# *Notes from the Trading Desk*

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U.S. Equites came under attack again this week, as the S&P 500 posted its worst week since August 2011. The S&P 500 fell 7.1%, while the Dow dropped 6.9%. The Nasdaq and the Russell 2000 were both down more than 8.3%. The damage was widespread, and no sectors were truly spared. Utilities, the best performing sector for the week, were still down 4.5%. Energy, which continues to bear the brunt of the oil onslaught, was down nearly 9%. The Nasdaq and the Russell 2000 are both now officially in bear market territory as they are now down 22.1% and 25.8% off their recent all-time highs.

The month of December has been a tough pill to swallow for many passive equity investors. If the month ended today, the 12.4% loss on the S&P 500 would be its worst month since October 2008. The market is having its worst quarter since the heart of the Great Recession. For the quarter, the S&P 500 is down 17.1%. Prior to now, the S&P 500 has dropped 17+% 15 times in a quarter since 1928. However, the average return for the very next quarter after these large drops is 9.2%. And, it has been a positive return 11 of the 15 times. Similarly, the last time the market was down more than 10% in a month was February 2009 — the market bottomed 9 days later.

Volatility has been taking its toll on the market for much of the quarter. The VIX has basically doubled so far this month. The so-called "fear gauge" is up 148% since the start of the quarter. While that paints a bleak picture, the VIX is currently perched just above 30. It is still lower than the February spike we saw. Additionally, the market might be having its most tumultuous month since October 2008, but the VIX remains far, far below the prints we saw that were north of 80 during the financial crisis, The volatility we have witnessed this year is closer to normal than the anomaly that was 2017. So far this year, the S&P has made a daily move of ±2% 18 times. Over the last 30 years, the average year has nearly 16 days that move ±2%. 2017 saw zero days make a 2% move in either direction.

There were quite a few headlines for the market to parse through this past week. In aggregate, they were enough to push the market over the edge. Equities were actually holding up fairly well until the Fed press conference on Wednesday. When asked about the current pace of the Fed's balance sheet runoff and quantitative tightening, Fed Chair Jerome Powell suggested that the runoff will continue on autopilot. Stocks sold off sharply into the close following Powell's less than dovish tones. After the perceived blunder by Chair Powell, the market turned its attention to Washington and the looming government shutdown. Markets attempted a rally Thursday morning as news broke that the Republicans and Democrats reached an agreement regarding the Federal budget, thus avoiding a shutdown. However, this ultimately proved to be false as the government partially shutdown early Saturday due in large part to the two parties' inability to agree on the funding of President Trump's wall.

In the short-run, the market selloff seems to be a little excessive and overdone. A slew of negative headlines hit the tape this past week as market participants seemingly threw up their hands. Here at Tandem, we make it a priority to sell stocks when they are expensive. As a result, we have historically found ourselves raising cash around market tops. On the flipside, we think stocks ought to be bought when they are cheap. With the recent flush to the downside, some stocks are finally beginning to appear undervalued again. While the market may still be far from undervalued, individual names are beginning to separate themselves.

Lastly, two tidbits from Benjamin Graham, the father of value investing, that seem quite timely in today's market environment. First, "The intelligent investor is a realist who sells to optimists and buys from pessimists." If sentiment continues to wane and a bear market arrives, cooler heads will ultimately prevail. At Tandem, we adhere to a strict discipline. We buy stocks when they are cheap, and we sell stocks when they are expensive. We think this is how the game ought to be played. Finally, "A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price." Tandem focuses on buying strong companies that have historically shown their ability to grow both their top and bottom lines through any economic environment. We are not invested in *"the market"*, and truth be told, we do not look all that similar to the market either.

*Notes from the Trading Desk* will not be published again until the new year. Happy Holidays to all, and a Happy New Year!

- Ben Carew

*Upgrades/Downgrades & Dividends*

**ABT** — Initiated outperform at Credit Suisse with a price target of $82 (12/17).

**CELG** — Initiated neutral at BTIG (12/21).

**CVS** — Initiated overweight at Barclays, price target of $91 (12/18).

**NKE** — Upgraded to buy from hold at Pivotal Research, price target remains $80 (12/21).

**NKE** — Upgraded to overweight from neutral at JPMorgan, price target is $85 (12/21).

**SBNY** — Upgraded to outperform from neutral at Wedbush Securities with a price target of $125 (12/21).

**SYK** — Initiated outperform at Credit Suisse with a price target of $195 (12/17).

**TYL** — Upgraded to buy from neutral with a price target of $210 at DA Davidson (12/21).

## Portfolio News

What a week it was! Earnings have finally wrapped up for us here at Tandem as Accenture, FactSet, Nike, and Walgreens all reported their quarterly numbers. All four companies pleasantly surprised on their headline numbers as they all beat their earnings and sales estimates. While each company may have beat their analyst estimates, the similarities seemingly stopped there.

Accenture beat their $1.86 EPS estimate by $0.10 as they came in at $1.96. However, the stock was ultimately down 4.9% that day. FactSet also beat their numbers and reaffirmed their previous forward guidance. However, the market punished the financial data provider as well, as shares dropped 4.2%. Nike was the real outlier. Nike finished Friday up 7.17% in the face of the Dow dropping more than 1.75%. Not only did Nike beat their revenue estimates , they also accelerated their growth in each geographic region. China, which was feared to be a potential weak spot for the company, proved to be a strength as sales grew 31%. Lastly, Walgreens struggled following their earnings. The company announced a cost management program that should reshape the company as they attempt to become more efficient. By the end of year 3, Walgreens anticipates that they should be saving ~$1b.

Finally, the recent selloff has presented us with the opportunity to add to some old names, as well as establish a position in a new name. We have now added Comcast to our Large Cap and Equity strategies as CMCSA's recent drop in price signaled a buy in our quantitative model.

| | WTD | MTD | QTD | YTD |
|---|---|---|---|---|
| Dow Jones | -6.9% | -12.1% | -15.2% | -9.2% |
| S&P 500 | -7.1% | -12.4% | -17.1% | -9.6% |
| Nasdaq | -8.4% | -13.6% | -21.3% | -8.3% |
| Russell 2000 | -8.4% | -15.7% | -23.8% | -15.9% |
| | | | | |
| Comm. Svcs | -7.5% | -10.9% | -16.8% | -19.6% |
| Con Disc | -8.6% | -13.5% | -21.3% | -6.0% |
| Con Staples | -7.1% | -10.5% | -7.0% | -12.2% |
| Energy | -9.0% | -14.7% | -26.0% | -22.2% |
| Financials | -5.3% | -15.1% | -17.2% | -18.2% |
| Health Care | -6.7% | -12.7% | -13.0% | 0.2% |
| Industrials | -6.6% | -13.8% | -20.5% | -17.9% |
| Info Tech | -7.9% | -12.6% | -21.4% | -6.0% |
| Materials | -4.7% | -10.7% | -16.1% | -19.6% |
| Utilities | -4.5% | -2.6% | 2.3% | 2.2% |
| REITs | -6.4% | -7.7% | -4.4% | -5.4% |