Notes from the Trading Desk

Ben Carew
Tandem Investment Advisors, Inc.

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Global exchanges put on their rally caps last week. The Shanghai Composite was up 4.32%, Russia was up 5.01%, Turkey was even up 3.41% — Turkey! It wasn't just emerging markets either. The German DAX was up 2.53%, Italy rallied 3.12%, and the Nikkei was up 3.36%. Our domestic indices did not fare quite as well as many of our international peers, though performance was certainly far from dismal. The S&P 500 and the Dow both hit record highs as they closed up 0.85% and 2.25% respectively. The Russell 2000 and the Nasdaq both gave up some of the prior week's gain as they moved lower 0.55% and 0.29%. The FAANG stocks had a rather cheerless week. Amazon and Apple were both down more than 2.75%, while Netflix and Alphabet were down 0.92% and 0.50%. Facebook, with its poor performance of late, was the only FAANG stock to keep its head above water this past week, as it actually inched higher by 0.38%. Broadly speaking though, the market appeared to have embraced a "risk-on" environment. Materials, Financials, and Energy all led the way higher while Utilities and REITs were the marked laggards.

Much has been made throughout the year of the distinct outperformance of growth stocks versus value stocks. According to FactSet, the Russell 1000 Growth Index is up 15.23% YTD while its value counterpart is up a measly 3.80%. The Russell 1000 Value Index even had a greater drawdown in February. However, as *The Wall Street Journal* pointed out this past Wednesday, companies within the Russell 1000 Growth Index "without steady profits" have outperformed their profitable counterparts by 200 basis points through August. According to The Glenmede Trust Company, the unprofitable Russell 1000 companies were up 13.5% in August compared to a 5.5% return for the broader index. The trend in and of itself is not necessarily indicative of exuberance. However, it does underscore the optimism and risk-taking that we are currently witnessing in the marketplace.

As we mentioned, the market very clearly seems to be in a risk-on mode. The "high-flying" pot stocks completely captured the media's attention this past week. It was eerily reminiscent of bitcoin taking the world by storm last year. Tilray — a medicinal marijuana company based in Canada — was up more than 175% for the week at one point. They ultimately gave most of that gain back as they closed up a *mere* 12%. Tilray is currently sporting a market cap north of $11 billion, while trading at a cool P/S ratio of 557x. Another notable example can be found in chips. Advanced Micro Devices (AMD) has been another excessive winner YTD. AMD is up more than 200% this year alone. This is the very same stock that climbed more than 400% from May of 1999 to May of 2000 before falling 92.39% by October 2002. Not to be outdone, it climbed 185% from May 2005 to February 2006 before falling 95.51% by November of 2008. It is a classic boom or bust, all or nothing stock, and it is certainly in the "all-in" mode right now. Finally, Friday marked the IPO of the luxury online marketplace Farfetch. In a cruel twist of irony, Farfetch's ability to become profitable currently seems a little farfetched. Formed in 2008, the company has yet to turn a profit. In fact, they lost $112 million in 2017, after an $81 million loss in 2016 — all of this despite a 59% jump in revenue. However, the fundamentals did not seem to matter as FTCH came out of the gates hot! They surged as much as 53% intraday on Friday as it closed with an $8.1 billion market cap.

This past week, President Trump further escalated trade war tensions with China as he directed the USTR to "proceed with placing additional tariffs on roughly $200 billion of imports from China" effective September 24, 2018. However, he did not stop there as he threatened an additional $267 billion in tariffs should the Chinese retaliate. The market totally shrugged off the news and rallied to all-time highs! Furthermore, as was noted in the most recent *Almost Daily Grant's,* Markit's September Flash PMI index reported that "average prices charged by service providers increased at the fastest pace since the survey began in October 2009." Average hourly earnings grew 2.9% year over year for the month of August, the fastest clip since 2009 as well. Furthermore, total assets of major Central Banks are rolling over for the first time in a few years. Inflation is certainly creeping ever higher, the Fed is set to hike another 25 bps this week, the trade war is continuing to escalate, Central Banks are finally removing their extensive liquidity, and Bloomberg's Consumer Comfort is at its highest levels since early 2001. Despite all of that, U.S. stocks are at their largest overweighting since January 2015 according to the most recent BOAML Fund Manager Survey. While the market does not seem as ebullient as it was at the start of the year, it is hard to argue that we are not again nearing complacency in the market.

Upgrades/Downgrades & Dividends

COST — downgraded to equal-weight from overweight at Barclays, target remains $240 (9/17).

CTSH — upgraded to buy from hold at HSBC (9/18).

HRL — downgraded to market perform from outperform at BMO Capital Markets, however the target was increased from $38 to $44 (9/17).

MSFT — Increased their quarterly dividend by 9.5% from $0.42 to $0.46 (9/18).

NKE — reiterated buy at Canaccord Genuity, target remains $95 (9/18).

NKE — Reiterated buy at Guggenheim Securities, though their price target was increased from $90 to $100 (9/20).

Portfolio News

The quarter is coming to a quiet close for us here at Tandem with very little action on the composite level. However, there were a few headlines to note over the last week or so. Firstly, AbbVie sold off Tuesday afternoon as news hit the tape that California's insurance regulator was suing the company over alleged illegal kickbacks to health-care providers in order to keep patients on AbbVie's main drug, Humira. Though multiple wrongs do not make a right, the issue does not seem to be an AbbVie only problem. Per *The Wall Street Journal*, Amgen, Bayer, and Eli Lilly are all facing whistleblower lawsuits alleging illegal kickbacks. While Sanofi, Gilead, and Biogen are being probed by Federal prosecutors as to whether or not they potentially broke the law by providing free services to both doctors and patients. Drug manufacturers in general seem to be coming under fire by various forms of government. Even the Justice Department is getting in on the action as they investigated the manufacturer's donations to third-party charities.

With the end of the quarter quickly approaching, it is worth reviewing what was a rather robust quarter in the marketplace. Tandem's core holdings reported earnings growth of 19.25%, well above the 11.86% estimated growth from March 31st. The growth is expected to decelerate somewhat, as Q3 is expected to print 15.33% growth. Sales were additionally robust, as sales grew 11.21% — outpacing the March estimate of 8.85%. It was a strong quarter all around. The S&P 500 reported earnings growth of 25.05% and sales growth of 10.03%. The market has continued to climb since the earnings resurgence that began in Q3 2016. It will be worth keeping an eye on margins going forward — according to Ed Yardeni and Yardeni Research, margins are the highest they have ever been using data going back to 1992. Margins have always previously peaked late cycle — contracting margins could be problematic, and unfortunately costs appear to be rising.

	WTD	MTD	QTD	YTD
Dow Jones	2.3%	3.0%	10.2%	8.2%
S&P 500	0.8%	1.0%	7.8%	9.6%
Nasdaq	-0.3%	-1.5%	6.3%	15.7%
Russell 2000	-0.5%	-1.6%	4.2%	11.5%
Con Disc	0.4%	0.3%	7.1%	18.7%
Con Staples	1.2%	2.8%	7.2%	-3.5%
Energy	1.9%	1.6%	-0.9%	4.3%
Financials	2.3%	1.8%	8.2%	2.9%
Health Care	1.2%	1.9%	13.1%	14.2%
Industrials	1.3%	3.8%	11.4%	5.1%
Info Tech	-0.1%	-1.2%	7.6%	18.5%
Materials	2.3%	2.3%	4.5%	0.3%
Utilities	-1.5%	-0.2%	2.2%	0.7%
REITs	-0.3%	-1.3%	1.9%	0.7%

Earnings Calendar

Date	Time	Ticker
9/25	Pre-Market	FDS
9/25	Post-Market	NKE
9/27	Pre-Market	ACN