 1,545 numbers—40 of which have been greater than 60 (or a little bit more than 2.5% of all prints have been greater than 60). To say this is common occurrence would be inaccurate — though it is not a total rarity. A print of 60+ certainly doesn't mark a market top. However, it has preceded a few… In late August of 1987, 60.8 was printed. In 1999, 8 such readings were printed (for those keeping score back home, we have 7 readings YTD). The first 2 weeks in October of '07 was also met with 2 60+ prints. While it may not mean a market top is imminent — since those were only 11 of the 40 readings — surely it seems to be a key ingredient. What's more, it might signal slightly choppier times going forward. The average 1 month, 3 month, 6 month, and 1 year return over the last 30 years for the S&P 500 are 0.6%, 2.0%, 4.3%, and 8.9% respectively. However, the average returns following a reading of 60+ are –1.1%, 0.5%, 1.7%, and 2.7% — all lower than the average time period. Does this signify a market top? There's no way to tell in the moment. Is it something one should take note of? Certainly, such an optimistic print should always be met with caution and should always demand vigilance.

We've talked about the recent decline in the Federal Government's tax receipts on corporate income. Each decline has precipitated 8 of the last 10 recessions — or so it appears. However, the problem with this data is that its only provided by the Fed on an annual basis — not very convenient sitting here in July. What we do have though is the quarterly release of state and local government's current tax receipts from their taxes levied against corporate income. Year over year growth has now been negative 5 of the last 6 quarters (note, Q2 has not been released). Dating back to 1949, growth has been negative 66 quarters, 53 of the occurrences have been during , or have preceded a recession. Similarly to bullish sentiment, negative year of year growth in state and local tax receipts in and of itself does not necessarily predict a recession. Rather, its just an interesting occurrence that warrants caution.
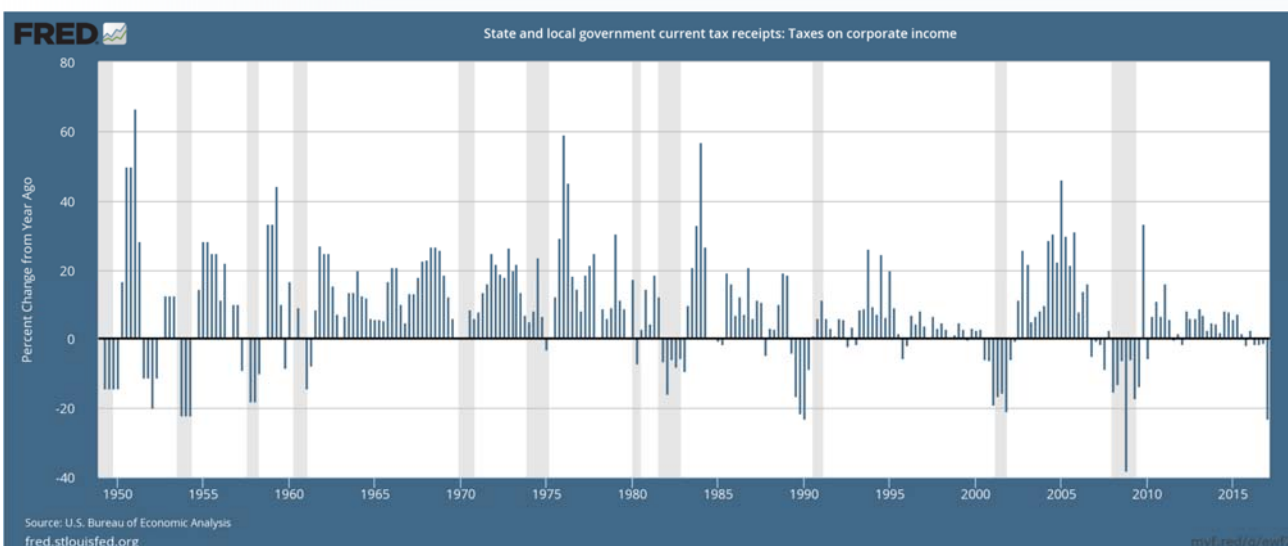
Portfolio News

No composite action took place since the last note. While our buying/selling has been somewhat muted amidst earnings season, our core holding's have been making headlines! We had a slew of companies report this week, and reactions have been largely positive. Let's start with the bad eggs, shall we? Wabtec kicked the week off for us and completely fell out of bed . They missed their $0.94 estimate by $0.14 and proceeded to fall 11% that next day. Thanks for playing, Wabby. The brains behind Ozark's money making real estate group, Dan Thomas (Chief Loan Officer), turned in his resignation on Thursday evening. Thomas headed up their Real Estate Specialty Group — they accounted for +70% of OZRK's loan origination and +50% of their revenue. Dan started RESG in 2003 and during his tenure, they had two loans for a total of $10m be written off. The guy financed $25b in deals during his time, and had 0.04% go bad. Could be a big loss in one of their most important units. This news sent the stock 12% lower. MEDNAX reported Thursday evening, they missed, and lower guidance and traded down 15% intraday.

United Tech reported as well — they beat and tightened the lower end of their guidance, but then sold off. They are off ~3.5% since reporting. Now on to the good! O'Reilly finally shines a little... They beat, and then offered up FY guidance greater than what analysts were expecting. They traded up +7% and finally got back a 2 in front of their price. Tractor Supply missed their estimates, then proceeded to lower their guidance and traded 5% lower in the post-market. However, they quickly flipped the script and traded up nearly 8%.

Speaking of scripts, lets talk about Scripps. SNI is said to be nearing a deal with Discovery — in the range of $91-95. Faber reported it will be at least $90. I also saw one report saying the deal would be at least 70% cash. Regardless, SNI is up +26% this month.

Moving on, Saudi Aramco looks to be leaning towards a London IPO, which would mean ICE is missing out. Verisk acquired G2 Web Services for $112M — they will join Verisk's analytics unit, Argus. Scana confirms that Toshiba is set to pay $2.2b through 2022. However, the WSJ reported that "numerous parties" are pushing for Toshiba to file for bankruptcy — an action they are hesitant to do out of fear of damaging their US relationships.

Buy	Accumulate	Sell	Liquidate
DG	ABBV	ACN	ATR
DLTR**	CERN	ECL	ITT
ORLY	CTSH	FISV	KO
SBNY**	FDS**	MSFT	PYPL
TSCO	NNN	NEE**	TMO
	TJX	RMD	
	TROW	RSG	
	WBA**	UTX**	
		WCN**	

**Denotes a position that is either +3% in the case of a buy/accumulate, or less than 1.5% in the case of a sell

Earnings Calendar		
Date	**Time**	**Ticker**
8/1/2017	Pre-Market	ECL
8/1/2017	Post-Market	FISV
8/1/2017	Post-Market	VRSK
8/1/2017	Post-Market	RMD
8/2/2017	N/A	D
8/2/2017	Post-Market	COST
8/3/2017	N/A	NNN
8/3/2017	Pre-Market	CTSH
8/3/2017	Pre-Market	BDX
8/3/2017	Pre-Market	YUM
8/3/2017	Pre-Market	ICE
8/3/2017	Pre-Market	SCG
8/4/2017	Pre-Market	ITT

Core Holding Performance

Performance					
Ticker	**WTD**	**MTD**	**QTD**	**YTD**	**1 Yr.**
ABBV	-5.6%	-2.9%	-2.9%	12.5%	8.8%
ABT	-2.4%	2.1%	2.1%	29.2%	11.6%
ACN	-0.3%	3.8%	3.8%	9.6%	14.6%
ATR	-8.0%	-5.2%	-5.2%	12.1%	3.7%
BDX	-1.6%	3.5%	3.5%	22.0%	14.8%
BF.B	3.7%	2.9%	2.9%	11.4%	2.1%
BRO	1.2%	3.5%	3.5%	-0.6%	21.0%
CERN	-1.2%	-2.8%	-2.8%	36.4%	3.8%
COST	1.6%	-4.4%	-4.4%	-4.5%	-8.1%
CTSH	-0.9%	4.4%	4.4%	23.7%	19.7%
D	-0.7%	0.5%	0.5%	0.5%	0.1%
DLTR	1.3%	2.7%	2.7%	-7.0%	-25.3%
EBAY	-1.8%	2.9%	2.9%	21.1%	15.3%
ECL	-0.8%	-0.6%	-0.6%	12.5%	10.7%
EXPD	-0.4%	4.1%	4.1%	11.0%	17.2%
FDS	-0.7%	-0.7%	-0.7%	1.0%	-4.7%
FISV	-0.4%	3.2%	3.2%	18.8%	14.0%
HRL	2.8%	0.1%	0.1%	-1.9%	-6.7%
ICE	-0.3%	0.7%	0.7%	17.6%	25.1%
ITT	-1.6%	1.9%	1.9%	6.2%	29.3%
KO	2.2%	2.6%	2.6%	11.0%	5.4%
MD	-17.9%	-20.9%	-20.9%	-28.4%	-31.7%
MSFT	-1.0%	6.0%	6.0%	17.5%	29.9%
NEE	0.5%	3.6%	3.6%	21.5%	13.9%
NKE	-2.1%	-0.6%	-0.6%	15.4%	5.8%
NNN	0.2%	2.5%	2.5%	-9.3%	-23.6%
ORLY	6.3%	-8.6%	-8.6%	-28.2%	-30.7%
OZRK	-10.8%	-10.9%	-10.9%	-20.6%	15.2%
PYPL	0.9%	10.3%	10.3%	50.0%	59.1%
RMD	0.5%	-0.6%	-0.6%	24.7%	17.8%
ROST	1.0%	-5.0%	-5.0%	-16.4%	-10.5%
RSG	-0.9%	0.9%	0.9%	12.7%	23.9%
SBNY	3.5%	-4.9%	-4.9%	-9.1%	13.0%
SCG	-6.6%	-8.5%	-8.5%	-16.4%	-17.1%
SJM	3.3%	3.5%	3.5%	-4.4%	-19.6%
SNI	10.4%	27.2%	27.2%	21.8%	29.6%
SYK	1.1%	6.5%	6.5%	23.4%	28.6%
TJX	1.0%	-3.6%	-3.6%	-7.4%	-14.3%
TMO	-3.4%	0.9%	0.9%	24.7%	10.8%
TROW	1.9%	11.0%	11.0%	9.4%	16.9%
TSCO	7.6%	4.4%	4.4%	-25.3%	-38.0%
UTX	-3.7%	-2.7%	-2.7%	8.4%	10.5%
VRSK	0.9%	3.5%	3.5%	7.6%	2.1%
WAB	-14.2%	-18.0%	-18.0%	-9.6%	10.0%
WBA	0.9%	1.7%	1.7%	-3.8%	0.2%
WCN	1.8%	1.0%	1.0%	24.2%	31.3%
YUM	0.3%	1.7%	1.7%	18.4%	15.6%
SPX-SPX	0.0%	2.0%	2.0%	10.4%	13.9%