

Notes from the Trading Desk

Tandem Investment Advisors

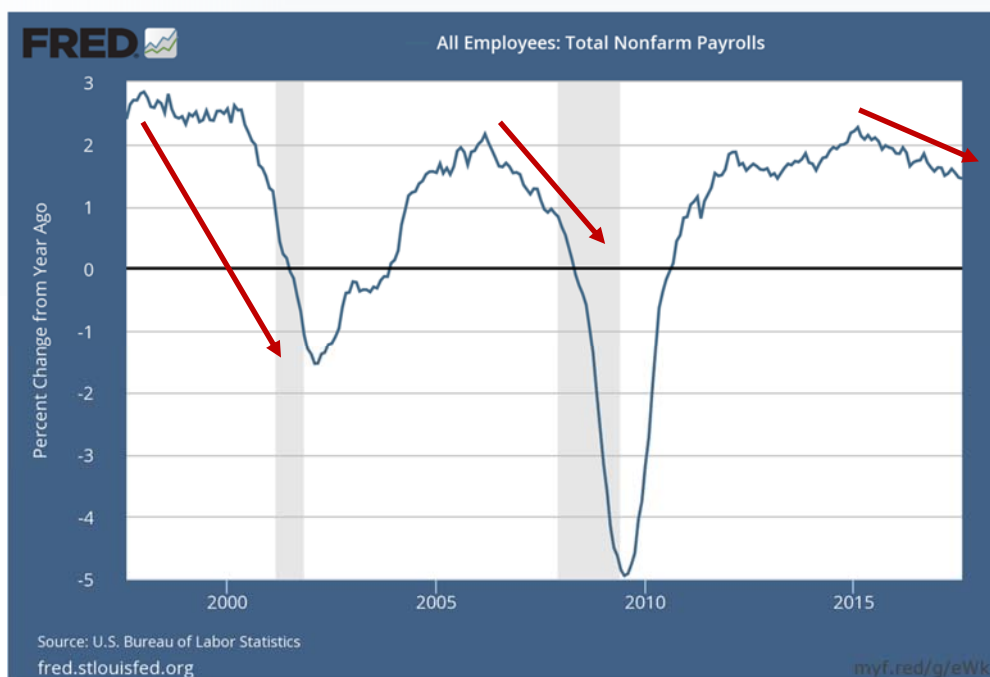
September 1, 2017

Market Movers & Shakers

Equities were up for a second straight week. Treasuries were rather mixed — the 10Y ended the week flat, though it was fairly volatile intraweek. On Tuesday, the 10Y got as low as 2.08, a print we haven't seen since the day after the election. It sold off shortly thereafter, and the 10Y finished the week at 2.17. Gold's rally continued — it was up 2.5% this week on the back of the madness coming out of North Korea. Gold is having a solid year — up 15.5% YTD. As far as equities are concerned, performance was scattered. Healthcare was up 3% for the week — thanks to biotech which had the IBB close up 8%. Biotech rallied off the FDA's approval of the first gene therapy and the Gilead/Kite merger. Tech was up a little over 2% and the Nasdaq closed up 2.7% — good for its largest weekly gain of the year. Materials were up 190 bps, Discretionary up 160, and Industrials up 150. Telecomm and Utes lagged, down 135 and 64 bps respectively. Fins were also off a touch, closing down 10 bps.

However, it was Harvey that dominated much of the news. Headlines say the devastation in the Houston area will last months, maybe even years before the city fully recovers. Many pundits came out to discuss the potential economic impacts. Goldman and Citi expect Harvey to detract from Q3 GDP, while JPM thinks it will actually boost GDP. One of the main arguments that people seemed to be floating around was that there would be an initial drop-off in GDP, followed by a nice rebound in Q4 as the 4th largest city in the US begins its rebuilding process. This line of logic seems faulty, as any rebuilding is done just to get people back to where they were before — they are *re*building, not building. There is not creation, just restoration.

Jobs numbers came out Friday. The economy created 156k jobs and the unemployment rate ticked higher to 4.4%. Both of these numbers missed estimates — economists were calling for 180k jobs added and a steady rate of 4.3%. We are still adding jobs to the economy — which is positive! However, the rate of change is what is truly important. Take a look at the chart below. The deceleration, which has been occurring since February of 2015 continues. The economy is slowing, but this does not necessarily mean a recession is imminent. Jobs cooled in the mid 80s as the decelerated for 2 years from August 1984 to August 1986 — no recession. Job growth slowed again from January 1995 to February 1996. With that being said, we should always keep an eye on this indicator, every recession since 1940 has had negative YoY rate of change.



Upgrades & Downgrades

- **DLTR** — upgraded to market perform from underperform at Bernstein, target of \$78 (*implied return of -3.8%*)
- **SCG** — upgraded to neutral from underperform at Mizuho, target remains \$58.50 (*implied return of -2.7%*)

Portfolio News

Coming off the heels of a rather busy week last week, this week seemed a little more quiet — fitting for the end of August. We continued to incrementally add to DG this week — good for the only composite activity this week. Dollar General reported numbers in line with analyst estimates and actually raised the bottom end of their forward guidance. However, they sold off rather steeply intraday off margin concerns and for failing to meet the high bar set by Dollar Tree — which had beat and raised. Dollar General closed down 6.6% for the week — though our purchase on Thursday is up close to 3%.

Costco and Brown Forman both reported as well. They both reported good numbers and subsequently outperformed. Brown Forman was up nearly 6% this week and Costco was up nearly 4%. Nike on the other hand, though they did not report this week, had a rather rough go at it. Nike closed lower by 1%. Though they took a hit as Finish Line reported horrendous numbers and closed lower by almost 20%. This was on the back of Foot Locker who lost nearly 1/3 of their market cap after their poor earnings report last week.

	WTD	MTD	QTD	YTD
Dow Jones	0.8%	0.2%	3.0%	11.3%
S&P 500	1.4%	0.2%	2.2%	10.6%
Nasdaq	2.7%	0.1%	4.8%	19.5%
Russell 2000	2.6%	0.6%	-0.1%	4.2%

Buy	Accumulate	Sell	Liquidate
DG	CERN	MSFT	ITT
	CTSH	NEE	KO
	DLTR**	WCN	OZRK
	FDS**		SNI
	SJM**		
	WAB		
	VRSK		

**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
None	None	None

Core Holding Performance

Performance					
Ticker	WTD	MTD	QTD	YTD	1 Yr.
ABBV	4.1%	0.2%	4.0%	20.4%	17.6%
ABT	3.7%	0.5%	5.3%	33.2%	21.6%
ACN	0.5%	-0.5%	5.2%	11.1%	12.5%
BDX	0.3%	-0.1%	2.1%	20.3%	12.3%
BF.B	5.9%	0.6%	9.8%	18.8%	10.9%
BRO	1.7%	0.2%	4.6%	0.4%	18.6%
CERN	4.6%	0.7%	2.7%	44.1%	5.4%
COST	3.8%	1.0%	-1.1%	-1.2%	0.2%
CTSH	1.5%	0.1%	6.7%	26.4%	21.4%
CVS	3.4%	0.7%	-3.2%	-1.3%	-17.0%
D	-2.2%	-0.6%	2.2%	2.3%	4.8%
DLTR	0.8%	1.8%	15.9%	5.0%	-2.5%
EBAY	4.8%	0.6%	4.1%	22.4%	12.6%
ECL	1.4%	-0.3%	0.1%	13.3%	7.1%
EXPD	2.7%	0.8%	0.1%	6.7%	10.2%
FDS	-0.7%	0.6%	-4.9%	-3.3%	-12.9%
FISV	0.6%	-0.6%	0.5%	15.7%	17.9%
HRL	-1.3%	0.6%	-9.4%	-11.2%	-19.6%
ICE	-0.5%	0.7%	-1.2%	15.4%	14.1%
ITT	2.8%	0.4%	0.9%	5.1%	10.3%
KO	0.5%	0.5%	2.1%	10.4%	4.9%
MD	-0.3%	-1.7%	-27.0%	-33.9%	-33.8%
MSFT	1.5%	-1.1%	7.3%	19.0%	28.2%
NEE	0.0%	-0.2%	7.2%	25.7%	22.0%
NKE	-1.0%	1.0%	-9.6%	5.0%	-8.0%
NNN	0.5%	-0.1%	6.9%	-5.5%	-17.8%
ORLY	-2.6%	0.4%	-9.9%	-29.2%	-30.3%
OZRK	2.0%	0.2%	-8.2%	-18.1%	8.5%
PYPL	2.5%	-0.4%	14.5%	55.7%	65.8%
RMD	4.6%	0.0%	-0.4%	25.0%	15.7%
ROST	-0.8%	0.8%	2.1%	-10.2%	-6.1%
RSG	1.3%	-0.1%	2.3%	14.3%	27.6%
SBNY	-1.8%	0.2%	-10.4%	-14.4%	5.4%
SCG	0.1%	-0.4%	-10.3%	-17.9%	-16.1%
SJM	-0.3%	0.1%	-11.4%	-18.1%	-25.9%
SNI	-0.7%	0.0%	25.4%	20.0%	34.2%
SYK	0.9%	-0.2%	1.7%	17.8%	22.1%
TJX	1.0%	0.1%	0.3%	-3.7%	-6.8%
TROW	0.5%	-0.1%	13.6%	12.0%	21.7%
TSCO	-0.1%	0.1%	9.8%	-21.5%	-30.0%
UTX	2.5%	-1.5%	-3.4%	7.6%	10.3%
VRSK	1.6%	-0.1%	-4.0%	-0.2%	-3.4%
WAB	2.6%	2.1%	-21.2%	-13.2%	-6.0%
WBA	0.1%	-0.3%	3.7%	-1.9%	-1.2%
WCN	2.5%	-0.3%	3.2%	26.9%	27.0%
YUM	1.1%	-0.2%	3.9%	21.0%	16.8%
YUMC	0.1%	1.2%	-9.2%	37.1%	
Avg.	1.2%	0.2%	0.5%	7.5%	5.9%
SPX-SPX	1.4%	0.2%	2.2%	10.6%	13.6%