

Notes from the Trading Desk

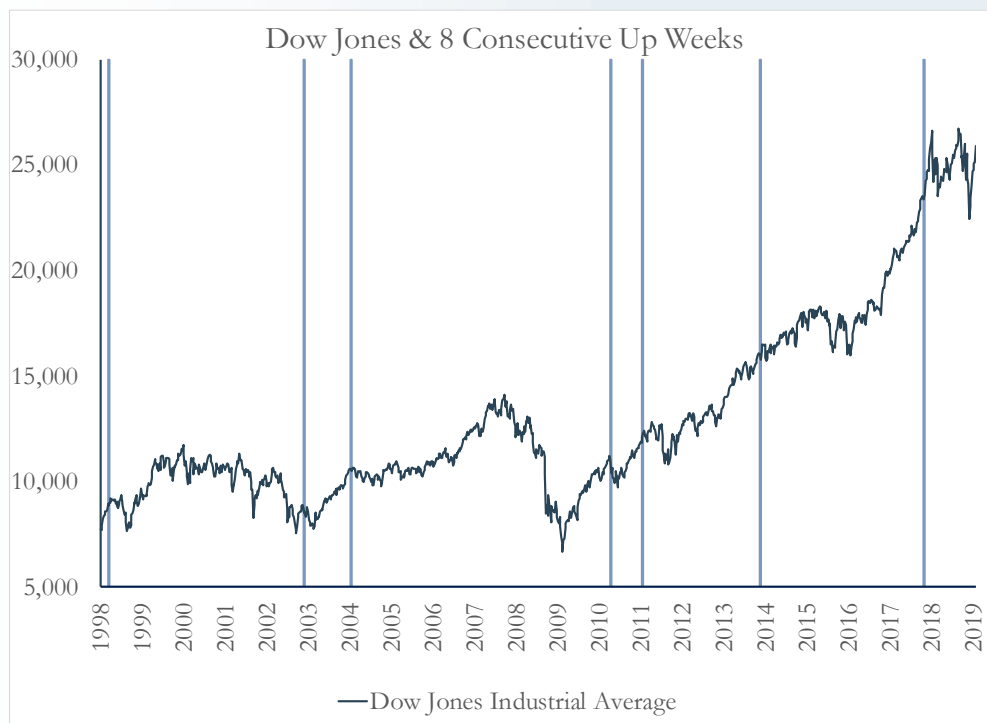
February 18, 2019

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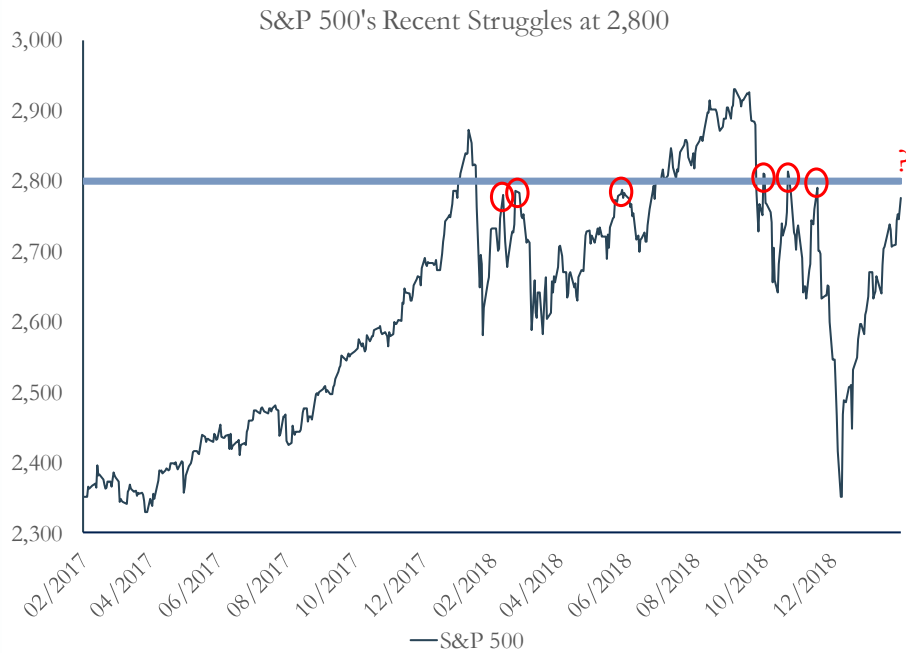
Tandem Investment Advisors

US equities continued to be sporting their rally caps last week. The S&P 500 closed 2.50% higher. The Dow and the Nasdaq were up 3.09% and 2.39%, respectively. The Russell 2000 was up 4.17%. Unlike last week, traditionally defensive stocks fell out of favor. Utilities were actually down for the week, while REITs and Staples were both up roughly 1%. Crude spiked 5% higher — proving fruitful for the energy sector as it was last week's sector leader moving up 4.75%. Materials and Industrials were both up 3.50%+ as well. Oil continues to be a key driver for the market though, as rolling 60-day correlations are at a 2.5-year high. Crude led the way lower in early October and throughout much of the 4th quarter until it ultimately bottomed with equities on Christmas Eve. Yields were fairly stable last week, though the yield curve mostly flattened throughout much of the week.

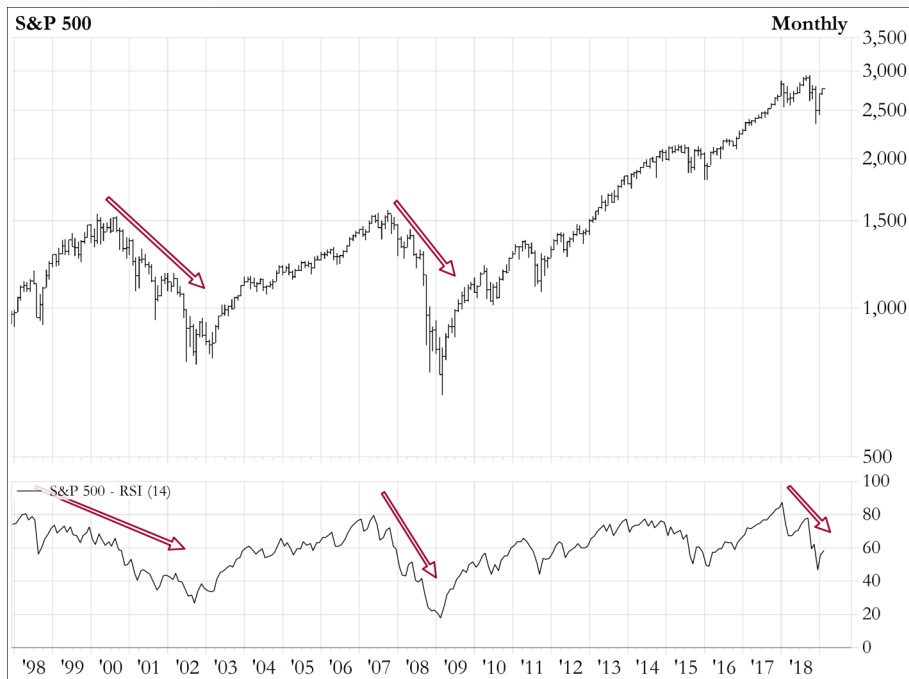
The Dow Jones Industrial Average closed in positive territory for its 8th straight week — an uncommon feat that has only occurred 8 other times since 1998. It certainly sounds like an achievement that one would chalk up to excessive optimism. However, it has not historically been found around major market tops. In fact, in the previous 7 instances, markets have actually been higher one year later. While this sort of rallying has historically not been indicative of any sort of longer-term trouble, it has often marked shorter-term tops. Over the last 21 years, we have not reached 9 consecutive up weeks for the Dow. What's more, the average drop following 8 consecutive up weeks has been 4.6%. History suggests that a small blip higher in volatility may be right around the corner (see chart below, the 8th straight positive week is marked by the vertical highlights).



From a technical standpoint, the market seems to be reaching a critical level. The S&P 500 is currently 25 points away from 2,800 — a level it tested and subsequently failed three times in the 4th quarter. Moreover, it failed three times throughout the first half of 2018 as well (see chart below). It would be unsurprising to see the market run into a little resistance shortly. However, the resistance at 2,800 is not necessarily indicative of a market that must roll over. In fact, the market might not even stall at 2,800, it could very easily power through 2,800 on its 4th attempt, much like it did in July. Following its July breakout, markets ultimately rallied for much of the next three months.



Peaks in the Relative Strength Index (RSI) have often marked downward or sideways markets. Historically, RSI has topped out above 80 prior to major market tops. Back in January of last year, the S&P 500's RSI did exactly that. 13 months ago it recorded a cycle high of 87, and momentum has since been unable to reach the level of strength we saw early last year. As one can see in the chart below, RSI peaked prior to the Tech Bubble and the Financial Crisis. However, it need not be so drab and dreary. RSI peaked prior to the top in May of 2015, and the S&P 500 subsequently traded sideways for a little more than a year prior to an impressive run for much of 2016 and all of 2017. Similarly, we have essentially moved sideways for the last 13 months. Could we be set up for another blitz higher a la 2017, or are we merely in a bear market rally that commonly occurred throughout the last two major bear markets? We certainly don't have a crystal ball, but it does bring us back to the previous paragraph. The S&P 500 appears to be bumping into an absolutely critical level. A surge through 2,800 could very well have markets trading near all-time highs in short order, while a failure at these levels could mark the start of another pullback or even a retest of our v-shaped Christmas eve bottom.



*Upgrades/Downgrades &
Dividends*

ABBV — Reinstated neutral at UBS with a price target of \$85 (2/13).

DLTR — Initiated peer perform at Wolfe Research (2/12).

NEE — Increased their dividend 12.6% to \$1.25 from \$1.11, payable March 15th (2/15).

NNN — Downgraded to neutral from buy at Ladenburg Thalmann (2/12).

NNN — Downgraded to neutral from buy at B Riley FBR, their price target increased from \$50 to \$55 (2/13).

Portfolio News

Celgene found itself front and center once again last week. Per RBC Capital Market's Brian Abrahams, the US Patent and Trade Office declined to review the patents on Celgene's largest drug, Revlimid, following the request of Indian Drug Maker, Dr. Reddy. CELG jumped 2% following the breaking of the news on Monday. However, over the weekend, Reuters reported that activist Hedge Fund Starboard Value is wanting to gauge the Bristol-Myers shareholders support of the BMY-CELG deal. At this time, Starboard has reportedly not decided whether or not they oppose the deal. The deal is set to be voted on in April. While a proxy fight does not necessarily mean the deal is now doomed, it very well could make the deal harder to get through.

It is that time of the quarter again when 13F's must be filed showing funds holdings as of the previous quarter end. A couple of Tandem holdings popped up in some familiar hedge funds positions — for better or for worse! Bill Ackman and Pershing Square increased their stake in United Technologies. Greenlight liquidated their position in Tractor Supply during the 4th quarter. Jana liquidated their position in Dollar Tree, though they essentially doubled down on their position in MSFT. Oft-quoted Baupost Group established a position in eBay. Finally, shares of ICE came under pressure towards the end of last week following reports of a 6 million share block being shopped through Morgan Stanley around \$75-\$75.50. Ultimately 13F's have zero impact on our investment strategy, though it can be fruitful to keep tabs on such information.

	WTD	MTD	QTD	YTD
Dow Jones	3.1%	3.5%	11.0%	11.0%
S&P 500	2.5%	2.6%	10.7%	10.7%
Nasdaq	2.4%	2.6%	12.6%	12.6%
Russell 2000	4.2%	4.7%	16.4%	16.4%
Comm. Svcs	1.0%	0.3%	10.4%	10.4%
Con Disc	2.6%	0.4%	10.7%	10.7%
Con Staples	1.1%	1.9%	7.0%	7.0%
Energy	4.8%	3.2%	14.6%	14.6%
Financials	2.9%	1.8%	10.6%	10.6%
Health Care	3.2%	2.5%	7.2%	7.2%
Industrials	3.5%	5.3%	17.3%	17.3%
Info Tech	2.4%	4.9%	12.1%	12.1%
Materials	3.4%	2.2%	7.8%	7.8%
Utilities	-0.2%	1.4%	4.9%	4.9%
REITs	0.9%	1.6%	12.4%	12.4%

Earnings Calendar

Date	Time	Ticker
2/19	Pre-Market	EXPD
2/19	Pre-Market	ECL
2/19	Post-Market	VRSJ
2/20	Pre-Market	HSIC
2/20	Pre-Market	CVS
2/20	Post-Market	TYL
2/21	Pre-Market	HRL

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