Notes from the Trading Desk

Ben Carew
Tandem Investment Advisors

March 11, 2018

Market Movers & Shakers

Our domestic indices had their rally caps on this past week. Their subsequent gains were impressive to say the least. The Nasdaq and the Russell were both up 4.17%. The S&P 500 was up more than 3 1/2 percent. Finally, the Dow brought up the rear as it moved higher 3.25% for the week. The rally was sharp, and for the most part it was uniform. Financials, Industrials, Tech, and Materials were all up more than 4%. Consumer Discretionary stocks, Health Care, and REITs were all up more than 3% as well. The only real laggards were Utes as they were up only 80 bps. Lastly, Staples were up 1.7% and Energy was up just north of 2%. Most of the weeks gains occurred on the first and final day of the week. On Monday morning, we gapped down on the open. However, the Dow went on to gain nearly 600 points off its morning low. The rest of the week was rather choppy with a lack of decisive moves in either direction. Friday marked a much different tone following the stellar non-farm payroll numbers. The numbers, which were released at 8:30am on Friday, showed the February non-farm payrolls increased by 313,000 — smashing the consensus of 200,000. Futures remained relatively unchanged from Thursday's trading session heading into the jobs release. Dow futures jumped nearly 200 points in 5 minutes of trading and the rest of the day was history. The Dow rallied nearly 500 points from the release of the jobs report into the Friday close. It was an authoritative finish on the week as all four major indices closed on weekly highs. Equally important, at least for the tech-heavy Nasdaq, was the fact that the Nasdaq set a new all-time high on Friday. While the Dow and the S&P both remain below their ATHs, the Nasdaq set the first all-time high for major indices since January 26th.

Back in July, Billy's ***Observations*** discussed at length the market valuation of the S&P 500. More specifically, he compared the valuations we were seeing in July to valuations seen during the Tech Bubble. Billy concluded, "The most expensive stocks in 2000 were way more expensive than stocks today, which caused the S&P 500 as a whole to also be more expensive based on P/E ratios. However, the S&P 500 is a little more expensive today than it was during the tech bubble on a stock by stock basis – making undervalued stocks much harder to come by." *Grant's Interest Rate Observer* made a similar remark on Friday. Grant's observed the following, "Back then, expensive stocks coexisted with a number of cheap ones. In March of 2000, the market-cap weighted S&P 500 traded at 30.6 times trailing earnings, while the equal-weighted version of the broad index fetched a relatively modest 20.7 times earnings. Today, the market-cap weighted S&P 500 sports a trailing price/earnings ratio of 22.41 times, while the equal-weighted S&P 500 trades at 22.45 times trailing earnings." The Tech Bubble remains the most elevated valuation period by most metrics. Many valuations were mostly unfounded. The key difference is that value could still be found in the heart of the tech bubble — today value is harder to uncover for sure.

There are a number of reasons why the market as a whole is now more expensive than it has been in the past. For one, global central banks have left markets flush with liquidity. Second, the resurgence of passive investing over the last few years has certainly given credence to the idiom "a rising tide lifts all boats.". We have discussed many of these reasons at length here before, so I will not spend too much time rehashing them now. It's just important to note that even despite the recent selloff, the stock market continues to err on the side of expensive.

Lastly, I believe a happy birthday is in order (and not just here at Tandem — I'm looking at you Billy). Our beloved Bull Market turned 9 on Friday morning. According to *The Wall Street Journal*, there have been 2,266 trading days since the March 9th trough in the S&P 500. Since that fateful day, the Nasdaq is up 486%, the S&P 500 is up 305%, and the Dow is up 280%. As it currently stands, we are in the midst of the second longest bull run in history. Paling only in comparison to the 3,109 days that ended with the mighty tech bubble bursting. Cheers!

Upgrades & Downgrades

BDX — initiated market perform with a price target of $249 at BMO Capital Markets (3/6).

BF.B — upgraded to buy from hold at Pivotal Research. Their price target was increased to $65 from $52 (3/7).

ROST — initiated buy with an $85 price target at Loop Capital Markets (3/8).

Portfolio News

There were a plethora of headlines and stock moves here at Tandem this past week. Dollar General and Dollar Tree both posted abysmal weeks following DLTR's poor earnings report on Wednesday. DLTR was down 14.5% intraday after they were weak on both revenue and earnings relative to analyst expectations. However, the real kicker for DLTR was their FY19 guidance. They provided guidance of $5.25-$5.60 vs. estimates of $5.91. Revenue was also rather light. The disappointing guidance came after management announced that roughly 40% of their tax reform benefits were going back into their labor.

Now that we have addressed the elephant in the room, lets discuss the good! Mednax was up 4.9% for the week as they reportedly received first-round bids from Carlyle Group. Hellman & Friedman is reportedly in the mix as well. Also on the M&A side, Discovery's acquisition of Scripps finally closed as well. Shareholders received $90/share. All in all it was a pleasant round trip for us in Scripps. Our initial buy on September 1st, 2015 was in the low 50s.

Dollar General is set to report this week. It will be important to see whether or not they report better numbers than DLTR's. DG was down nearly 8% last week due to the putrid DLTR guidance. If they report solid numbers, it would be reasonable to expect a nice bounce as they were punished dearly for what the market viewed as Dollar Tree's misdeeds.

	WTD	MTD	QTD	YTD
Dow Jones	3.3%	1.2%	2.5%	2.5%
S&P 500	3.5%	2.7%	4.2%	4.2%
Nasdaq	4.2%	4.0%	9.5%	9.5%
Russell 2000	4.2%	5.6%	4.0%	4.0%
C.D.	3.0%	2.0%	7.5%	7.5%
C.S.	1.7%	2.1%	-4.5%	-4.5%
Energy	2.1%	2.3%	-5.9%	-5.9%
Fins	4.4%	2.8%	6.1%	6.1%
H.C.	3.4%	2.8%	4.5%	4.5%
Ind.	4.4%	2.3%	3.1%	3.1%
I.T.	4.3%	3.5%	11.2%	11.2%
Mats	4.1%	2.7%	1.1%	1.1%
Utes	0.8%	0.5%	-6.9%	-6.9%
REITs	3.7%	2.8%	-6.6%	-6.6%

Earnings Calendar

Date	Time	Ticker
3/15	Pre-Market	DG